ANNUAL REPORT **2006**

TOPSIL

PURE SILICON

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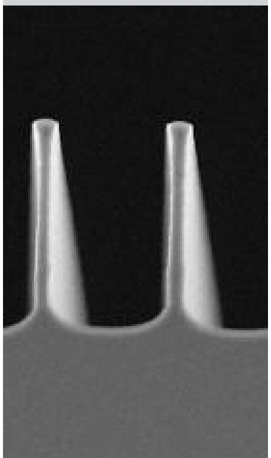
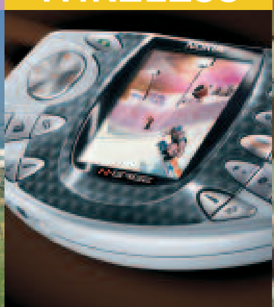


Photos: Kent Krogh, MIC, Nokia, Bendix and TeknoGrafik.

POWER

WIRELESS



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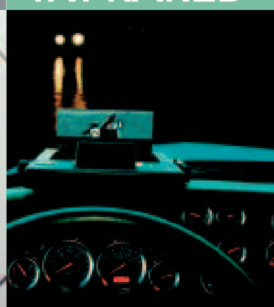


MEMS

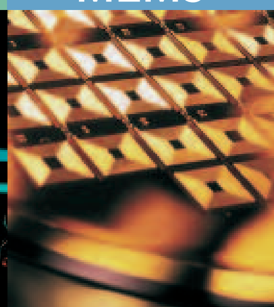


Table of Contents

Company information

Topsil Semiconductor Materials A/S
Linderupvej 4
DK-3600 Frederikssund
Denmark
Company registration number 24 93 28 18
Registered office: Frederikssund, Denmark
Telephone: +45 4736 5600
Telefax: +45 4736 5601
Email: topsil@topsil.com
Web: www.topsil.com

Board of Directors:

Managerial duties:

Jens Borelli-Kjær, Chairman, age 47
MSc Engineering (mathematics/physics)
Diploma (Economics and International Management)
MBA (INSEAD)
Elected to the Board in 2006
Term of office expires in 2007

Vitral A/S, Managing Director and Member of the Board
Gerstenberg & Agger A/S, Member of the Board
Gerstenberg & Schröder A/S, Member of the Board
Topsil International A/S, Chairman

Eivind Dam Jensen, Vice-Chairman, age 55
Certified Estate Agent
Elected to the Board in 2005
Term of office expires in 2007

Ejendomsaktieselskabet Bangs Gård, Managing Director and Member of the Board.
A/S Eivind Dam Jensen, Managing Director and Member of the Board
Statsaut. Ejendomsmæglerfirma E. Dam Jensen, Owner

Per Jørgensen, age 47
BSc (Civil Engineering)
Diploma (Economics and Logistics)
Elected to the Board in 2005
Term of office expires in 2007

Silverback Beteiligungsgesellschaft mbH & Co. KG, Managing Director and Member of the Board
Agimix AB, Member of the Board
Indutec Inc., Member of the Board

Jørgen Frost, age 52
MSc Engineering
Diploma (Economics and Marketing)
Elected to the Board in 2006
Term of office expires in 2007

Blendex A/S, Managing Director and Member of the Board
Frost Invest A/S, Managing Director and Member of the Board
Vestergaard Company Holding A/S, Member of the Board
Kongskilde Industries A/S, Member of the Board

Staff representatives:

Trine Schønnemann, age 40
Key Account Manager, employed in 1997
BSc Economics (International Marketing)
Elected to the Board in 2003
Term of office expires in 2007

Theis Leth Larsen, age 33
PTA Manager, employed in 1997
MSc Engineering, Ph.D.
Elected to the Board in 2003
Term of office expires in 2007

Management:

Keld Lindegaard Andersen, age 46
Managing Director, employed in 2005
MA, MBA

Topsil International A/S, Member of the Board and Managing Director

Jørgen Bødker, age 49
Sales and Marketing Director,
employed in 2002
BSc Engineering, Electronics
Diploma (Management and Organisation)

Auditors:

DELOITTE
Statsautoriseret Revisionsaktieselskab

represented by State-authorised Public Accountant
Tim Kjær-Hansen

represented by State-authorised Public Accountant
Anders O. Gjelstrup

Annual general meeting

The annual general meeting on 28 March 2007 at 10.00 at Plesner, Amerika Plads 37, DK-2100 København Ø.

Approved at the annual general meeting of the company on 28 March 2007.

Chairman of the meeting

Letter of representation

Today we have reviewed and approved the annual report and accounts of Topsil Semiconductor Materials A/S for the financial year from 1 January to 31 December 2006.

The annual report has been presented in accordance with the International Financial Reporting Standards as adopted by the European Union as well as Danish disclosure requirements for annual reporting of listed companies.

We consider the accounting policies applied expedient for the annual report and accounts to provide a true and fair view of the company's assets, liabilities and state of affairs as at 31 December 2006 and of the results of its activities and cash flows for the financial year 1 January - 31 December 2006.

The annual report and accounts are recommended for approval by the general meeting.

Frederikssund, 21 February 2007

Management:

Keld Lindegaard Andersen
Managing Director

Jørgen Bødker
Sales & Marketing Director

Board of Directors:

Jens Borelli-Kjær
Chairman

Eivind Dam Jensen
Vice-Chairman

Per Jørgensen
Member of the Board

Jørgen Frost
Member of the Board

Theis Leth Larsen

Trine Schønnemann

(Staff representatives)

The independent auditor's report

To the shareholders of Topsil Semiconductor Materials A/S

We have audited the annual report and accounts of Topsil Semiconductor Materials A/S for the financial year 1 January-31 December 2006 comprising the letter of representation, the management report, the profit and loss account, the balance sheet, the explanation of the composition of the equity capital, the cash flow statement and the notes, including the accounting policies. The annual report and accounts have been presented in accordance with the International Financial Reporting Standards as adopted by the European Union as well as Danish disclosure requirements for annual reporting of listed companies.

The management's responsibility for the annual report
It is the responsibility of the management to prepare and present an annual report providing a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union as well as Danish disclosure requirements for annual reporting of listed companies. This responsibility comprises the elaboration, implementation and maintenance of internal controls that are appropriate to prepare and present an annual report providing a true and fair view free of material misstatements, whether any such misstatements be the result of fraud or errors, as well as the choice and use of appropriate accounting policies and the exercise of reasonable accounting estimates with regard to the circumstances.

Auditor's responsibilities and the audit performed
It is our responsibility to provide a conclusion about the annual report and accounts based on our audit. We have performed the audit in accordance with Danish and international auditing standards. These standards require that we meet ethical standards and that we plan and perform the audit to obtain reasonable reassurance that the annual report and accounts do not contain any material misstatements.

An audit includes actions to obtain evidence supporting the amounts and disclosures in the annual report. The actions chosen depend on the auditor's assessment including the assessment of the risk of material misstatements in the annual report whether any such misstatements are due to fraud or errors. In assessing the risk, the auditor considers internal controls that are relevant to the company's preparation and presentation of an annual report providing a true and fair view to carry out auditing acts that are appropriate in the circumstances, but not with the purpose of expressing any conclusion as to the effectiveness of the internal audit of the company. An audit also includes assessing whether the accounting principles applied by management are appropriate and whether the accounting estimates made by the management are reasonable as well as evaluating the overall presentation of the annual report.

We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any qualifications.

Opinion
In our opinion, the annual report and accounts give a true and fair view of the assets, liabilities, and financial standing of the company as at 31 December 2006 and of the results of its activities and cash flows for the financial year 1 January - 31 December 2006 in accordance with the International Financial Reporting Standards as adopted by the European Union as well as Danish disclosure requirements for annual reporting of listed companies.

Copenhagen, 21 February 2007

DELOITTE
Statsautoriseret Revisionsaktieselskab

Tim Kjær-Hansen
State-authorised Public Accountant

Anders O. Gjelstrup
State-authorised Public Accountant

Management report

Mission and objective

Mission

The activities of the company are the production and sale of monocrystalline Float Zone silicon to the semiconductor industry. The production takes place by transforming polycrystalline silicon into monocrystalline silicon through melting and recrystallisation.

Ingots are produced with the Float Zone method on machines and in processes developed by the company itself at Frederikssund, Denmark. This is followed by a significantly value-adding wafering process, which has been outsourced to 2 partners in Taiwan.

Topsil has more than 40 years of experience with Float Zone silicon. The company was founded by Haldor Topsøe in 1958. Topsil is one of the world's 6 manufacturers of Float Zone silicon and the only manufacturer in the world that has been specialising solely in Float Zone silicon since 1958.

From the very start the mission has been to manufacture the purest form of silicon in the world market. This is obtained through Float Zone manufacturing. The buyers are relevant niche customers in the electronics industry.

The company mission remains intact to this day. However, since electronics manufacturers have primarily been using Czochralski silicon in their product development due to cost benefits, today the Float Zone market only makes up about 3.5% of the world market for silicon, which is equivalent to approximately DKK 2bn. The Float Zone market today is largely a niche market in which the largest product group, PFZ, to a wide extent must be considered a commodity product. Topsil has chosen to enhance its profile in this market.

In 2006 Topsil implemented a strategic plan and will focus on the following in the next 3-year period:

- Topsil will solely operate in the niche market for Float Zone silicon (DKK 2bn). Topsil will mainly target small and medium-sized customers in the semiconductor industry with a yearly Float Zone consumption of DKK 0-50m. Geographically, Topsil will be a global player that primarily operates through direct sales, but also through distributors and agents in remote markets.
- Topsil will operate within 3 product groups in the Float Zone market. The main product groups will be NTD and HPS. The secondary product group will be PFZ (see the chapter on *products and production* for further details).
- Topsil will follow a focused strategy of differentiation, in which the focus is on the above-mentioned customer and product groups and the most important differentiation parameters are flexibility and customer guidance.
- Topsil has a market share of approximately 8% and has 2 major competitors, which are large providers with market shares of about 40% each. These 2 large competitors focus on large-scale operations and large consumers of Float Zone. This is why Topsil has chosen to focus on the role as a preferred supplier to small and medium-sized consumers.

Financial objective

Consistent with the composition of the market, Topsil's differentiation strategy and the currently favourable market for selling silicon products, the priority is on earnings before growth, and in the short term (1-3 years) only controlled growth is expected in the niche.

The future financial objectives can be summarised as:

- Achieving a profit margin of >20% for the years 2007 and 2008.
- Achieving a profit margin of at least 10% in financial years with less favourable market conditions.

Main activity

Products

Topsil sells products to the semiconductor market and defines its three product groups as:

NTD: Neutron Transmutation Doping: FZ silicon used in high and medium voltage components. These products are essential to the construction of infrastructure, electricity production and distribution, wind mill plants, electrical trains, hybrid cars and energy-saving motor controls. The market is fairly stable with moderate growth rates.

PFZ: Gas-doped Float Zone silicon: FZ silicon used mainly for medium voltage components to industrial plants and consumer electronics. The product is used for components with less stringent requirements to electrical properties than NTD. The components form part of energy-saving motor controls, controls in solar cell plants, controls in various electrical consumer appliances, large household appliances, etc. This market is one of the growth areas for FZ silicon due to the high energy prices and the need for energy-savings.

HPS: High Purity Silicon: FZ silicon that is mainly used for special components such as sensors and detectors. This is a relatively small niche market.

PV-FZ® silicon for solar cells

Topsil has been interested in developing solar cell material based on Float Zone technology since 2000. Topsil has developed a product called PV FZ®. PV is an abbreviation for Photo Voltaic, which means solar cells, and FZ is an abbreviation for Topsil's production method, i.e. the Float Zone method. In the period 2002-2004, the PV FZ® product has been endorsed by several big solar cell manufacturers. The advantage of the PV FZ® product is that it is slightly more effective than conventional solar cell material, but unfortunately it is also more expensive to produce.

In recent years, Topsil has delivered solar cell material to a number of the world's largest solar cell manufacturers. In the majority of these collaborations, it has been difficult to obtain satisfactory profitability.

The combined factors of the high price level for the raw material used in Float Zone production right now and a production plant, which is not geared for volume production to the solar cell industry, mean that Topsil is not a competitive supplier to the solar cell market at present. For the financial year 2006, less than 1% of Topsil's turnover was supplied to the solar cell industry.

Topsil is still the only company to deliver solar cell silicon to the mass market, manufactured with the Float Zone method. At present, Topsil has no development activities in the solar cell area and does not receive neither public nor private funds for development activities. The company has no current plans to include this market area in its development activities.

If, at some later point, the prices on the raw material for Float Zone should become competitive compared to the existing production methods for solar cell material (multicrystal growing and Czochralski), it would still take an enormous effort in terms of development and cost optimisation for Topsil to gear the Float Zone production to volume production if the necessary competitive power is to be obtained.

Topsil will continue to be a member of EPIA (European Photovoltaic Industry Association) and will maintain its relations to several private and public players in the solar cell industry.

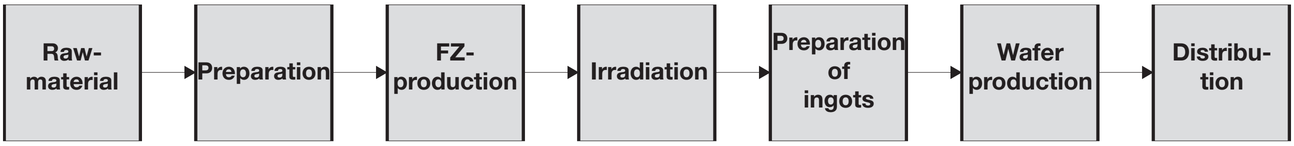
The production process

The FZ production process takes place in a hermetically closed chamber. A multicrystalline silicon rod is placed in an oven over an electromagnetic coil, and the silicon rod is melted down through the coil at very high temperatures. A monocrystalline rod forms under the electrical coil.

Topsil's products are sold both as whole silicon crystals/ingots and as various types of wafers: sawed, lapped (grinded), etched and polished wafers. The crystals make up 10-15% of Topsil's turnover to end customers while the wafers make up 85-90%.

The process from raw material to finished product is illustrated in the following figure:

Production process



Development in activities and financial matters

The net turnover of the company amounted to DKK 147.5m in 2006 compared to DKK 129.6m in 2005 corresponding to an increase of 14%.

The operating profit for the year was DKK 33.6m against a loss of DKK 7.1m in 2005.

The company made a profit after tax of DKK 28.1m in 2006 against a loss after tax of DKK 14.0m in 2005.

The result for 2006 is the company's best result so far and is deemed satisfactory by the Board of Directors and the management.

The turnover and the result for the period are affected by the high prices on the world market for polysilicon and silicon. The price increases worked through at the end of 2005 and continued throughout 2006. The silicon market in 2006 was characterised by an increased demand driven by the solar cell industry, which indirectly affected the price level of the products sold by the company positively.

The significantly higher prices meant that in 2006, the company was able to increase both the turnover and the income despite a 25% lower raw material consumption than in 2005.

During the financial year of 2006, the company has continued the focus initiated in the middle of 2005 with the objective of optimising the product and customer mix to achieve a higher income and the best use of the raw materials.

Moreover, the result was positively affected by the fact that in 2006, the company succeeded in selling the remelt silicon, a scrap product from the production of Float Zone silicon ingots and silicon wafers, at considerably higher prices than earlier as a result of a general shortage of polysilicon in the global market and, especially, in the solar cell industry. The scrap product was sold at about six times the average price for the period 2003-2005. Approximately 30% of the company's profit before tax in 2006 comes from the sale of remelt silicon.

The raw material market

The world market for polysilicon at present is characterised by demand exceeding supply. This scarcity has existed since the end of 2005. The cause for the shortage is that today the solar cell industry buys about 50% of the world market's production of polysilicon. Until the end of the 1990s, silicon was mainly used in electronics components in the semiconductor industry. It is thus a completely new situation in the industry that in 2006, the solar cell industry was able to buy about half of the production of the world market. The year 2007 is expected to be the year with the biggest shortage, and the year 2008 is expected to be the first year where further – but still not enough – raw material production will reach the market.

The 8-10 manufacturers of polysilicon in the world market have earlier experienced long periods of surplus capacity and poor income due to failing demand from the customers, often as a result of the cyclical fluctuations in the semiconductor and electronics industry. As a consequence of the great demand at present and the shortage of polysilicon, the prices of both the raw material and the finished silicon have surged dramatically in 2005/2006.

In addition to the large price increases, the raw material producers have taken the opportunity to introduce new commercial conditions for the buyers of polysilicon. The raw material, polysilicon, is thus only available if a long-term contract is concluded with the raw material producers, in which the customers (e.g. Topsil) indirectly finance the large investments in enlarging the reactors in which the production of polysilicon takes place. Most raw material producers have also found that due to the present market conditions, they have been able to conclude more contracts than warranted by their production volume causing a continued pressure on the raw material producers to meet the demand of the customers.

The long-term contracts that are concluded today include requirements for substantial prepayments or bank guarantees (e.g. equivalent to 2 years' purchases) and are furthermore often based on fixed prices and fixed volumes for periods of 5-10 years.

As a main rule, a customer with a raw material producer is thus required to provide capital resources equivalent to the size of the contract (e.g. over 1-3 years), often in combination with other possible material and immaterial incentives, to obtain a contract.

Topsil's raw material supply situation

At the end of June 2005, Topsil's main supplier of polysilicon terminated their contract with Topsil to expire on 31 December 2005. The controlling interest of the raw material supplier had been acquired by a company with primary activities in the solar cell industry and they wanted to secure raw materials for their own solar cell production.

Through several months, Topsil negotiated with the new majority shareholder for a new contract and in the first round, the company succeeded in securing 30T at the end of 2005 to service its customers in 2006. The operational starting point for 2006 was thus both smaller than in 2005 as well as smaller than the expected raw material consumption in 2007.

In the period from July 2005 to August 2006, Topsil negotiated with both the majority shareholder and all of the other raw material suppliers and interested parties in the industry with the purpose of securing a long-term contract for the supply of raw materials. At the same time, the company worked to provide the capital required to conclude a long-term contract.

On 11 August 2006, Topsil announced that they had succeeded in securing the required quantity of raw materials to continue the present activities of the company in the period 2007-2012.

The supply of raw materials was secured through a long-term contract with one of the company's approved raw material suppliers up till now with deliveries starting in the beginning of 2007.

The contract did not give rise to any significant development activities in order to use these products, but Topsil established production equipment at the end of 2006 in connection with the conclusion of the contract. As a result, the company is able to use less finished polysilicon ingots.

The contract is a combination agreement of which 50% is a fixed volume at fixed, index-linked prices and 50% is a variable volume at market prices. The variable volume cannot exceed the fixed volume within the same calendar year. The contract thus obligates Topsil to buy a fixed minimum volume for 6 years, and at the same time the agreement is limited as to volume.

In the present market, the company considers the price level for the fixed part of the agreement to be competitive. The company expects the prices of polysilicon for Float Zone production to remain at a high level for the next 2-3 years.

There are no immediate indications that any new manufacturers of polysilicon for Float Zone production are under formation. On the contrary, it seems that Float Zone silicon will be even more of a niche to high voltage, medium voltage and special components in the semiconductor industry. Therefore it seems less likely that the price on raw materials will return to the lower and more stable level from the period 2000-2004.

Rights issue in 2006

In connection with the conclusion of the supplier contract, Topsil provided a substantial collateral security to uphold the agreement. The company therefore decided to raise the capital required for this through a rights issue with a pre-emptive right for the existing shareholders. The issue was carried out in the period from 27 September to 13 October 2006. A total of 131,050,037 new shares were issued equivalent to proceeds of approximately DKK 33m. The company's existing shareholders subscribed for 99.8% of the subscription rights offered, and the proceeds became part of the collateral of about DKK 50m to the raw material supplier.

Customer contracts

Simultaneously with the conclusion of the raw material agreement, Topsil covered part of the potential long-term risk associated with the price development of polysilicon by concluding sales contracts with its most important strategic customers on corresponding commercial conditions. Thus 6-year contracts have been concluded with the three largest customers of the company guaranteeing more than 30% of the estimated sales in the period from 2007 to 2012.

This will contribute to securing a higher and more stable planning and income than earlier.

Other supplier contracts

Besides the raw material itself, polysilicon, the company has important sub-suppliers in two other areas; one is wafering of the silicon, and the other is irradiation of the silicon used for high voltage and medium voltage components called NTD.

In the wafering field the company has concluded 6-year agreements covering 70-80% of the product range. In several aspects, the agreements are comparable to the customer agreements and thus ensure wafering capacity for Topsil.

The company's third largest sub-supplier area consists of irradiation of undoped silicon ingots, which are used for high voltage and medium voltage components. The production and supply of these are one of Topsil's core competences, and today Topsil uses a large number of irradiation suppliers placed all over the world. During recent years, Topsil has been seriously committed to securing the necessary capacity with the best irradiation providers. Topsil has also concluded long-term contracts in this area and expects to be one of the largest buyers of NTD irradiation in the years to come.

Uncertainties associated with recognition and estimates

At the end of the financial year, no uncertainties associated with recognition and estimates of financial items have been identified.

Changes in the Board

In the course of the year, changes have been made in the Board of Directors. Kent Hansen, Chairman, left the Board on the annual general meeting in 2006. He was replaced by Jens Borelli-Kjær, Managing Director, Vitral A/S, as new Chairman, and Jørgen Frost, Managing Director, Blendex A/S, was elected member of the Board.

Special risks

Business exposures

A substantial portion of the company turnover is distributed on less than 25 customers none of whom, however, takes more than 20% of the total company turnover. The company turnover for the 10 largest customers makes up 80% of the total turnover.

The company is the world's fourth largest supplier of Float Zone silicon with a market share of approximately 8%. This means that the company is a small player among very large competitors, which may entail a business risk.

In the longer term, there are a number of risk factors. The current large raw material producers may stop producing raw material for FZ production, which may force the semiconductor and the electronics industry to find substituting silicon products. Over time, the Float Zone market may thus shrink or disappear.

New technology may lead to a surplus of raw material or the present investments in new capacity may in turn lead to surplus production of raw material. In this case, the semiconductor industry will once again squeeze the silicon producers, and the prices will return to a level of heightened competition putting the profitability under pressure. However, this seems less likely at present as reactor plants are only invested in and built for new productions, which have already been sold in long-term contracts.

In the short term, there is a risk that Topsil's present raw material supplier within the existing contract will set the prices at a level where sufficient profitability is only obtainable on the fixed part (50%) of the supply agreement. This might necessitate a significant adjustment of the costs.

Apart from the supply of raw materials, the company is dependent on the access to wafering and irradiation capacity.

If the solar cell industry continues to experience large growth rates, there may be a shortage of wafering capacity in the world market. Since Topsil is a small buyer, this may be a threat to the possibility of finding alternative wafering capacity for the full range. Topsil has concluded a long-term contract with its largest sub-supplier in Taiwan that covers 70-80% of the range.

There is no current shortage in the area of irradiation capacity, and Topsil is well positioned in relation to the irradiation suppliers.

Financial risks

Currency exposures

The company does not use derivatives to hedge currency exposures. Instead, the company uses commercial hedging by balancing the currency inflow and outflow. The most important currency flow of the company is USD, which makes up about 65% of the total cash flow. Moreover, the company has provided substantial cash security in USD to uphold the raw material contract (2007-2012). A currency fluctuation in USD/DKK of ± DKK 0.50 will mean a currency exposure to the company of about ± DKK 5.7m.

Interest rate exposures

As of the balance sheet date, the company has a positive net cash position and hence the interest rate exposure is only attributable to net deposit interest rates. A movement in the company's effective rate of 1% will affect the company's earnings with about DKK 0.7m per year.

Credit risks

The company's credit risks associated with financial activities correspond to the values recognised in the balance sheet. In the present financial year, the company has bought back its debts from a factoring company. This transaction has increased the company's credit risk as part of the company's debts used to be credit insured. The company evaluates the need for insuring individual debtors on an ongoing basis.

Cash flow

During the financial year, the company has had a significantly positive cash flow and as of the balance sheet date it has a free cash flow of DKK 24.8m. The company considers this cash position to provide sufficient capital resources to meet coming investments etc.

Knowledge resources

The company's knowledge resources fall into three categories: customers, technology and employees.

The company has a fairly strong niche position in the market. Topsil concentrates fully on the special products NTD and HPS as well as the more commodity-like PFZ product group. The products are primarily delivered to small and medium-sized customers in the semiconductor industry with a total annual Float Zone consumption of between DKK 0 and 50m.

The customers comprise both large, international, well-known groups and a large number of more local and specialising semiconductor businesses.

Topsil primarily takes the role of:

- either a primary or a secondary supplier of a combination of NTD and PFZ products to large multinational semiconductor companies that manufacture semiconductors for high and medium voltage components; or
- a supplier of the same products to small and more niche-like semiconductor companies; or
- a supplier of HPS products to small and correspondingly more niche-like semiconductor companies.

Topsil has strong long-term customer relations and has collaborated with the main part of the customer base for a period of 20 years or more.

A small player in the industry, Topsil has its own production plant and specialises as a flexible producer as far as capabilities (specs), quantities, product characteristics, logistics (e.g. irradiation) and supplies are concerned.

Topsil defines its product and technology competences as:

1. Float Zone technology including development and production of Float Zone machines, Float Zone processes and production of Float Zone silicon
2. Irradiation of silicon crystals (NTD)
3. Sales and logistics to the power market world-wide.

1. FZ technology

Throughout the last 4 years, Topsil has expanded its product programme so that Topsil covers about 98% of the product types in demand on the world market for FZ products. Historically, NTD has been Topsil's primary product. Also in future, NTD is expected to form an important and increasing part of the product programme. Topsil has its own competences in design, development and production of machines for manufacturing Float Zone silicon. The company has developed its own production processes and Float Zone machines. This is in reality a protection of the know-how of the company as far as machinery and processes are concerned.

2. Irradiation of silicon crystals (NTD)

Topsil produces FZ silicon ingots, many of which are irradiated for the material to obtain the right electrical properties. Topsil has a history of leadership in the field of irradiated FZ silicon (NTD). In 1976 Topsil together with Risø invented the irradiation technology for the production of NTD products. Expertise has been accumulated in the field of irradiation of silicon and subsequent tempering, which is necessary in the production of NTD material. A significant part of Topsil's silicon was irradiated using Risø's irradiation reactor in Denmark, but it was closed down in 2000. Since then the world market for irradiation has been analysed, and today Topsil has access to irradiation capacity all over the world and uses about 10 different sub-suppliers for irradiation on the basis of long-term contracts. At present, there is a shortage in the irradiation market, but due to its long-standing relations to the reactors, Topsil has no limitations on the irradiation capacity.

3. Sales and logistics to the power market world-wide

Topsil has established a global distribution network with a focus on handling the complex logistics of irradiated products to the power electronics market (high and medium voltage components). Topsil has formed direct customer relations with most of the large and medium-sized producers of power components.

Employees

With only about 65 employees, consisting of production workers on the one side and engineers with silicon and mechanical expertise on the other, it is crucial for Topsil to have the right employees – whose expertise and commitment are essential for efficiency, customer satisfaction and innovation.

Topsil has a low employee turnover, which may partly be due to the fact that the industry of which Topsil is a part (the silicon/semiconductor industry) is not present anywhere else in Denmark, and partly to the unique production plant of the company combined with the local site at Frederikssund, Denmark.

Topsil is both a production company with a specialised production plant and a technology company. It is a challenge to the company to create improvements in both areas and to maintain and challenge the innovative environment.

At the end of 2006, a comprehensive optimisation project was initiated using, among other things, Lean principles and Six Sigma tools in collaboration with a Danish consulting firm. This work involves all employees at Topsil over the next 1-2 years and is expected to result in an upgrading of the organisation in several areas, and also as far as the employees are concerned.

The ability to develop new products and processes and to improve the machine technology is also crucial to the success of the company. Topsil is on the way to intensifying and targeting its development further in the coming years in collaboration with companies and institutions in the industry.

To realise the company objectives, Topsil introduced a share-based incentive programme in 2006 to support the recruitment, motivation and retention of managerial employees.

Events after the balance sheet date

No events have occurred from the balance sheet date and to the present day to significantly alter the evaluation of the preliminary announcement of the annual report.

Expected future development

As of 1 January 2007, the confirmed order volume of the company for delivery in 2007 made up DKK 117.4m against approximately DKK 50m in the beginning of 2006 and approximately DKK 29m in the beginning of 2005.

The order intake is generally at a high level for 2007, primarily as a result of the concluded customer contracts mentioned earlier, but also as a result of the generally high demand for silicon and FZ products.

The expectations to the net turnover for 2007 are based on a production output, which is about 25% larger than the volume produced in 2006. Moreover, the company has received very large price increases on especially the variable part of the raw material contract. The company expects that the price level for 2007 will also result in the departure of some customers, who will seek alternative solutions.

The company expects a larger turnover and income in the second half of 2007 than in the first half of the year, among other things due to the fact that new raw material supplies have not reached the company until the beginning of 2007.

In its strategic plan, which was recently completed, Topsil has set a number of objectives for 2007/2008.

As mentioned before, a large improvement and optimisation project is under implementation in the operations (product and auxiliary administrative processes) in collaboration with a consulting firm. The objective of this project is to reduce the long lead times, secure a larger production capacity with a view to increasing the output, reduce costs, waste and semifinished product stocks and to improve the ability of the company to produce whole Float Zone ingots.

On the development side, Topsil’s 6” product range will be completed in the course of 2007.

In the areas of supply and purchasing, the company will work actively to improve the supply of raw materials and to secure the necessary wafering capacity.

The company wants to secure more supplies of raw material, but at present there are no definite results of the efforts to conclude further contracts.

The company maintains its expectations to 2007 for a turnover of DKK 180-200m and a profit before tax of DKK 35-40m.

Corporate Governance

On 6 October 2005, the Copenhagen Stock Exchange announced its decision to add new “Recommendations on Corporate Governance” in the reporting requirements for stock-listed companies with effect for accounts starting after 1 January 2006. Topsil has complied with these recommendations in the annual report for 2006.

The recommendations are made according to the “Comply or Explain” principle meaning that the company is not obliged to comply with all recommendations, but must explain conditions that deviate from the recommendations.

Openness and transparency

At a Board meeting in November 2006, the Board of Directors of the company and the management decided to strive for a more open and transparent communication with its interested parties to ensure a high and consistent level of information that will allow interested parties to evaluate the company and its future opportunities.

The role of shareholders and interaction with the company management

Topsil communicates with its shareholders on an ongoing basis through publishing of annual and interim reports and other stock exchange announcements per email. The stock exchange announcements are published in Danish and in English and are available on the website of the company immediately after their release to the OMX, Copenhagen Stock Exchange.

Topsil regularly holds meetings with investors, financial analysts and the press and at least once every quarter immediately after publishing the accounts of the quarter in question. All investor presentations are made available on the website immediately before the presentation takes place.

Topsil has established doldrums of 4 weeks preceding the announcement of the annual and interim reports, in which the company does not make any statements to investors, financial analysts, the press or other interested parties about accounting matters or participate in investor meetings. The doldrums in 2007 are stated below under “Financial calendar for 2007.”

Once every year, the Board assesses whether the capital and share structures of the company are in the interest of the shareholders. With the recent capital injection, the capital and share structures of the company for the next year are deemed appropriate and sufficient by the Board.

The general meeting

The general meeting is Topsil's highest authority. The company uses electronic document exchange as well as email in its communication with the shareholders, cf. Section 65b of the Danish Companies Act. Notices convening shareholders to the annual and extraordinary general meetings and agendas for the meetings are sent via email.

The general meeting is convened electronically giving at least 8 days' and no more than 4 weeks' notice. Shareholders, who have requested to be convened to general meetings by indicating their email address, will be convened via email. A notice is sent to the shareholders convening the meeting with all relevant appendices including a letter of attorney giving the shareholder the opportunity to consider each individual item on the agenda.

Every shareholder has access to the general meetings if he/she has obtained an admission card for himself/herself and an accompanying advisor, if relevant, no later than 3 days before the meeting with reference to the recording of the shares in the register of shareholders or on presenting documentation for the shareholding.

All shareholders are equal. All shares have the same voting rights without limitations or sub-divisions into classes of shares.

According to Topsil's Articles of Association, the voting right may be exercised by proxy on presenting a written and dated power of attorney. The design of the letter of attorney gives the shareholder the possibility to decide each individual item on the agenda. A power of attorney may only be granted for a general meeting specified in advance. However, a power of attorney to vote at the annual general meeting – unless revoked – shall also be considered valid for a possible extraordinary general meeting held with the purpose of ratifying a decision to change the Articles of Association, which requires 2 general meetings, cf. Articles 10.2 and 10.3 of the Articles of Association.

If the company should receive a public acquisition offer, the company will convene an extraordinary general meeting and present the offer for approval by the general meeting.

Rules for changing the Articles of Association

A decision to change the Articles of Association requires that at least half the share capital be represented at the general meeting and that the decision be adopted with at least 2/3 of both the votes cast and of the share capital with voting rights represented at the general meeting.

If the share capital mentioned is not represented at the general meeting in question and if the proposal does not obtain 2/3 of the votes cast it is repealed. If the proposal obtains 2/3 of the votes cast, the Board shall convene a new extraordinary general meeting within 14 days and if the proposal also obtains at least 2/3 of both the votes cast and the share capital with voting rights represented at the general meeting on this occasion, the proposal is adopted irrespective of the amount of the share capital represented.

The role of interested parties and importance to the company

The Board shall ensure that good and constructive relations as well as active dialogue exist with the interested parties of the company and that the interests and roles of these parties are respected.

Because of the modest size of Topsil at present no written policy exists governing the company's relations to its interested parties.

Topsil makes customer satisfaction analyses on a regular basis – most recently in the autumn of 2006 – to have the customers' experience of Topsil as a partner elucidated.

The annual report and supplementary information

Topsil decided to present its annual report according to IFRS as of the annual report for 2005. In connection with future annual reports, the Board will consider to which extent the annual report will be supplemented with other relevant international accounting standards and to which extent the report should contain detailing information on the development and maintenance of internal knowledge resources, ethical and social responsibilities as well as occupational health.

The duties and responsibilities of the Board

The Board of Topsil is responsible for the overall management of the company and the following main duties:

- Establishing overall objectives and strategies.
- Securing clear guidelines for the distribution of responsibilities and the organisation of the company.
- Supervision of the financial development, capital resources, risk management, insurance matters and the management's day-to-day running of the company.
- Control that statutory control measures are implemented in a reassuring way.

The duties of the Board including the duties of the Chairman and the Vice-Chairman are described in the rules of procedure of the Board, which the Board reviews and amends, if necessary, at least once a year. As a main rule, all material decisions are made by the Board collectively and decided by a simple majority of votes. In case of equality of votes, the Chairman holds the casting vote.

The Board appoints the management, which is responsible for the day-to-day operation. The distribution of responsibilities and duties between the Board and the management are described in the rules of procedure as are the procedures for the management's reporting to the Board. In addition, the Board has provided the management with a written management instruction. The management provides information to the Board on an ongoing basis through written and oral communication. In addition to this, the Chairman currently receives information about special events in the company from the management of the company.

In connection with the quarterly Board meetings where the quarterly reports are presented, a written report for the most recent quarter is published including profit and loss account, balance sheet, updated expectations to the result for the present year as well as an account of any material deviations compared to the approved budget.

Composition of the Board

Pursuant to the Articles of Association, the Board is composed of between three and six persons elected by the general meeting, who are elected for one year at a time. Present members may be re-elected. Currently, Topsil has four members who are elected by the general meeting. Furthermore, there are two staff representatives who are elected in accordance with the provisions of the Danish Companies Act on this.

The Board members elected by the general meeting are elected for one year at a time whereas the staff representatives are elected for a 4-year period. No time limit has been established for the total period a person may be a member of the Board other than the provision that members of the Board must retire from the Board at the general meeting held the year they turn 70 at the latest.

Members of the company's management may not be nominated or elected to the Board of Topsil Semiconductor Materials A/S.

On the nomination for election (re-election) of the members of the Board at the general meeting, the Board of Directors distribute a description of the background of the nominated candidates, their special competences and managerial duties in other Danish and foreign companies together with the notice convening the general meeting.

On composing the Board, the aim is that the main part of the Board members elected by the general meeting are independent from special interests whether they be the company, major shareholders, chief suppliers or key accounts.

Currently, three out of four members of the Board elected by the general meeting are independent.

The Vice-Chairman of the company, Eivind Dam Jensen, is a major shareholder in Topsil and the owner of Ejendomsaktieselskabet Bangs Gård, which owns and leases the head office at Linderupvej 4, DK-3600 Frederikssund to the company. The transactions appear from note 37 in the annual report.

At an annual meeting, the appropriateness of the number of members of the Board is evaluated. If a new or an additional member of the Board elected by the general meeting is required, the Chairman together with the Vice-Chairman and the managing director state the criteria for the new member's qualifications and subsequently find suitable candidates.

Topsil offers its newly elected members of the Board a thorough introduction to the company's products, market and industrial conditions.

The Board of Directors meet at least six times annually. In 2006 the Board of Directors held 10 meetings and so far, 5 meetings are planned for 2007.

Once every year, the Board of Directors and the management meet to discuss and define their most important tasks related to the overall strategic management, financial and managerial control, and to evaluate the auditor and the competences, work, results and collaboration of the Board of Directors and the management. Procedures for miscellaneous evaluations are under preparation.

It is up to each member of the Board to assess how many directorships he/she is able to undertake simultaneously with the directorship in Topsil. In principle, this is considered a personal matter; however, the issue is discussed in the annual self-evaluation of the Board of Directors.

The company does not have Board committees at present.

Management

The Board of Directors assesses and decides the number of directors and appoints and dismisses the management. The Chairman and the Vice-Chairman in the form of a contract determine the terms of engagement of the management and negotiate adjustments of the remuneration etc., usually once a year.

Remuneration of the management

The fee of the Board of Directors must be competitive and reasonable having regard to the duties and responsibilities of the assignment. The fee of the Board of Directors is determined at the first Board meeting and is paid in one instalment the next year following the approval of the annual report by the general meeting. The remuneration for the Chairman, the Vice-Chairman and the other members of the Board, respectively, is specified in note 5 to the annual report according to IFRS.

The Board of Directors is not remunerated with share option programmes.

The company does not have an actual remuneration policy as the size of the company does not necessitate such a policy. The remuneration of the company's management is evaluated regularly by the Board of Directors.

The remuneration of the management (basic salary, bonus, etc.) shall reflect the interest of the shareholders, be adjusted to circumstances and be reasonable having regard to the duties and responsibilities. The remuneration and bonus of the members of the management are specified in note 5 in the annual report. In the case of substantial or atypical contributions to fringe benefits, severance allowances etc. to the management, such contributions will also be specified in the annual report. There have been no costs of this nature in 2006.

The management and the managerial staff in addition to their basic salary have a bonus scheme based on the ordinary profit before tax for 2006 and subsequent financial years, cf. stock exchange announcements 05/06 & 13/06.

In addition to this, the management of the company and several managerial employees have been given warrants, cf. the above-mentioned stock exchange announcements. The share, conditions and valuation of the management appear from note 7.

The Board of Directors determine the principles and guidelines of the incentive programmes for the management to promote long-term behaviour and transparency and the valuation is performed according to approved methods in accordance with applicable law.

The shareholdings and subscription options of the management

The shareholdings and subscription options of the management as at 31 December 2006 were as follows:

Shares	**Shareholding by number of shares (own and connected persons*)**	**Shareholding by nominal value in DKK**
Jens Borelli-Kjær, Chairman	450,000	112,500.00
Eivind Dam Jensen (EDJ-Gruppen), Vice-Chairman	61,940,249	15,485,062.25
Theis Leth Larsen, Member of the Board	3,105	776.25
Trine Schønnemann, Member of the Board	94,980	23,745.00
Jørgen Bødker, Sales and Marketing Director	375,000	93,750.00
Leif Jensen, R&D Manager	275,000	68,750.00
Hans Peder Mikkelsen, Production Manager	70,000	17,500.00
Total	**63,208,334**	**15,802,083.50**

* Connected persons are the nearest relatives of the management and companies in which management functions are filled.

Warrants/subscription options by number	12.04.06	07.08.06	27.09.06	Total
Keld Lindegaard Andersen, Managing Director	3,931,500	0	1,965,750	5,897,250
Jørgen Bødker, Sales and Marketing Director	0	2,621,000	1,310,500	3,931,500
Martin Overgaard Hansen, CFO	0	861,875	430,937	1,292,812
Leif Jensen, R&D Manager	0	861,875	430,937	1,292,812
Hans Peder Mikkelsen, Production Manager	0	861,875	430,937	1,292,812
Theis Leth Larsen, PTA Manager	0	861,875	430,937	1,292,812
Total	**3,931,500**	**6,068,500**	**4,999,998**	**14,999,998**

Transactions in 2006/shares	Beginning	Purchase	Sale	End
Jens Borelli-Kjær, Chairman	0			
Purchase on 16 June 2006		285,000		285,000
Purchase on 5 October 2006		22,500		307,500
Purchase on 5 October 2006*		142,500		**450,000**
Eivind Dam Jensen (EDJ-Gruppen), Vice-Chairman	36,023,812			
Purchase on 7 April 2006		2,155,000		38,178,812
Purchase on 10 April 2006		290,000		38,468,812
Purchase on 11 April 2006		110,000		38,578,812
Purchase on 6 October 2006*		1,500,000		40,078,812
Purchase on 10 October 2006*		21,659,066		61,737,878
Purchase on 19 October 2006 (guarantee amount)*		202,371		**61,940,249**
Theis Leth Larsen, Member of the Board	2,070			
Purchase on 3 October 2006*		1,035		**3,105**
Trine Schønnemann, Member of the Board	63,320			
Purchase on 6 October 2006*		31,660		**94,980**
Jørgen Bødker, Sales and Marketing Director	250,000			
Purchase on 4 October 2006*		125,000		**375,000**
Leif Jensen, R&D Manager	275,000			**275,000**
Hans Peder Mikkelsen, Production Manager	440,000			
Sale on 26 September 2006			60,000	380,000
Purchase on 13 October 2006*		190,000		570,000
Sale on 16 November 2006			500,000	**70,000**

* New shares in connection with pre-emption issue

Regulation of the option programme as a result of the issue

With reference to the stock exchange announcements of 12 April 2006 (No. 05/06) and 7 August 2006 (No. 13/06), the managing director, the sales and marketing director and 4 managerial employees, respectively, were offered an option programme.

Subsequently, the Board of Directors has decided to change the managing director's exercise price from 0.2625 to 0.27 to ensure that the contract terms comply with the requirements of Section 7H of the Danish Tax Assessment Act ("ligningsloven").

As a consequence of the clauses to prevent dilution in the option programmes, further subscription options are allotted to the two directors and the other managerial staff as a result of the issue carried out in September/October 2006 on the same terms as for the other shareholders i.e. at a ratio of 2:1 and at a price of 0.2625.

According to this, the following subscription options have been offered:

	Original allotment:	2:1	Total:
Managing Director:	3,931,500	1,965,750	5,897,250
Sales & Marketing Director	2,621,000	1,310,500	3,931,500
Other 4 managerial employees	3,447,500	1,723,748	5,171,248
Total	10,000,000	4,999,998	14,999,998

The exercise price is calculated as a weighted average between the original allotment price of 0.27 for the managing director and 0.29 for the other 5 managerial employees, respectively, and the issue price of 0.2625 corresponding to 0.2675 for the managing director and 0.2808 for the other 5 managerial employees.

The subscription options may be exercised in a period of up to six weeks after the publication of the annual report announcement with one third in 2007, one third in 2008, and one third in 2009.

Pursuant to Article 3.6 of the Articles of Association of the company, the Board of Directors are only authorised to issue 10m subscription options. At the annual general meeting on 28 March 2007, the Board of Directors will request an authorisation to issue subscription options to managerial staff for a nominal value of up to DKK 3.75m in shares of DKK 0.25 corresponding to 15m shares, partly to be able to honour the subscription options already offered, and partly to have the possibility in future to allot new subscription options to the present and future managerial staff.

Material contracts with the management

The company has no material contracts with the management except as provided in the above.

Risk management

The Board of Directors and the management will meet once every year to discuss the overall strategy for the company. At the strategy meeting the most important business risks, among other things, are identified. These are described on page 12 in the annual report.

The management has worked out a plan for the company’s risk management and regularly reports at the Board meetings. The chapter on risks related to currency, interest rate and credit in the annual report describes the greatest risks connected with Topsil’s activities.

Auditors

In accordance with the Articles of Association, the general meeting each year appoints an auditor who must be a state-authorised public accountant. It is the responsibility of the Board of Directors to recommend the election of an auditor by the general meeting and to ensure together with the management that the contractual basis of the audit is reasonable and reassuring.

The auditor must audit the annual accounts in accordance with good auditing practices including a critical review of the accounting material of the company.

The auditors report on the progress of the audit on an ongoing basis in a long-form report to the Board of Directors. The auditors attend Board meetings at least once a year, normally in connection with the review of the annual report and the presentation of the long-form report. At this meeting, the accounting policies and material accounting estimates are reviewed.

Information and communication policy

The company has adopted an information and communication policy to ensure that Topsil appears as a visible, reliable, available and professional company with a high level of information, a consistent information flow and an open dialogue with its interested parties.

The management will provide the best basis for the interested parties to assess the company share and will thus strive for a share price that reflects the current standing of the company and its future prospects.

At the same time, the information and communication policy will ensure that Topsil meets the disclosure requirements of the share market and that insider knowledge, which must be assumed to affect the price of Topsil's share considerably, is not disclosed to unauthorised persons.

The full information and communication policy can be seen at the company website under "Investor Relations."

Shareholder structure as at 31 December 2006

The share capital of the company amounts to a nominal value of DKK 98,287,527.75 and consists of 393,150,111 shares of DKK 0.25 each. The shares are not sub-divided into classes.

Shareholder composition as at 31 December 2006	**Units**	**Capital in DKK**	**Capital in %**	**Votes in %**
EDJ-Gruppen, Bangs Gård, Torvet 21, DK-6701 Esbjerg, Denmark	61,940,249	15,485,062.25	15.75	15.75
Other registered shareholders	209,945,658	52,486,414.50	53.41	53.41
Unregistered shareholders	121,264,204	30,316,051.00	30.84	30.84
Total	393,150,111	98,287,527,75	100.00	100.00

Own shares

The Board of Directors has adopted some guidelines for transactions with the company's shares, which are laid down in the rules of procedure and the internal rules of the company. They apply to both the company's own transactions as well as the transactions of the Board of Directors, the management and managerial staff. There are also written guidelines that prohibit abuse or disclosure of insider knowledge.

The trading window for the Board of Directors, the management and other insiders, to whom the guidelines for insiders apply, is set to 4 weeks after the publication of each quarterly report and only when no insider knowledge exists. Subscription for employee shares/exercise of employee subscription rights already held is not covered by the rule even if the subscription/exercise falls outside the 4-week limit.

It is the responsibility of the Chairman to inform insiders in case the trading window is closed due to insider knowledge.

Dividend policy

It is Topsil's policy that shareholders should obtain a yield on their investment in the form of a price increase and/or a dividend. Dividends will be paid considering the necessary consolidation of the equity capital as the basis for the continued growth of the company.

The Board of Directors proposes to the annual general meeting that no dividend be paid for the financial year 2006. The proposal is based on a wish to strengthen the capital resources to counter cyclical fluctuations.

List of stock exchange announcements in 2006:

Date	**Announcement**
12.01	Financial calendar 2006
06.03	Raw material supplies and adjustment of the expectations to the result for 2005
14.03	Preliminary announcement of annual report 2005
10.04	Reporting of insider transactions
12.04	Warrant and bonus scheme for the managing director
12.04	Notice convening the annual general meeting
12.04	Reporting of insider transactions
25.04	Change of management

25.04	Summary of the general meeting 2006
10.05	Quarterly report – 1st quarter 2006
10.05	Updated financial calendar 2006
17.05	Reporting of insider transactions
07.08	Warrant and bonus scheme to the management
07.08	Warrant and bonus scheme to the management – correction
11.08	Long-term agreement for polysilicon/issue of shares
29.08	Interim report – 1st half year 2006
15.09	Announcement of prospectus concerning pre-emption issue
18.09	Prospectus
19.09	Webcast presentation
27.07	Reporting of insider transactions
03.10	Reporting of insider transactions
05.10	Reporting of insider transactions
06.10	Announcement on behalf of EDJ-gruppen
06.10	Reporting of insider transactions
10.10	Reporting of insider transactions
10.10	Reporting of insider transactions
10.10	Announcement to major shareholders
16.10	Reporting of insider transactions
20.10	Result of the pre-emption issue
20.10	Reporting of insider transactions
07.11	Quarterly report – 3rd quarter 2006
17.11	Reporting of insider transactions
20.11	Financial calendar 2007

Financial calendar 2007

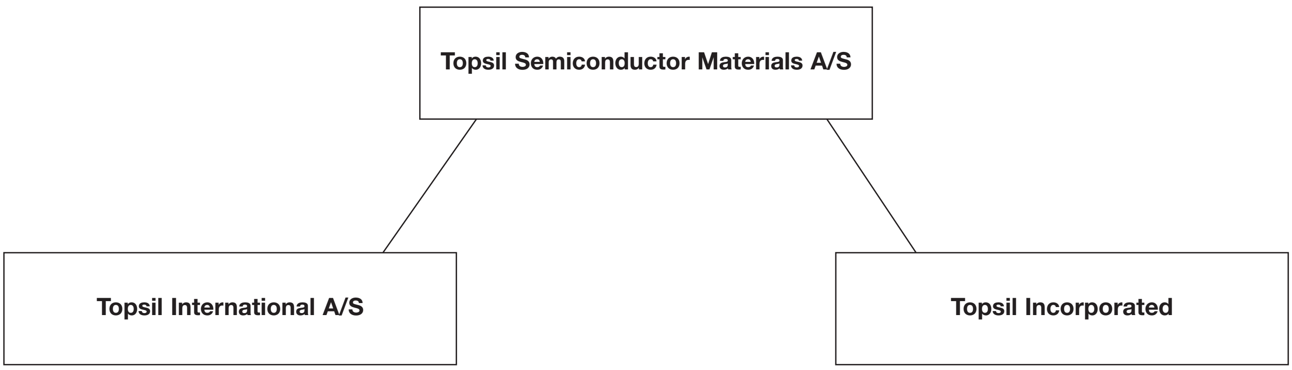
Date	Announcement	Doldrums
21.02	Preliminary announcement of annual report 2006	24.01.07 – 21.02.07
19.03	Annual report	
28.03	Annual general meeting	
02.05	Quarterly report – 1st quarter 2007	04.04.07 – 02.05.07
23.08	Interim report – 1st half year 2007	26.07.07 – 23.08.07
25.10	Quarterly report – 3rd quarter 2007	27.09.07 – 25.10.07

Further information

Questions to the stock exchange announcements may be directed to:
Jens Borelli-Kjær, Chairman, tel. +45 47 18 01 00
Keld Lindegaard Andersen, Managing Director, tel. +45 47 36 56 10

Group chart:

Both of the subsidiaries listed in the group chart are fully owned.



Information on subsidiaries:

Topsil International A/S (the company is expected to be voluntarily wound up in 2007)
Linderupvej 4
DK-3600 Frederikssund
Telephone: +45 47 36 56 00
Telefax: +45 47 36 56 01
Company Registration (CVR) No. 25 86 35 50

Topsil Incorporated (the company is expected to be voluntarily wound up in 2007)
c/o CT Corporation System
3225 N. Central Ave.
Phoenix, AZ 85012, USA
File-number: -0798972-8

Topsil Semiconductor Materials A/S has not prepared any group accounts for the financial year 2006.

The reason for this is the fact that Topsil International A/S and Topsil Inc. have been inactive companies in 2006. Topsil International A/S' balance sheet total in the beginning of the year consisted of an escrow account in connection with the sale of real property in the financial year 2005. This escrow account was made available in February 2006, and the money has been used to discharge an intragroup balance due to the parent company. After this, the company has been inactive. Topsil Semiconductor Materials A/S has taken steps to dissolve Topsil International A/S and Topsil Inc. Both companies are expected to be voluntarily wound up in 2007.

Topsil International A/S' balance sheet total at the end of 2006 consists of a balance due to Topsil Semiconductor Materials A/S, and the balance sheet total as at 31 December 2006 makes up 0% of the total balance sheet amount for the group.

Topsil Inc. has had no assets and liabilities in the financial year. The balance sheet total of the company makes up 0% of the balance sheet total for the group.

Based on materiality considerations and an assessment of the actual financial matters in the subsidiaries, it was decided not to prepare any group accounts. If group accounts had been prepared, they would only show minor differences compared to the annual accounts of the parent company.

The key figures and ratios of the company

5 years' key figures, DKK '000	2006	2005	2004	2003	2002
Net turnover	147,503	129,592	115,657	117,651	111,883
Operating profit/loss (EBIT)	33,593	(7,080)	3,899	(15,479)	2,866
Result after financial items	(4,359)	(1,033)	(2,810)	(1,152)	2,457
Profit/loss for the year	28,143	(13,969)	1,089	(16,625)	5,350
Capital employed	30,717	30,262	45,711	45,510	37,465
Net working capital (NWC)	5,872	18,510	35,429	38,271	24,109
Equity capital	111,079	50,253	62,974	62,953	77,164
Balance sheet total	179,827	112,284	115,672	132,216	162,162
Expenditure on fixed assets	4,534	8,603	375	8,331	2,461
Net interest-bearing debt	(70,734)	17,149	24,025	33,592	17,387
Cash Earnings	44,075	(2,598)	14,444	(9,244)	27,337
Average number of full-time employees	64	76	84	93	88
Basic number of shares ('000)	393,150	262,100	262,100	259,349	259,311
Diluted number of shares ('000)	408,150	266,032	262,100	259,349	259,311
Ratios					
Profit margin (%)	22.8	(5.5)	3.4	(13.2)	2.6
Return on capital employed (%)	110.2	(18.6)	8.5	(37.3)	12.0
Return on equity (%)	34.9	(24.7)	1.7	(23.7)	10.5
Gearing	(63.7)	34.1	38.2	53.4	22.5
Net turnover/capital employed	4.8	4.3	2.5	2.6	3.0

The key figures and ratios for 2004-2006 have been prepared according to IFRS, cf. the description in note 1, accounting policies. The comparative figures for 2003 and 2002 have not been adjusted to the changed accounting policies on the transition to accounting in accordance with IFRS. Instead, they are presented in accordance with the accounting policies so far, which are based on the provisions of the Danish Company Accounts Act and the Danish accounting standards. If the comparative figures for 2003 and 2002 were to be stated according to IFRS, the most significant regulations would concern the recognition of market value adjustment of participating interest in subsidiaries. The monetary changes would only signify minor corrections of the key figures and ratios for the years 2002-2003.

Profit and loss account for 2006

DKK '000	Note	2006	2005
Net turnover	4	147,503	129,592
Adjustments of finished goods and goods under production		(2,137)	(7,444)
Work carried out for own account		1,392	3,394
Other operating income		159	74
Costs for raw materials and ancillary materials		(60,213)	(74,703)
Other external costs		(20,836)	(17,072)
Employment costs	5, 6, 7	(27,121)	(30,986)
Depreciation and amortisation	8	(5,154)	(9,318)
Other operating costs		0	(617)
Operating profit/loss (EBIT)		**33,593**	**(7,080)**
Financial receipts	9	1,223	1,084
Financial expenses	10	(5,582)	(2,117)
Profit/loss before tax		**29,234**	**(8,113)**
Tax on the profit for the year	11	(1,091)	(5,856)
Profit/loss for the year		**28,143**	**(13,969)**
Earnings per share (DKK)	12	0.10	(0.05)
Earnings per share, diluted (DKK)	12	0.09	(0.05)
Proposed distribution of the profit:			
Carried forward		28,143	(13,969)
		28,143	**(13,969)**

Balance sheet as at 31 December 2006

Assets

DKK ’000	Note	2006	2005
Completed development projects		15,044	18,129
Patents and licenses		22	34
Development projects in progress		1,240	0
Intangible assets	13, 14	**16,306**	**18,163**
Plant and machinery		18,995	19,177
Other fixtures and fittings, tools and equipment		1,950	483
Tangible assets under construction		2,017	983
Tangible assets	15	**22,962**	**20,643**
Participating interest in subsidiaries	16	1,526	1,526
Other receivables	17	62,562	2,000
Financial assets		**64,088**	**3,526**
Deferred tax	11	**7,251**	**8,185**
Long-term assets		**110,607**	**50,517**
Stocks	18	**22,562**	**24,699**
Trade receivables	19	14,859	8,768
Receivables from subsidiaries		0	14,070
Other receivables	20	6,010	5,496
Receivables for joint taxation refund		0	375
Accrued income and deferred expenses		945	453
Receivables		**21,814**	**29,162**
Cash	21	**24,844**	**7,906**
Current assets		**69,220**	**61,767**
Assets		**179,827**	**112,284**

Balance sheet as at 31 December 2006

Liabilities

'000	Note	2006	2005
Share capital	22	98,288	65,525
Reserve for market value adjustment of financial assets available for sale	23	1,026	1,026
Reserve for market value adjustment of collateral instruments	23	17	0
Share-based payment reserve	23	686	497
Retained profit/loss		11,062	(16,795)
Equity capital		**111,079**	**50,253**
Amounts owed to credit institutions	24	6,786	8,294
Financial lease commitments	25	4,889	6,128
Payments received on account from customers		15,822	0
Long-term liabilities		**27,497**	**14,422**
Amounts owed to credit institutions	24	1,508	9,510
Debt to banks	24	0	2,044
Financial lease commitments	25	1,239	1,079
Trade creditors	26	19,522	21,900
Amounts owed to subsidiaries		1,526	0
Payments received on account from customers		5,011	0
Other payables	27	12,445	13,076
Short-term liabilities		**41,251**	**47,609**
Total liabilities		**68,748**	**62,031**
Liabilities		**179,827**	**112,284**

Operating lease commitments	30
Mortgaging, surety and current commitments	31-32
Notes without reference	33-40

Explanation of the composition of the equity capital for 2006

DKK '000	Share-capital	Reserve for revalu-ation	Reserve for market value adjustment of financial assets available for sale	Share-based payment reserve	Reserve for value adjustment of collateral instru-ments	Retained profit	Capital and reserves
Equity capital as at 1 January 2005	65.525	214	61	0	0	(2,826)	62,974
Market value adjustment of participating interest	0	0	965	0	0	0	965
Revaluation reserve	0	(214)	0	0	0	0	(214)
Net income recognised directly in equity	**0**	**(214)**	**965**	**0**	**0**	**0**	**751**
Profit of the year	0	0	0	0	0	(13,969)	(13,969)
Total recognised income and expenses	**0**	**(214)**	**965**	**0**	**0**	**(13,969)**	**(13,218)**
Share-based payment, cf. note 7	0	0	0	497	0	0	497
Equity capital as at 31 december 2005	**65,525**	**0**	**1,026**	**497**	**0**	**(16,795)**	**50,253**
Equity capital as at 1 January 2006	65,525	0	1,026	497	0	(16,795)	50,253
Market value adjustment of financial instruments to secure future cash flows	0	0	0	0	17	0	17
Net income recognised directly in equity	**0**	**0**	**0**	**0**	**17**	**0**	**17**
Profit for the year	0	0	0	0	0	28,143	28,143
Total recognised income and expenses	**0**	**0**	**0**	**0**	**17**	**28,143**	**28,160**
Share-based payment, cf. note 7	0	0	0	189	0	0	189
Cash increase of capital	32,763	0	0	0	0	0	32,763
Premium on issue	0	0	0	0	0	1,638	1,638
Issue expenses	0	0	0	0	0	(2,075)	(2,075)
Tax on expenses relating to capital increase	0	0	0	0	0	151	151
Equity capital as at 31 december 2006	**98,288**	**0**	**1,026**	**686**	**17**	**11,062**	**111,079**

The change of accounting policies has had no effect on the equity capital.

Cash flow statement for 2006

'000	Note	2006	2005
Operating profit/loss (EBIT)		33,593	(7,080)
Depreciation and amortisation		5,154	9,318
Loss/profit on the sale of assets		(76)	1,079
Share-based payment recognised in the profit and loss account		189	497
Adjustment for market value of collateral instruments recognised in the profit and loss account		17	0
Other adjustments		0	404
Change in net working capital	28	12,638	13,404
Cash flows from primary operations		**51,515**	**17,622**
Financial income received		1,223	1,084
Financial expenses paid		(2,535)	(2,117)
Joint taxation refund received		369	0
Cash flows from operations		**50,572**	**16,589**
Acquisition etc, of intangible assets		(1,240)	(3,049)
Acquisition etc, of tangible assets		(4,534)	(8,772)
Sale of tangible assets		234	35
Sale of financial assets		0	73
Cash flows from investments		**(5,540)**	**(11,713)**
Other repayments to credit institutions		(9,510)	(8,763)
Proceeds from issue of shares, net		32,326	0
Repayment of lease commitment		(1,079)	(93)
Paid-up deposit		(47,250)	0
Proceeds on raising of financial loans		0	7,300
Cash flows from financing		**(25,513)**	**(1,556)**
Cash flow for the year		**19,519**	**3,320**
Cash and cash equivalents at 1 January		5,862	2,542
Value adjustment of liquid funds		(537)	0
Cash and cash equivalents at 31 December	21	**24,844**	**5,862**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List of notes

Notes

1. Accounting policies

The annual report for 2006 for Topsil Semiconductor Materials A/S is presented in accordance with the International Financial Reporting Standards as adopted by the European Union as well as Danish disclosure requirements for annual reporting in accounting class D (listed companies), cf. the IFRS announcement issued in accordance with the Danish Company Accounts Act.

The annual report also meets the demands of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB).

The annual report is presented in Danish kroner (DKK), which is considered to be the primary currency of the company's assets and the functional currency of the company.

The annual report is based on historic cost prices except from certain financial instruments that are recognised at market value. Otherwise, the accounting policies are as described below.

Implementation of new and altered standards and contribution to interpretation

Modifications to the accounting policies

The annual report for 2006 is presented in accordance with the new and modified standards (IFRS/IAS) as well as new contributions to the interpretation (IFRIC) that apply to financial years beginning 1 January 2006 or later. The implementation of new and modified standards and the contributions to the interpretation of the annual report for 2006 have resulted in some changes in the accounting policies in the following areas:

- Recognition and estimates of financial assets and financial liabilities at market value via the profit and loss account

The effect of this change is described in more detail below.

Recognition and estimates of financial assets and financial liabilities at market value via the profit and loss account

In June 2005, IASB decided to change IAS 39, Financial instruments: Recognition and estimates to restrict the option to recognise market value adjustments of financial assets and liabilities in the profit and loss account ("the market value option"). According to IAS 39 up to now, a company could choose to classify any financial asset and any financial liability as "financial assets or financial liabilities estimated at market value via the profit and loss account." According to the modified standard, this is only possible if the assets or the liabilities are part of a trade portfolio whose use of the method eliminates or significantly reduces the inconsistencies of the recognition and estimates of financial assets and financial liabilities or if a group of financial assets or financial liabilities or both are managed in accordance with a documented risk management or investment strategy or a financial instrument contains an integrated derivative, which must be separated from the main contract but which cannot itself be reliably estimated at market value.

For Topsil Semiconductor Materials A/S the modified IAS 39 has meant that the company can no longer classify the participating interest in subsidiaries at market value via the profit and loss account. The regular market value adjustments of the participating interest in subsidiaries must be recognised directly in the equity capital whereas they used to be recognised in the profit and loss account. The company has implemented the modified IAS 39 retroactively to 1 January 2005 in accordance with the transitional provisions in the modified standard including adjustment of the comparative figures for 2005.

The monetary effect of the modification of the accounting policies can be specified in the following way:

DKK '000	Equity capital 01.01.05	Profit and loss acount 2005	Equity capital 31.12.05	Profit and loss account 2006	Equity capital 31.12.06
Amount according to former accounting policies	62,974	(13,004)	49,970	28,143	111,079
Reversal of market value adjustment recognised in the profit and loss account under earnings from participating interest in subsidiaries and recognition of this in a separate reserve under the equity capital	0	(965)	0	0	0
Tax effect of the change	0	0	0	0	0
Amount according to modified accounting policies	62,974	(13,969)	49,970	28,143	111,079

The effect of the change on the earnings per share and the diluted earning per share is described in note 12.

Topsil Semiconductor Materials A/S has also implemented 1 new contribution to the interpretation in the annual report for 2006:

- IFRIC 4, *Determination as to whether a contract contains a lease contract*

The implementation of IFRIC 4 has not had any effect on the annual report.

Standards and contributions to interpretation that have not yet come into force

At the time of publishing the present annual report, the following new or amended standards and contributions to interpretation with an impact on this annual report have not yet taken effect and therefore have not been incorporated into the present annual report:

- Amended IAS 32, *Financial instruments: Information and presentation*, concerning requirements to information about financial instruments that are transferred to IFRS 7. The amended standard takes effect for financial years beginning 1 January 2007 or later.
- New IFRS 7, *Financial instruments: Information.* The standard takes effect for financial years beginning 1 January 2007 or later.
- New IFRS 8, *Business segments.* The standard has not yet been adopted for the European Union.
- New IFRIC 8, *Scope of IFRS 2.* The contribution to interpretation takes effect for financial years beginning 1 May 2006 or later.
- New IFRIC 9, *Revaluation of integrated derivatives.* The contribution to interpretation takes effect for financial years beginning 1 June 2006 or later.
- New IFRIC 10, *Interim reports and amortisation.* The contribution to interpretation takes effect for financial years beginning 1 November 2006 or later. The contribution to interpretation has not yet been adopted for the European Union.
- New IFRIC 11, *Intragroup transactions and own shares.* The contribution to interpretation takes effect for financial years beginning 1 March 2007 or later. The contribution to interpretation has not yet been adopted for the European Union

In the opinion of the management, the use of these new and amended standards and contributions to interpretation will not have any significant effect on the annual report for the coming financial year except from the further disclosure requirements to financial instruments and business segments that result from the implementation of IFRS 7 and IFRS 8.

Group accounts

The company has not prepared any group accounts for the financial year 2006.

The reason for this is the fact that Topsil International A/S and Topsil Inc. have been inactive companies in 2006. Topsil International A/S' balance sheet total in the beginning of the year consisted of an escrow account in connection with the sale of real property in the financial year 2005. This escrow account was made available in February 2006, and the money has been used to discharge an intragroup balance due to the parent company. After this, the company has been inactive. The company has taken steps to dissolve Topsil International A/S and Topsil Inc. Both companies are expected to be voluntarily wound up in 2007.

Topsil International A/S' balance sheet total at the end of 2006 consists of a balance due to Topsil Semiconductor Materials A/S, and the balance sheet total as at 31 December 2006 makes up 0% of the total balance sheet amount for the group.

Topsil Inc. has had no assets and liabilities in the financial year. The balance sheet total of Topsil Inc. makes up 0% of the balance sheet total for the group.

Based on materiality considerations and an assessment of the actual financial matters in the subsidiaries, it was decided not to prepare any group accounts. If group accounts had been prepared, they would only show minor differences compared to the annual accounts of the parent company.

Conversion of foreign currency

When first recognised, transactions in other currencies than the company's functional currency are converted at the average rate that does not deviate significantly from the rate on the transaction day. Outstanding accounts, debts and other monetary items in foreign exchange, which have not been settled on the balance sheet date, are converted at the exchange rate on the balance sheet day. Exchange differences arising between the rate on the transaction day and the rate on the payment day, respectively, are recognised as financial items in the profit and loss account.

Intangible and tangible assets as well as stocks and other non-monetary assets bought in foreign currencies are estimated based on the historic cost prices and converted at the rate of the transaction day.

Derivatives

Changes in the market value of derivatives that are classified as and meet the conditions for effective hedging of future transactions are recognised directly in the equity capital. The ineffective part is recognised immediately in the profit and loss account. When the hedged transactions are realised, the accumulated changes are recognised as part of the cost price of the respective transactions.

For derivatives that do not meet the criteria for being treated as hedging instruments, the changes in market value are recognised on an ongoing basis in the profit and loss account as financial items.

Share-based incentive programmes

Share-based incentive programmes in which the employees alone can choose to buy shares in the parent company (capital schemes) are estimated at the market value of the capital instruments at the time of allotment and recognised in the profit and loss account under employment costs over the period the employees obtain the right to purchase the shares. The counter item to this is recognised directly in the equity capital.

The market value of the capital instruments is calculated using Cox, Ross & Rubinstein's binomial tree with the parameters indicated in note 7.

Tax

The tax for the year, consisting of the current tax for the year and changes in deferred tax, is recognised in the profit and loss account with the part that is attributable to the result for the year, and directly in the equity capital with the part that is attributable to items directly concerning the equity capital.

Current tax liabilities and current tax receivables are recognised in the balance sheet and stated as tax calculated on the taxable income for the year adjusted for tax paid on account.

The current tax for the year is calculated using the applicable tax rates and tax rules on the balance sheet date.

Deferred tax is estimated by using the tax rates and tax rules which, based on the acts passed or in reality passed on the balance sheet date, are expected to apply at the time when the deferred tax is expected to become current tax. Changes in the deferred tax as a result of changes in tax rates or tax rules are recognised respectively in the profit and loss account unless the deferred tax is attributable to items which have earlier been recognised directly in the equity capital.

The deferred tax is recognised according to the liability method of all provisional differences between the accounting and tax values of assets and liabilities. The deferred tax is calculated based on the planned use of the individual asset and the settlement of the individual liability, respectively.

Deferred tax including the tax value of tax-loss carry-forward is recognised in the balance sheet at the value at which the asset is expected to be realised either as a setoff in deferred tax liabilities or as net tax assets for setoff in future positive taxable income. On every balance sheet day, the probability of sufficient taxable income being generated in future to exploit the deferred tax asset is assessed.

The parent company is jointly taxed with all Danish subsidiaries. The current Danish company tax is distributed on the jointly taxed companies in proportion to their taxable income.

The profit and loss account

Net turnover

The net turnover is recognised in the profit and loss account once delivery and passing of risk to the buyer have taken place.

The net turnover is estimated at the market value of the payment received or receivable. If an interest-free credit has been agreed for payment of the outstanding amount extending beyond the usual credit period, the market value of the payment is calculated by discounted future payments. The difference between the market value and the nominal value of the payment is recognised as financial income in the profit and loss account over the extended credit period by using the effective rate of interest method.

The net turnover is calculated exclusive of VAT, taxes, discounts etc. that are collected on behalf of a third party.

Costs for raw materials and ancillary materials

Costs for raw materials and ancillary materials comprise direct costs paid to obtain the net turnover. Costs concerning development projects that do not meet the criteria for recognition in the balance sheet are also recognised under costs to raw materials and ancillary materials.

Other operating income and operating costs

Other operating income and costs include items of a secondary nature relative to the main activity of the company including profit and loss in connection with the realisation of intangible and tangible assets.

Other external costs

Other external costs include costs for distribution, sales, advertising, administration, premises, loss on debtors etc.

Other external costs also comprise costs for development projects that do not meet the criteria for recognition in the balance sheet.

Government grants

Government grants are recognised when there is a reasonable certainty that the conditions for receiving the grant have been met and that the grant will be received.

Grants for covering expenses paid are recognised in the profit and loss account proportionally with the periods in which the associated expenses are recognised. The grants are set off against the expenses incurred.

Government grants associated with an asset are deducted from the cost price of the asset.

Employment costs

Employment costs comprise wages and salaries and social costs, pensions, share-based payments etc. to the employees of the company.

Employment costs also comprise costs for development projects that do not meet the criteria for recognition in the balance sheet.

Financial Items

Financial items comprise interest earnings and expenses, the interest part of financial lease services, realised and unrealised foreign exchange gains and losses as well as surcharges and allowances under the system of taxation on account.

Balance sheet

Intangible assets

Development projects concerning products and processes which are clearly defined and identifiable are recognised as intangible assets if it is likely that the product or the process will generate future financial advantages for the company and a reliable estimate can be made of the development costs of the individual asset.

Other development costs are recognised as costs in the profit and loss account when the costs are incurred.

When first recognised, development projects are estimated at cost price. The cost price of development projects include costs such as salaries and depreciation, which are directly attributable to the development projects and which are necessary to complete the project calculated from the time when the development project first meets the criteria for recognition as an asset.

Completed development projects are depreciated according to the straight-line method over their expected economic lives. The depreciation period is usually 5 years, but in some cases it can be up to 20 years if the longer depreciation period is deemed to better reflect the benefit to the company of the product developed etc. The depreciation for the year is included in the profit and loss account under the item depreciation.

Development projects are reduced to a possible lower recovery value cf. the below. Current development projects are tested for deterioration in value at least once a year.

Acquired intellectual property rights in the form of patents are estimated at cost price deducting accumulated depreciation and amortisation. Patents are depreciated according to the straight-line method over the remaining life of the patent. If the actual life of the patent is shorter than the remaining contract period, depreciation is made over the shorter life of the patent.

Acquired intellectual property rights are reduced to a possible lower recovery value, cf. the below.

Tangible assets

Plant and machinery, operating equipment, fixtures and fittings are estimated at cost price deducting accumulated depreciation and amortisation.

The cost price comprises the acquisition price and costs directly related to the acquisition as well as costs for preparing the asset until the time when the asset is ready for use. In the case of assets produced by the company itself, the cost price covers costs that are directly attributable to the production of the asset including materials, components, sub-suppliers and wages. For financially leased assets, the cost price is the lower of market value of the asset or the present value at the time of acquisition of future leasing instalments.

Interest expenses on loans to finance the production of tangible assets are not recognised in the cost price.

The depreciation basis is the cost price less the net book value. The net book value is the expected amount attainable through the sale of the asset after deducting sales costs if the asset already had the age and was in such condition as the asset is expected to be in after the completed life of the asset. The cost price of a total asset is split into smaller parts that are depreciated individually if the lives of the components differ.

Straight line depreciation is made based on the following estimate of the expected economic lives of the assets:

Plant and machinery	10-20 years
Other fixtures and fittings, tools and equipment	3-6 years

Depreciation methods, economic lives and net book values are revaluated annually.

Tangible assets are reduced to their recovery value if this value is lower than the book value, cf. the below.

Amortisation of tangible and intangible assets

The book values of tangible assets, intangible assets with determinable economic lives and participating interests in subsidiaries are reviewed on the balance sheet date to determine whether there are any indications of depreciation. If this is the case, the recovery value of the asset is calculated to establish the possible need for amortisation and the extent of such amortisation. The recovery value for current development projects is calculated yearly whether indications of depreciation have been established or not.

If the asset does not produce any cash flows independent of other assets, the recovery value for the smallest cash flow-producing unit of which the asset forms part is calculated.

The recovery value is calculated as the higher of the market value of the asset or the market value of the cash flow-producing unit, respectively, less marketing costs and the capital value. The capital value is calculated by discounting back the estimated future cash flows at present value and by using a discount rate that reflects both the actual market valuations of the time value of that money and the special risks associated with the asset and the cash flow-producing unit, respectively, for which adjustment has not been made in the estimated future cash flows.

If the recovery values of the asset and the cash flow-producing unit, respectively, are lower than the book value the book value is reduced to the recovery value. For cash flow-producing units the depreciation is distributed within the unit as the individual asset, however, is not reduced to a lower value than its market value less expected marketing costs.

Amortisation is recognised in the profit and loss account. In any subsequent reversals of amortisation as a consequence of changes in the conditions for the calculated recovery value, the book value of the asset or the cash flow-producing unit, respectively, is increased to the adjusted recovery value, however as a maximum to the book value, which the asset or the cash-flow producing unit would have had if amortisation had not been made.

Participating interest in subsidiaries

When first recognised, the participating interest in subsidiaries is estimated at market value plus transaction costs.

Subsequently, participating interest in subsidiaries is estimated at market value, representing the amount at which the subsidiary can be sold to an independent buyer. The subsidiary is revaluated annually on the basis of calculated capital values and future cash flows. Changes in market value are recognised directly in the equity capital.

Stocks

Stocks are carried at their cost price according to the FIFO method or the net realisable value, whichever is the lower.

The cost price of raw materials and ancillary materials comprise the acquisition price plus delivery costs. The cost price for manufactured goods as well as goods under production comprises costs for raw materials, ancillary materials and direct wages as well as distributed fixed and variable indirect production costs.

Variable indirect production costs comprise indirect materials and wages and are distributed based on estimates for the actually produced goods. Fixed indirect production costs comprise costs for maintenance of and depreciation and amortisation of the machinery and equipment used in the production process as well as general costs for factory administration and management. The fixed production costs are distributed on the basis of the normal capacity of the production plant.

The net realisable value for the stocks is calculated as the expected selling price less the costs of completion and the costs paid to effect the transaction.

Receivables

Receivables are estimated at market value when first recognised and subsequently at the amortised cost price, which normally corresponds to the nominal value deducting amortisation to counter expected losses.

Accrued income and deferred expenses

The accrued income and deferred expenses recognised under assets include expenses incurred relating to subsequent financial years. Accrued income and deferred expenses are estimated at cost price.

Provision for pensions etc.

The company has concluded defined contribution plans and similar agreements with a significant part of the company's employees.

In the defined contribution plans, fixed contributions are paid regularly to independent pension funds etc. The contributions are recognised in the profit and loss account in the period in which the employees have performed the work entitling the contribution. Amounts due are recognised in the balance sheet as a liability.

Provisions for liabilities

Provisions for liabilities are recognised when the company has a legal or an actual liability as a consequence of events in the financial year or earlier years, and when it is likely that redeeming the liability will result in a strain on the company's financial resources.

Provisions for liabilities are recognised as the best estimate of the costs necessary to discharge the liabilities on the balance sheet date. Provisions for liabilities with an expected maturity of more than one year from the balance sheet date are estimated at present value.

Lease commitments

Lease commitments concerning financially leased assets are recognised in the balance sheet as liabilities and estimated at the time of concluding the contract at the lower of the market value of the leased asset or the present value of future leasing instalments.

After the first recognition, the lease commitment is estimated at amortised cost price. The difference between the present value and the nominal value of the lease commitment is recognised over the term of the contract in the profit and loss account as a financial cost.

Leasing instalments concerning operational lease agreements are recognised according to the straight-line method over the period of the lease.

Other financial liabilities

Other financial liabilities including bank loans and trade creditors are estimated at market value when first recognised. Subsequently, the liabilities are estimated at amortised cost price according to the effective rate of interest method so that the difference between the proceeds and the nominal value is recognised in the profit and loss account as a financial cost over the period of the loan.

Cash flow statement

The cash flow statement for the company is presented according to the indirect method and shows cash flows concerning operations, investments and financing as well as cash at the beginning and the end of the period.

Cash flows concerning operational activities are stated as the operating profit adjusted for non-cash operating items and changes in the working capital that are attributable to the operating activities less the company tax paid in the financial year which is attributable to the operating activities.

Cash flows concerning investment activities comprise payments related to the buying and selling of financial assets as well as the buying, development, improvement, selling etc. of intangible and tangible assets.

Cash flows concerning financing activities comprise changes in the size or the composition of the share capital of the parent company and related costs as well as the raising and repayment of loans, instalments on interest-bearing debt, acquisition of own shares and payment of dividend. Furthermore, cash flows concerning financial lease activities in the form of paid leasing instalments are recognised.

Cash comprises liquid funds less bank overdrafts that are an integrated part of the cash management.

Segmental information

The company's primary segment is the "production of silicon ingots and wafers." The net turnover of the company is stated as a secondary geographical segment. All company activities are localised in Denmark. The segmental information follows the risks, accounting policies and internal financial management of the company.

Key figures and ratios

The key figures and ratios are defined and calculated in accordance with the recommendations of the Danish Financial Analysts Association's "Recommendations & Ratios 2005."

Ratios	**Calculation formula**
Profit margin	$\frac{\text{EBIT}}{\text{Net turnover}}$
Return on capital employed (%)	$\frac{\text{EBITA}}{\text{Average capital employed}}$
Return on equity (%)	$\frac{\text{Resultat for the year after tax}}{\text{Average equity capital}}$
Gearing	$\frac{\text{Net interest-bearing debt}}{\text{Total equity capital}}$

The calculations of the basic and diluted earnings per share are specified in note 12.

The net working capital (NWC) is defined as the value of stocks, receivables and other operating assets less trade creditors and other short-term operating liabilities. Liquid funds and deferred tax are not included in the net working capital.

Net interest-bearing debt is defined as interest-bearing liabilities less interest-bearing assets including liquid funds.

Capital employed is defined as the net working capital plus the book value of tangible and intangible long-term assets and less other provisions for liabilities and long-term operating liabilities.

2. Material accounting estimates, preconditions and uncertainties

Many items cannot be measured with certainty, but can only be estimated. Such estimates include assessments on the basis of the most recent information available at the time of preparing the accounts. It may be necessary to change estimates made earlier due to changes in the conditions on which the estimate was based or due to supplementary information, further experience or subsequent events.

In connection with the practical implementation of the accounting policies described, the management has made the following material accounting estimates with a significant effect on the annual report:

The value of assets and liabilities are often dependent on future events that are rather uncertain. In this connection it is necessary to presuppose a sequence of events or similar that reflects the management's assessment of the most likely sequence of events.

3. Segmental information

Primary segment

The company's primary segment is the "production of silicon ingots and wafers."

Secondary segment

The company's sale of goods is distributed on geographical markets:

Geographical segments

DKK '000	**2006**	**2005**
Europe	83,793	61,572
USA	22,760	26,578
Asia	40,950	41,442
Total	**147,503**	**129,592**

The company's assets are located in Denmark.

4. Net turnover

All of the company's net turnover comes from the sale of goods.

5. Employment costs

DKK '000	**2006**	**2005**
Directors' fees	450	449
Salaries and wages	22,694	27,865
Bonus to managerial employees	617	0
Bonus to the management	925	0
Share-based payment, cf. note 7	189	497
Defined contribution plan	1,941	1,867
Other social costs	305	308
	27,121	**30,986**
Average number of full-time employees	**64**	**76**

5. **Employment costs (continued)**

Remuneration of Board of Directors and management

	Board of Directors		Management		Other managerial staff	
	2006	**2005**	**2006**	**2005**	**2005**	**2005**
Directors' fees	450	449	0	0	0	0
Salaries and wages	0	0	2,436	2,172	2,803	2,338
Bonus to managerial employees	0	0	0	0	617	0
Bonus to the management	0	0	925	0	0	0
Defined contribution plan	0	0	240	165	232	168
Share-based payment	0	0	82	497	107	0
	450	**449**	**3,683**	**2,834**	**3,759**	**2,506**

The management and other managerial staff have special bonus schemes dependent on individually agreed result objectives. The value of these bonus schemes amounts to 5% of the profit for the year before tax for the period 2006-2008.

The fee to the Chairman of the Board makes up DKK 150,000. The fee to the Vice-Chairman is DKK 90,000 and the fee to the members of the Board is DKK 60,000.

6. **Pension plans**

The company has only concluded agreements about defined contribution plans.

DKK '000	**2006**	**2005**
Contributions to defined contribution plans	1,941	1,867
Total	**1,941**	**1,867**

In defined contribution plans, the employer pays regular contributions to an independent pension insurance office, pension fund or similar, but has no risk as to the future development of the interest rate, inflation, mortality, disablement etc. as far as the amount that will eventually be paid to the employee is concerned.

7. **Share-based payment**

The management and several managerial employees have options to subscribe for 15m shares in the company at a fixed price (strike price). The subscription option scheme is a capital-based share payment scheme. The value of the subscription options is recognised in the profit and loss account under employment costs according to the straight-line method from the time of allotment and until the acquisition time which means that at the time of exercise no further recognition is made in the profit and loss account.

Specification of outstanding subscription options

'000 units	**Managerial staff**	**Management**
Allotted subscription options as at 01.01.2005	0	0
Allotted subscription options	0	3,931
Allotted subscription options as at 31.12.2005	**0**	**3,931**
Allotted subscription options as at 01.01.2006	0	3,931
Allotted subscription options, managerial staff	5,172	5,897
Allotted subscription options as at 31.12.2006	**5,172**	**9,828**

7. Share-based payment (continued)	2006	2005
Number of options that may be exercised at the end of the year	0	0
Total market value of outstanding options in DKK '000	**18,188**	**421**
Market value per option	1.21	0.11
Weighted average strike price per option	0.28	0.27

In 2006 a market value of the subscription options of DKK 189,000 has been recognised in the profit and loss account against DKK 497,000 in 2005. The terms of contract for the subscription options recognised in 2005 were not fixed until 12 April 2006. The calculation of market value based on the final terms of contract does not deviate significantly from the calculation of market value based on the temporary terms of contract, which was used in 2005.

The allotment year, strike price and exercise period for the individual allotments are as follows:

Allotment year	Strike-price (*)	Exercise period (**)	Allotted	Lapsed	Exercised	Un-exercised
2005	0.27	2007	1,310,500	0	0	1,310,500
2006	0.28	2007	3,689,500	0	0	3,689,500
2006	0.28	2008	5,000,000	0	0	5,000,000
2006	0.28	2009	5,000,000	0	0	5,000,000

(*) The strike price is stated exclusive of deductions for future distribution of dividend and calculated as an average.

(**) The subscription options may be exercised in the trading window after publication of the annual report announcement.

The calculated market values on allotment are based on Cox, Ross & Rubinstein's binomial tree for valuation of the subscription options.

The exercise price of the managing director has been changed from 0.26 to 0.27 to ensure that the terms of contract meet the requirements of Section 7H of the Danish Tax Assessment Act (Ligningsloven).

As a consequence of an antidilution clause in the subscription option scheme and as a result of the issue carried out in September/October 2006, further subscription options were allotted on the same terms as for the other shareholders i.e. at a ratio of 2:1 and at a price of 0.2625. The allotment does not affect the calculation of the market value of the subscription options allotted as the antidilution clause has been recognised in the market value of the subscription options already offered.

The preconditions for stating of the market value of outstanding subscription options at the time of allotment are as follows:

	Allotted in 2006	Allotted in 2005
Average share price	0.34	0.31
Strike price	0.29	0.27
Expected volatility	60.8%	55.0%
Expected term	1-3 years	1-3 years
Expected earnings per share	0	0
Risk-free interest rate	3.6%	2.6%
Allotted subscription options '000 units*	6,069	3,931
Market value per subscription option	0.13	0.13
Total market value DKK '000	776	497

* excluding subscription options offered as a result of the share issue.

7. Share-based payment (continued)

The expected volatility is based on the historic volatility (calculated for the last year) adjusted for expected changes as a result of publicly available information.

Subscription options that have not been exercised lapse if the owner terminates his/her employment. In the event of changes in the company's capital structure resulting in a dilution of the value of the subscription options, the employees are entitled to subscribe for a further number of subscription options corresponding to the ratio between the company's share capital before and after the change in capital structure.

8. Depreciation and amortisation

DKK '000	2006	2005
Depreciation of intangible assets	3,096	3,113
Amortisation of intangible assets	0	4,740
Depreciation of tangible assets	2,058	1,465
	5,154	**9,318**

9. Financial receipts

DKK '000	2006	2005
Interest on bank deposit etc.	1,198	564
Interest receivable subsidiaries	25	520
	1,223	**1,084**

10. Financial expenses

DKK '000	2006	2005
Interest on mortgage and bank loans	2,535	2,117
Exchange rate adjustments	3,047	0
	5,582	**2,117**

11. Tax on the profit for the year and deferred tax

The current company tax for the financial year is calculated on the basis of a tax rate of 28% (2005: 28%).

DKK '000	2006		2005	
Change in deferred tax	(8,250)		1,382	
Adjustment of deferred tax concerning earlier years	7,165		(7,244)	
Adjustment concerning earlier years	(6)		6	
	(1,091)		**(5,856)**	
Tax on the profit for the year can be explained as follows:				
Profit/loss before tax	**29,234**		**(7,148)**	
Tax at a tax rate of 28% (2005: 28%)	(8,185)	(28.0)%	2,001	28.0%
Effect of changed tax rate	-	-	(921)	(12.9%)
Tax value of disallowed deductions	(65)	(0.2)%	(28)	0%
Adjustment concerning earlier years	(6)	(0.0)%	6	0%
Value adjustment in respect of tax asset etc.	7,165	24.5%	(6,914)	(96.6%)
Effective tax rate for the year	**(1,091)**	**(3.7)%**	**(5,856)**	**(81.9%)**
Tax on earnings and expenses recognised directly in equity can be specified as follows:				
Change of deferred tax on expenses relating to capital increase	(151)		0	
	(151)		**0**	

11. Tax on the profit for the year and deferred tax (continued)

DKK '000	Deferred tax 01.01.05	Recognised in the profit & loss account 2005	Recognised in partici-pating inte-rest 2005	Recognised in equity 2005	Deferred tax 31.12.05
Intangible assets	(5,559)	1,626	0	0	(3,933)
Tangible assets	7,823	1,103	0	0	8,926
Stocks	(989)	3,154	0	0	2,165
Trade receivables	140	(34)	0	0	106
Other payables	141	283	0	0	424
Temporary differences	**1,556**	**6,132**	**0**	**0**	**7,688**
Carry-forward tax losses	13,389	(4,900)	375	0	8,864
Unexploited tax losses	**13,389**	**(4,900)**	**375**	**0**	**8,864**
Value adjustment	(1,123)	(7,244)	0	0	(8,367)
Value adjustment	**(1,123)**	**(7,244)**	**0**	**0**	**(8,367)**
	13,822	**(6,012)**	**375**	**0**	**8,185**

DKK '000	Deferred tax 01.01.06	Recognised in the profit & loss account 2006	Recognised in partici-pating inte-rest 2006	Recognised in equity 2006	Deferred tax 31.12.06
Intangible assets	(3,933)	(120)	0	0	(4,053)
Tangible assets	8,926	(5,420)	0	0	3,506
Stocks	2,165	(2,830)	0	0	(665)
Trade receivables	106	(106)	0	0	0
Other payables	424	(283)	0	0	141
Temporary differences	**7,688**	**(8,759)**	**0**	**0**	**(1,071)**
Carry-forward tax losses	8,864	(693)	0	151	8,322
Unexploited tax losses	**8,864**	**(693)**	**0**	**151**	**8,322**
Value adjustment	(8,367)	8,367	0	0	0
Value adjustment	**(8,367)**	**8,367**	**0**	**0**	**0**
	8,185	**(1,085)**	**0**	**151**	**7,251**

In connection with the Danish tax authorities' assessment of the company's tax return for 2004 the company's income was increased by approximately DKK 4m as a deduction for loss of recovered depreciation was refused on the transfer of the domicile property from Topsil Semiconductor Materials A/S to Topsil International A/S. The company has appealed the case to the National Tax Tribunal and expects a positive outcome. If, contrary to expectations, the company looses the case, the tax asset must be reduced by approximately DKK 1.1m.

The tax value of the carry-forward loss has not been fully recognised in 2005 since the company as at 31.12.2005 had not secured the long-term supply of raw materials to the company and thus it was not considered likely that the loss would be exploited within the foreseeable future.

12. Earnings per share

DKK	2006	2005
Earnings per share	0.10	(0.05)
Earnings per share, diluted	0.09	(0.05)

DKK '000	2006	2005
The calculation of earnings per share is based on the following:		
Yield to the company's shareholders used for the calculation of earnings per share	28,143	(13,969)
Effect on the result after tax of changes in earnings and expenses if the existing subscription rights etc. are converted	0	0
Result used in the calculation of diluted earnings per share	**28,143**	**(13,969)**

'000 units	2006	2005
Average number of shares issued	287,993	262,100
Average number of shares used in the calculation of earnings per share	**287,993**	**262,100**
Average dilution effect of outstanding subscription rights	15,000	3,932
Average number of shares used in the calculation of earnings per share	**302,993**	**266,032**

The changes in accounting policies described in note 1 have resulted in a reduction of the earnings per share of (0.00) for the financial year 2005.

13. Intangible assets

DKK '000	Patents and licenses	Completed development projects	Development projects in progress	Total
Cost price at 1 January 2005	56	27,638	6,507	34,201
Inflow of self-developed assets	0	0	3,049	3,049
Transfers	0	4,443	(4,443)	0
Outflow	0	(67)	(373)	(440)
Cost price at 31 December 2005	**56**	**32,014**	**4,740**	**36,810**
Depreciation and amortisation at 1 January 2005	(11)	(10,783)	0	(10,794)
Depreciation	(11)	(3,111)	0	(3,122)
Amortisation	0	0	(4,740)	(4,740)
Reversal for outflows	0	9	0	9
Depreciation and amortisation at 31 December 2005	**(22)**	**(13,885)**	**(4,740)**	**(18,647)**
Book value at 31 December 2005	**34**	**18,129**	**0**	**18,163**

13. Intangible assets (continued)

DKK '000	Patents and licenses	Completed development projects	Development projects in progress	Total
Cost price at 1 January 2006	56	32,014	4,740	36,810
Inflow of self-developed assets	0	0	1,240	1,240
Reversal for outflow	0	0	(4,740)	(4,740)
Cost price at 31 December 2006	**56**	**32,014**	**1,240**	**33,310**
Depreciation and amortisation at 1 January 2006	(22)	(13,886)	(4,740)	(18,648)
Depreciation and amortisation	(12)	(3,084)	0	(3,096)
Reversal for outflows	0	0	4,740	4,740
Depreciation and amortisation at 31 December 2006	**(34)**	**(16,970)**	**0**	**(17,004)**
Book value at 31 December 2006	**22**	**15,044**	**1,240**	**16,306**

Development projects are tested at least once annually for depreciation and more often if there are indications of depreciation.

The recovery value for individual cash flow-generating units, on which the development costs are distributed, is calculated on the basis of calculations of the capital value of the units. The greatest uncertainties in that respect are associated with determining discount factors and growth rates as well as expected changes in selling prices and production costs in the budget and terminal periods.

The discount factors determined reflect the market valuations of the time value of money expressed by a risk-free interest rate and the specific risks associated with individual cash flow-producing unit. The discount factors are determined on an after tax-basis.

The growth rates determined are based on sector forecasts.

The estimated changes in selling prices and production costs are based on historic experience as well as expectations to future market changes.

The calculation of the capital value of the cash flow-producing units is based on the cash flows that appear from the most recent management-approved budgets for the coming financial years.

The company holds a patent which is capitalised under patents and licences. This patent has a remaining term of 17 years.

Due to uncertainty surrounding the raw material supplies for the years 2007 and onward, the development costs in the first half year of 2006 were booked as expenditures and development projects that had already been amortised were discontinued. On concluding a new contract for the supply of raw materials for the years 2007-2012 at the beginning of the third quarter of 2006, the development costs again met the requirements for capitalisation which is why the development costs for the second half year of 2006 have been capitalised.

14. Research and development costs

DKK '000	2006	2005
Research and development costs incurred	4,528	5,810
Development costs recognised as intangible assets	(1,240)	0
Government grants received to partly cover research costs incurred	(1,075)	(2,761)
Incurred research and development costs recognised in the profit and loss account	**2,213**	**3,049**

In the financial year, a grant from Energinet (formerly Eltra/PSO) has been received for the project concerning "Cost-optimised FZ silicon for high-efficient solar cells." This project ended on 31 August 2006 and the grant received in 2006 totalling DKK 1,075,000 has been set off against the expenses actually incurred and the net cost has been recognised in the profit and loss account.

15. Tangible assets

DKK '000	Production plant and machinery	Other equip-ment etc.	Plant in progress	Total
Cost price at 1 January 2005	57,492	5,328	169	62,989
Inflow	7,417	203	983	8,603
Transfers	169	0	(169)	0
Outflow	(60)	(211)	0	(271)
Cost price at 31 December 2005	**65,018**	**5,320**	**983**	**71,321**
Depreciation and amortisation at 1 January 2005	(44,421)	(4,792)	0	(49,213)
Depreciation	(1,444)	(245)	0	(1,689)
Outflow	24	200	0	224
Depreciation and amortisation at 31 December 2005	**(45,841)**	**(4,837)**	**0**	**(50,678)**
Book value at 31 December 2005	**19,177**	**483**	**983**	**20,643**

DKK '000	Production plant and machinery	Other equip-ment etc.	Plant in progress	Total
Cost price at 1 January 2006	65,018	5,320	983	71,321
Inflow	216	2,046	2,272	4,534
Transfers	1,238	0	(1,238)	0
Outflow	(8,897)	(2,167)	0	(11,064)
Cost price at 31 December 2006	**57,575**	**5,199**	**2,017**	**64,791**
Depreciation and amortisation at 1 January 2006	(45,841)	(4,837)	0	(50,678)
Depreciation	(1,636)	(422)	0	(2,058)
Outflow	8,897	2,010	0	10,907
Depreciation and amortisation at 31 December 2006	**(38,580)**	**(3,249)**	**0**	**(41,829)**
Book value at 31 December 2006	**18,995**	**1,950**	**2,017**	**22,962**

The book value of plant and machinery etc. includes financially leased assets with DKK 6,446,000 (2005: DKK 6,799,000).

16. Participating interest in subsidiaries

DKK '000	2006	2005
Market value at 1 January	1,526	561
Market value adjustment for the year, net	0	965
Market value at 31 December	**1,526**	**1,526**

16. Participating interest in subsidiaries (continued)

Topsil Semiconductor Materials A/S' subsidiaries consist of the following:

	Registered office	Owner shares in %	Share of voting rights in %	Activity
Topsil International A/S	Denmark	100	100	None
Topsil Inc.	USA	100	100	None

17. Other receivables

DKK '000	2006	2005
Deposit concerning guarantee to supplier	42,460	0
Deposit of prepayment from customers	15,852	0
Deposit of rent	2,250	0
Deposit concerning collateral for financial lease contract	2,000	2,000
	62,562	**2,000**

On concluding the supplier contract for delivery of raw materials until 2012, an agreement was made to deposit USD 7.5m. This deposit agreement expires on 31 December 2012 after which the deposit will be released.

Prepayment from customers cover an agreement to deliver goods until 2012 where a collateral has been put up for the company in the form of an escrow account until 2012. This escrow account is frozen.

On concluding a financial lease agreement concerning the production facilities for a total of DKK 7,300,000 DKK 2,000,000 were deposited as collateral for the agreement.

18. Stocks

DKK '000	2006	2005
Raw materials and ancillary materials	8,848	11,965
Goods under production	5,030	6,941
Manufactured goods and goods for resale	8,684	5,793
	22,562	**24,699**

The stock has been amortised by a total of DKK 207,000 in 2006
compared to DKK 2,040,000 in 2005

19. Trade receivables

DKK '000	2006	2005
Trade receivables	14,859	8,768
	14,859	**8,768**
The amortisation contained in the above receivables has been recognised under other external expenses	0	378
	0	**378**

The factoring agreement has been terminated with effect from December 2006. The balance on the deposit accounts as cover for liabilities makes up DKK 65,000 as at 31 December 2006 and this amount was released in the beginning of 2007. In trade receivables as at 31 December 2006 deposits in cover-for-liabilities accounts are included at a total of DKK 65,000 (as at 31.12.2005: DKK 2,711,000) in the factoring company used.

Amortisation is made at the net realisable value corresponding to the sum of the future net payments that the receivables are expected to generate. The amortisation is calculated on the basis of realised losses in previous financial years. The book value of receivables equals their market value.

Receivables are not interest-bearing until approximately 30-60 days after the invoice date. After this interest is accrued on the receivables with a monthly 1% of the outstanding amount.

20. Other receivables

DKK '000	2006	2005
Market value of interest rate swap	17	0
Others	5,993	5,496
	6,010	**5,496**

21. Cash

DKK '000	2006	2005
Liquid funds and bank deposits	24,844	7,906
Short-term bank borrowings (bank overdraft)	0	(2,044)
	24,844	**5,862**

The company's liquid funds primarily consist of deposits in reputable banks. Therefore no significant credit risk is deemed to be associated with the liquid assets.

Interest payments on bank deposits and bank debts are variable. The book value equals the market value of the assets. The company has unexploited borrowing facilities on bank overdrafts totalling DKK 3,500,000.

22. Share capital

Units	2006	2005
Number of shares at 1 January	262,100,074	262,100,074
Capital increase through cash payment	131,050,037	0
	393,150,111	262,100,074

23. Other reserves

The reserve for value adjustment of financial assets available for sale contains the accumulated net change in market value of financial assets classified as financial assets available for sale. The reserve is dissolved as the financial assets in question are disposed of or expire.

The reserve for value adjustment of collateral instruments contains the accumulated net change in the market value of hedging transactions that meet the criteria for hedging future cash flows and where the hedging transaction has not yet been implemented.

The share-based payment reserve contains the accumulated value of the qualification for share option schemes (capital schemes) estimated at the market value of the capital instruments at the time of allotment and recognised in the period in which the employees obtain the right to the share options. The reserve is dissolved as the employees exercise their right to acquire share options.

24. Other credit institutions and bank debts

DKK '000	2006	2005
Amounts owed to credit institutions	8,294	19,848
	8,294	**19,848**
The debt falls due as follows:		
Within 1 year	1,508	11,554
Between 1 and 2 years from the balance sheet date	1,508	1,508
Between 2 and 3 years from the balance sheet date	1,508	1,508
Between 3 and 4 years from the balance sheet date	1,508	1,508
Between 4 and 5 years from the balance sheet date	1,508	1,508
After 5 years from the balance sheet date	754	2,262
	8,294	**19,848**
Debt to other credit institutions and bank debts are recognised in the balance sheet as follows:		
Short-term liabilities	1,508	11,554
Long-term liabilities	6,786	8,294
	8,294	**19,848**

Currency	Expiry	Rate of interest	Effective rate of interest	Amortised cost price DKK '000	Nominal value DKK '000	Market value DKK '000
DKK	2012	Variable	5.76%	8,294	8,294	8,294

25. Financial lease commitments

DKK '000	Minimum leasing instalments		Present value minimum leasing instalments	
	2006	2005	2006	2005
The financial lease commitments fall due as follows:				
Within 1 year of the balance sheet date	1,239	1,079	1,239	1,079
Between 1 and 5 years from the balance sheet date	4,149	5,398	4,149	5,398
As of 31 December	**5,388**	**6,477**	**5,388**	**6,477**

In 2005 a financial lease contract for a Float Zone machine for production has been concluded. The leasing period is 5 years, and the rate of interest on the contract concluded is variable. The company has guaranteed the residual value of the machine, DKK 730,000 at the expiry of the leasing period.

26. Trade creditors

DKK '000	2006	2005
Trade creditors	19,522	21,900
	19,522	**21,900**

The book value equals the market value of the liabilities.

27. Other payables

DKK '000	2006	2005
Payroll liabilities, income tax liabilities, accrued contributions to social security etc.	267	2,156
Imputed holiday allowances	2,580	2,805
VAT due and tax liabilities	5,819	7,226
Other accrued expenses	3,779	889
	12,445	**13,076**

The book value of payable items concerning wages, income tax, contributions to social security, holiday allowances etc., derivatives, VAT and tax and other accrued expenses corresponds to the market value of these liabilities.

Imputed holiday allowances etc. represent the company's obligations to pay wages when the employees take the holidays they have qualified for as at the balance sheet date in the next financial year.

28. Change in net working capital

DKK '000	2006	2005
Change in stocks	2,137	7,162
Change in receivables	6,973	(2,938)
Change in trade creditors and other payables	3,528	9,180
	12,638	**13,404**

29. Non-cash transactions

DKK '000	2006	2005
Financially leased tangible assets	0	(7,300)
Deposit concerning prepayment from customer	(15,822)	0
Non-cash transactions concerning tangible and financial assets	**(15,822)**	**(7,300)**

DKK '000	2006	2005
Financial lease commitments	0	7,300
Prepayment from customer deposited in frozen account	15,822	0
Non-financial loan for purchase of tangible and financial assets	**15,822**	**7,300**

30. Operating lease commitments

For the years 2006-2010 operating lease contracts have been concluded concerning the lease of cars as well as the lease of a copier. Leases have been made for cars with a minimum of 2-4 years of fixed leasing instalments whereas the lease for the copier of minimum 4 years was made with variable instalments. The leases are noncancellable in the period mentioned.

DKK ’000	**2006**	**2005**
Noncancellable operating leases are as follows:		
0-1 years	663	700
1-5 years	754	1,141
> 5 years	0	0
	1,417	**1,841**

In the profit and loss account, DKK 763,000 for the year 2006
(2005: DKK 510,000) have been recognised concerning operating leases.

31. Mortgaging

The company’s mortgaging as at 31 December 2006 comprises deposited mortgage deeds registered to the mortgagor at a nominal DKK 10,000,000 in production plant, a deposited mortgage deed registered to the mortgagor in movables at a nominal DKK 5,250,000 as well as pledges in receivables assigned to a factoring company.

Escrow accounts have been put up as collateral for guarantee to customer as well as letter of credit in favour of suppliers.

DKK ’000	**2006**	**2005**
Book value of mortgaged tangible fixed assets	20,945	19,660
Book value of escrow accounts	58,312	0
Deposit in cover-for-liabilities accounts with factoring company	65	2,711

32. Surety and current commitments

The company has not made any contract of guarantee and has no contingent liabilities.

33. Other contractual liabilities

Raw material suppliers

The company has concluded a long-term contract of 6 years (2007-2012) for the supply of polysilicon (the company’s primary raw material) with one of the company’s approved raw material suppliers.

The contract is a combination agreement with a fixed volume at fixed (but index-linked) prices and a variable volume at market prices. The variable volume cannot exceed the fixed volume within the same calendar year. The agreement is therefore limited as to volume.

The long-term contract obligates the company to buy a minimum volume.

Customers

To minimise the company’s exposure on concluding contracts concerning the supply of polysilicon with fixed minimum volumes and at fixed (index-linked) prices, the company has concluded contracts on similar terms with its key customers.

More than 30% of the company’s budgeted/forecasted turnover for the period 2007-2012 has been sold through customer contracts at fixed (index-linked) prices to several of the company’s key customers.

34. Currency, interest rate and credit risks

As a result of its operations and financing, the company is exposed to changes in exchange rates and interest level. The company controls the financial risks centrally and coordinates cash management including funds generated from operations and placement of surplus cash. The company operates with a low risk profile so that currency, interest rate and credit risks only arise from commercial relations.

The company's use of derivatives is regulated by a policy approved by the board, among other things establishing limits and which derivatives may be used.

Currency risks

At present, the company does not use derivatives to hedge currency risks. Instead, the company uses commercial hedging by balancing the currency inflow and outflow. The most important currency flow of the company is USD, which makes up about 65% of the total cash flow. Moreover, the company has provided substantial cash security in USD to uphold the raw material contract (2007-2012). A currency fluctuation in USD/DKK of +/- DKK 0.50 will mean a currency exposure to the company of about +/- DKK 5.7m.

Below, the company's unhedged net position as at the balance sheet date is shown:

Currency	Cash escrow accounts & securities DKK '000	Receivables DKK '000	Liabilities DKK '000	Net position DKK '000	Of which hedged	Unhedged net position
USD	67,290	6,313	(16,006)	57,597	0	57,597
EUR	1,299	5,728	(241)	6,786	0	6,786
GBP	0	291	0	291	0	291
NOK	0	0	(351)	(351)	0	(351)
Other currencies	19	59	(146)	(68)	0	(68)
31.12.2006	**68,608**	**12,391**	**(16,744)**	**64,255**	**0**	**64,255**

Currency	Cash escrow accounts & securities DKK '000	Receivables DKK '000	Liabilities DKK '000	Net position DKK '000	Of which hedged	Unhedged net position
USD	5,048	1,522	(16,401)	(9,831)	0	(9,831)
EUR	555	1,091	(405)	1,241	0	1,241
GBP	7	0	0	7	0	7
NOK	0	0	(324)	(324)	0	(324)
Other currencies	13	22	(463)	(428)	0	(428)
31.12.2005	**5,623**	**2,635**	**(17,593)**	**(9,335)**	**0**	**(9,335)**

35. Fee for auditors appointed by the general meeting

DKK '000	2006	2005
Deloitte, audit of interim report	95	0
Deloitte, audit of annual report 2006	320	332
Deloitte, other services than audit	950	123
	1,365	**455**

36. Connected parties

The company has no connected parties with control.

For an overview of subsidiaries, see note 16.
The company has had transactions with the following connected parties in 2006:

- Topsil International A/S, subsidiary
- Ejendomsaktieselskabet Bangs Gård, shareholder

37. Transactions between connected parties and Topsil Semiconductor Materials A/S in 2006

DKK ’000	**2006**	**2005**
Rent, Ejendomsaktieselskabet Bangs Gård	1,056	290
Underwriting commission in pre-emption issue 2006, Ejendomsaktieselskabet Bangs Gård A/S	436	0
Rent, Topsil International A/S	0	1,700
Interest on receivables from associated companies	25	520

Other management remuneration etc. is stated separately in connection with note 5, employment costs.
All transactions with connected parties have been carried out at arm’s length.

Overview of outstanding balance between connected parties and Topsil Semiconductor Materials A/S in 2006

DKK ’000.	**2006**	**2005**
Topsil International A/S	(1,526)	14,070
Deposit, Ejendomsaktieselskabet Bangs Gård	2,250	-
Rent etc., Ejendomsaktieselskabet Bangs Gård	636	(290)
	1,360	**13,780**

38. Shareholder situation

The company has registered the following shareholders with more than 5% of the voting rights or nominal value of the share capital:

	Units	**Capital in DKK**	**Capital in %**	**Votes in %**
EDJ-Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark	61,940,249	15,485,062.25	15.75	15.75

39. Events after the balance sheet date

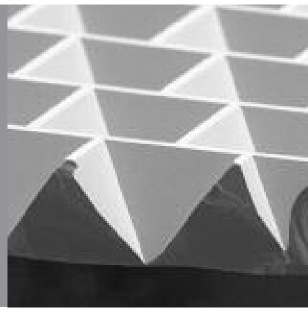
There have been no material events after the balance sheet date.

40. Approval of the annual report for publishing

At the Board meeting on 21 February 2007, the Board of Directors approved the present annual report for publishing. The annual report will be presented to the shareholders of the company for approval at the annual general meeting on 28 March 2007.

Topsil is dedicated to production of float zone products and is recognised as the flexible supplier to all applications and customers.

It is Topsil's mission to meet the electronics industry's need for FZ silicon. Our customers demand constant improvements in terms of quality, reliability and co-operation. Consequently, our top priorities are R&D, process improvements and education.



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