



# Annual Report 2007

**TOPSIL**



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# Annual Report 2007

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## Power

The power market is traditionally the largest buyer of float-zone silicon. Normally in the high-power market, one silicon wafer is used per component. The component can lead strong currents through the substrate, but its state can also be changed so it does not conduct electricity. Thyristors, diodes and bipolar transistors are typical high-power components, and are used in many applications, such as transmission, automation, traction, and as components in wind turbine and solar-cell systems.

Power components play an increasingly important role in energy-saving measures and the reduction of CO<sub>2</sub> emissions in connection with the development of car engines, intelligent control devices in household appliances, and more.



### Topsil Semiconductor

#### Materials A/S

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Company registration  
number: DK 24 93 28 18

Registered office:  
Frederikssund, Denmark

# Company information

## Board of Directors:

### Jens Borelli-Kjær, Chairman, age 48

MSc Engineering (mathematics/physics). Graduate diploma (Economics and International Management). MBA (INSEAD). Elected to the Board in 2006. Term of office expires in 2008

### Eivind Dam Jensen, Vice-Chairman, age 56

Certified Estate Agent  
Elected to the Board in 2005. Term of office expires in 2008

### Jørgen Frost, Member of the Board, age 53

MSc Engineering  
Graduate diploma (Economics and Marketing).  
Elected to the Board in 2006. Term of office expires in 2008

### Ole Christian Andersen, Member of the Board, age 41

MSc (Engineering) Electronics, Graduate Diploma, Part I  
Elected to the Board in 2007. Term of office expires in 2008

## Employee 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 2011

## Management:

### Keld Lindegaard Andersen, age 47

Managing director, employed in 2005. MA, MBA

## Auditors:

DELOITTE – Statsautoriseret Revisionsaktieselskab

represented by State-Authorised Public Accountant  
Tim Kjær-Hansen

represented by State-Authorised Public Accountant  
Jørgen Holm Andersen

## Managerial duties:

· 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

· Ejendomsaktieselskabet Bangs Gård, Managing Director and Member of the Board  
· Aktieselskabet Eivind Dam Jensen, Managing Director and Member of the Board  
· Statsaut. Ejendomsmæglerfirma E. Dam Jensen, Owner

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

· Nangate A/S, Managing Director and Member of the Board  
· OCA Holding ApS, Manager  
· OCA Family Holding ApS, Manager

### Ole Sinkjær Andersen, age 33

Development engineer, employed in 2003  
MSc, PhD  
Elected to the Board in 2007. Term of office expires in 2011

### Jørgen Bødker, age 50

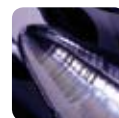
Sales and Marketing Director, employed in 2002  
BSc Engineering, Electronics. Graduate Diploma (Management and Organisation)

## Annual general meeting

The annual general meeting will be held on 2 April 2008 at 10.00 at Plesner, Amerika Plads 37, DK-2100 Copenhagen Ø.

Approved at the annual general meeting of the company on 2 April 2008

Chairman of the meeting





**In 2007, Topsil Semiconductor Materials A/S achieved the best result in the company's history. At the beginning of 2008 we are faced with great challenges and even greater opportunities than before to create further growth and profitability in the coming years.**

# Managing Director's Address

Topsil is active on two fronts. On the one hand, we are working on optimising our existing business by making our production and business processes more effective. On the other, we search for new opportunities for growth in the form of strategic alliances, joint ventures or acquisitions.

More specifically, our efforts are directed at cost optimisation. This means that we will produce as many finished products as possible using the minimal amount of raw materials and production processes. The most important thing is to exploit the raw material optimally. In fact, this is the entire silicon industry's Achilles' heel, not least in float-zone production (which we use at Topsil), because the raw material, polysilicon, is currently the scarcest and costliest of all resources.

The lack of raw materials is worsened by the fact that the distribution between the silicon industry's two product groups, semiconductors and solar cells, is weighted in favour of the solar-cell manufacturers. 10 years ago, 99% of the global production of raw materials was used in the semiconductor industry to produce electronic goods, which is Topsil's main market and competitive strength. In 2007, that percentage had fallen to approximately 40%, while the remaining 60% of the raw materials was used in the production of solar cells.

But the scarcity of raw materials is not only negative. At Topsil we also see advantages in this situation, since it increases our competitiveness in relation to the big multinational companies that we contact, in the form of higher market prices. This improves Topsil's chances to invest in better equipment and processes. However, we are also aware that there may be a need to obtain more raw materials in the longer term. This may be raw materials of the traditional type, intended specifically for the float-zone production that Topsil uses today. But this need may also be filled by developing the ability to use and process alternative forms of silicon as raw material for float-zone production, e.g. silicon in the form of rods, produced according to the Czochralski method.

These years, Topsil is experiencing very great demand for float-zone material in the medium and high voltage area. This is due to the 10-30% growth rate of components manufactured from float-zone silicon that our customers are benefiting from.

Green energy technology is a significant factor in the very strong growth in the field of high voltage components based on neutron-doped float-zone materials. Topsil benefits both directly and indirectly from the growth within the alternative energy sectors. For example:

- The need for electricity distribution is growing, because new energy forms like solar cells, wind and waterpower are becoming

more widely used, and the power has to be transported from the production site to the site of use. Topsil's float-zone silicon for high voltage components is used to transport this electricity and manage its distribution.

- Control units, rectifiers and transformers (from alternating current to direct current) for wind turbines, hydroelectric power plants and solar panels are often based on float-zone materials.
- IGBT components (bipolar transistors) for hybrid cars (Toyota, Honda, Ford) also often contain float-zone materials.

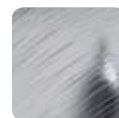
Although the scarcity of raw materials will continue in the coming years, we now expect the favourable market conditions to continue for a significantly longer period than we predicted only one year ago. It does not look likely that new manufacturers of raw materials for float-zone production will appear on the global market. The market is too small, the required investments too large, and the available knowhow far too limited. This secures Topsil's market position for the time-being. However, we do expect that existing manufacturers will in time increase their production of the traditional raw materials in order to get a share in their customers' growing market. Eventually it will become more common to use Czochralski material as a basis for subsequent float-zone production. Overall, Topsil's market conditions look more favourable than ever before.

Topsil is also active on another front besides efficiency improvement, namely in business development. We are focussing on creating new opportunities for growth for Topsil by entering into strategic alliances in one or more areas. A common factor for both electronics and solar-cell manufacturers is that the most widespread production technology in both fields is the so-called Czochralski technology. Also, the silicon industry is a mature market in which most manufacturers have spent many years cost-optimising the various technologies and production methods. This means that there may be many advantages for Topsil in forming strategic alliances.

At Topsil, we currently regard the revenue and growth opportunities in the float-zone market as being so favourable that there are good chances of entering into strategic alliances, and in the longer term possibly joint ventures, acquisitions, etc., both to strengthen our competitiveness and to increase growth.



Keld Lindegaard Andersen



**RF Power**

As the requirements for wireless communication systems increase, so do the requirements for the components that make up the systems. Typically, the components must be capable of producing optimal output at high frequencies, and in the overall system they must perform with a high degree of reliability combined with minimal noise and minimal outages as a result of environmental influences (temperature and moisture). Float-zone silicon is used as a basic substrate for high-power RF components, either as epi substrate for GaN crystals or as a substrate layer for silicon in insulator-based components. Components for base and repeater stations are usually produced on these advanced multi-layer substrates.





## 2007 Management Report

# The key figures and ratios of the company

DKK '000

	2007	2006	2005	2004	2003
<b>5 years' key figures</b>					
Net turnover	193,231	147,503	129,592	115,657	117,651
Operating profit/loss (EBIT)	52,093	33,593	(7,080)	3,899	(15,479)
Interest and similar income/expenses	(4,016)	(4,359)	(1,033)	(2,810)	(1,152)
Profit/loss for the year	34,867	28,143	(13,969)	1,089	(16,625)
Capital employed	73,702	30,717	30,262	45,711	45,510
Net working capital (NWC)	32,489	5,872	18,510	35,429	38,271
Equity capital	149,327	111,079	50,253	62,974	62,953
Balance sheet total	216,847	179,827	112,284	115,672	132,216
Expenditure on fixed assets	7,372	4,534	8,603	375	8,331
Net interest-bearing debt	(89,976)	(70,734)	17,149	24,025	33,592
Cash earnings	56,941	44,075	(2,598)	14,444	(9,244)
Average number of full-time employees	73	64	76	84	93
Basic number of shares ('000)	398,823	393,150	262,100	262,100	259,349
Diluted number of shares ('000)	409,972	408,150	266,032	262,100	259,349
<b>Ratios</b>					
Profit margin (%)	27.0	22.8	(5.5)	3.4	(13.2)
Return on capital employed (%)	99.8	110.2	(18.6)	8.5	(37.3)
Return on equity (%)	26.7	34.9	(24.7)	1.7	(23.7)
Gearing	(60.3)	(63.7)	34.1	38.2	53.4
Net turnover/capital employed	2.6	4.8	4.3	2.5	2.6



The key figures and ratios for 2004-2007 have been prepared according to IFRS, see the description in note 1, accounting policies. The comparative figures for 2003 have not been restated according to the changed accounting policies on the transition to presentation 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 Financial Statements Act

and the Danish Accounting Standards. If the comparative figures for 2003 were to be restated according to IFRS, the most significant adjustments would concern the recognition of market value adjustments of participating interests in subsidiaries. The changes in terms of amounts would only result in minor corrections of the key figures and ratios for the year 2003.

RF MEMS

The miniaturisation of electronic components in wireless applications allows the designer to design the application in many new and innovative ways. However, the miniaturisation must not take place at the expense of signal quality, which is why the components are built on a micromechanical platform and on substrates that do not interfere with the signal. High resistivity float-zone silicon is the best-suited substrate because it does not interfere with the signal and because silicon is the best platform for micromechanical components.



## 2007 Management Report

# Mission, strategy and objective

### Mission

Topsil's activities are the production and sale of monocrystalline float-zone silicon to the semiconductor industry. The production takes place by converting polycrystalline silicon into monocrystalline silicon through melting and recrystallisation.

Ingots (silicon rods) are produced with the float-zone method on machines and in processes developed by the company itself in Frederikssund, Denmark. This is followed by a significantly value-adding wafering process, which is currently being outsourced to two partners in Taiwan.

Topsil was founded by Haldor Topsøe in 1958 and has more than 50 years of experience with float-zone silicon. Topsil is one of only six manufacturers of float-zone silicon around the world, and the only manufacturer that has specialised solely in float-zone silicon since 1958.

From the start Topsil's mission has been to manufacture the purest form of silicon on the world market. This is obtained through float-zone manufacturing. The buyers are relevant customers in the semiconductor industry, which in turn supply to the electronics industry.

The company's 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 2.5bn. 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.

### Strategy and objectives

In 2006 Topsil implemented a strategic plan and will focus on the following in 2007-2009:

- Topsil will solely operate in the niche market for float-zone silicon (DKK 2.5bn). Topsil will mainly target small and medium-sized customers in the semiconductor industry with a yearly float-zone consumption up to DKK 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 three 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 strategy of differentiation focusing on the above-mentioned customer and product groups. The most important differentiation parameters are flexibility and customer guidance.
- Topsil has a market share of approximately 8% and has two major competitors, which are large providers with market shares of about 35-38% each. These two large competitors focus on large-scale operations and large consumers of float zone. This is why Topsil has chosen to focus on being a preferred supplier to small and medium-sized consumers.

We introduced the strategy in 2007 and at the end of the year followed up on it with a strategy revision designed to enable us to meet our overall aims:

- (1) to gain a lasting profitable competitive position in the silicon market, and
- (2) to generate growth that is not solely based on better use of raw material and to continue to improve our customer and product mix.

The strategy revision is an extension of our strategy work in 2006, and contains targets and plans for:

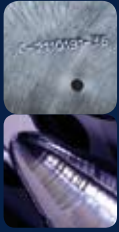
- how Topsil will meet the new growth targets through organic business development, and
- what opportunities we have to reach these targets by entering into strategic collaborations, establishing joint ventures, or through purchases or sales.

The starting point is the necessity of improving Topsil's strategic foundation. In our opinion there are good opportunities to do so, because the float-zone market in which our company operates is extremely favourable and characterised by strong growth and large earnings.

The financial target from the Strategy Plan 2006 is maintained for 2008 and 2009 as:

- achieving a profit margin of at least 20%.





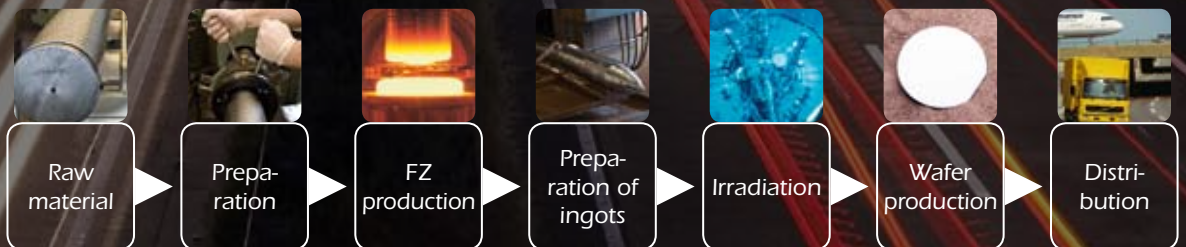
**IR Technology**

Float-zone silicon is used in advanced image-forming systems that operate in the infrared spectrum, i.e. at wavelengths that people cannot see. Heat gives off infrared rays, which means that one can investigate heat-emitting processes from -50 °C to 3,000 °C with the help of infrared cameras. Normally, float-zone silicon is used in the 0 to 1,000 °C range, where the material's high degree of purity allows for maximal transmission of infrared emission through the material. Infrared cameras are also becoming used in cars. They make driving safer both for the passengers in the car and people near the car, since heat-emitting objects become visible with the camera, e.g. in the dark.



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Fig. 1  
The process from raw material to finished product is illustrated in the following figure:



# Main activities

### Products

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

- 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 turbines, electric trains, hybrid cars and energy-saving motor controls for the industrial and transport sectors. The market is growing rapidly.
- PFZ:** Gas-doped float-zone silicon: FZ silicon is mainly used for medium voltage components in industrial plants and consumer electronics. The product is used for components that require less stringent 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 working on developing solar-cell material based on float-zone technology since 2000. The result is a product we call PV FZ®. PV is an abbreviation for photo voltaic (which means solar cells), while FZ stands for Topsil's production method, i.e. the float-zone method. In the period 2002-2004, the PV FZ® product was endorsed by several big solar-cell manufacturers, and since then we have supplied solar-cell material to a number of the world's largest manufacturers in the business. Topsil is still the only company that has supplied the mass market with solar-cell silicon manufactured using the float-zone method.

The advantage of the PV FZ® product is that it is slightly more effective than conventional solar-cell material. However, it is also more expensive to produce, and in most cases it has been difficult to achieve a satisfactory degree of profitability. At the moment we are not a competitive supplier of this product to the solar-cell market. This is partly because of the high prices of the raw material, and partly because our production apparatus is not geared to volume production for the solar-cell industry. In the 2007 financial year, sales to the solar-cell industry made up less than 1% of Topsil's turnover.

Even if the prices of raw material for float zone become competitive compared to the existing production methods for solar-cell material (multicrystal casting and Czochralski), it would not be sufficient to make Topsil competitive. We would face the considerable challenge of having to develop a cost-effective float-zone method geared to large-scale production. Currently, there are no development activities in the solar-cell area, and we receive neither public nor private development funding.

Topsil is a member of the EPIA (European Photovoltaic Industry Association), and has many relations with private and public players in the solar-cell industry.

### The production process

The FZ production process takes place in a hermetically sealed chamber. A multicrystalline silicon rod is placed in a chamber over an electromagnetic coil, and the silicon rod is then melted down through the coil at very high temperatures. This creates a monocrystalline rod in a second chamber situated below the electric coil.

Topsil's products are sold both as whole silicon crystals/ingots and as various types of wafers: sawn, lapped (ground), etched and polished wafers. In 2007, the crystals made up around 5-10% of Topsil's turnover to end customers while the wafers contributed around 90-95%.



## 2007 Management Report

# Development of activities and financial matters



The company's net turnover in 2007 was DKK 193.2m, compared to DKK 147.5m in 2006. This is an increase of 31%. Much of the turnover was made in the fourth quarter, when we succeeded in shifting a relatively large batch of orders that had been delayed in the third quarter due to lack of irradiation capacity.

The operating profit for the year was DKK 52.1m, compared to a profit of DKK 33.6m in 2006. The year's profit before tax was DKK 48.1m, against a pre-tax profit of DKK 29.2m in 2006. The profit margin rose to 27.0% in 2007, compared to 22.8% in 2006. This is due to the positive effect of higher sales prices and a favourable development of the product composition. However, certain external and internal costs rose, mainly because of Lean Six Sigma activities and increased staffing in the production environment and technical functions.

The company made a profit after tax of DKK 34.9m in 2007, while the profit after tax was DKK 28.1m in 2006.

The result for 2007 is the company's best result so far. It meets the expectations formulated during the year, and is deemed very satisfactory by the Board of Directors and the management.

### Turnover

The turnover and result for the period were affected by the high prices on the global market for polysilicon and silicon. The price rises that occurred at the end of 2005 continued throughout 2006 and 2007. The silicon market in 2007 was characterised by increased demand driven by both the solar-cell industry and the growth in high voltage components based on float-zone silicon. This has positively affected the price level of the company's products.

We started focusing on optimising our product and customer mix in mid-2005 to achieve a higher income and the best use of the raw materials, and this effort continued in 2007.

As with the 2006 financial year, the result for 2007 was positively affected by the fact that the company succeeded in selling remelt silicon, a waste product from the production process of float-zone silicon ingots and silicon wafers, at considerably higher prices than before. This price development is due to the general shortage of polysilicon on the global market, especially within the solar-cell industry. The waste product was sold at around six times the average price for the period 2003-2005. Approximately 20%

of the company's profit before tax in 2007 came from the sale of remelt silicon.

### Changes to finished products and work in progress

The value of our product stock has risen to DKK 47.0m as of 31 December 2007, compared to DKK 22.6m in the previous year. This is partly due to holding a larger stock of raw materials, and partly due to the fact that they obtained a higher price, as the costs have risen. The quantity of work in progress has also risen markedly as we have sent more silicon crystals for irradiation. In addition, the changes to the product composition have resulted in longer lead-times, which also increases the value of work in progress.

### Costs of raw materials and auxiliary materials

The costs of purchasing raw materials and auxiliary materials rose to DKK 95.4m in 2007, from DKK 60.2m in 2006. The rise is mainly due to the price rises in the silicon market. It is also due to costs connected to work in progress. The overall direct production costs have risen by DKK 9.3m, which is a rise of 15.3% compared to 2006.

### Other external costs

Other external costs have risen to DKK 27.9m in 2007, from DKK 20.8m in 2006. This rise is due to the higher activity level in the company, particularly in terms of production, where there have been higher costs for repairs and maintenance. The above figure also includes costs of Lean Six Sigma training and implementation.

### Staff costs

In 2007, our average number of employees rose to 73 from 64 in 2006. This corresponds to 14% more employees. The costs rose to DKK 37.3m in 2007 from DKK 27.1m in 2006 – an increase of DKK 10.2m. The rise is mainly due to staff expansions in the production and technical functions.

### Depreciations and write-down expenses

The company's depreciations and write-down expenses in 2007 total DKK 5.8m, against DKK 5.2m in 2006.

Fig. 2  
Silicon consumption 2007

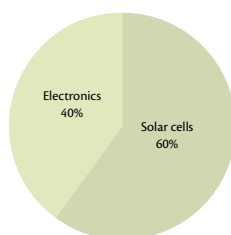
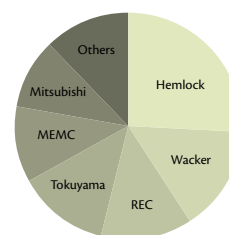


Fig. 3  
Silicon production, by manufacturer 2006



### Financial items

The company's financial items show a net expenditure of DKK 4.0m in 2007, against DKK 4.4m in 2006. The rise in the financial income is due to the company's improved liquidity, and the increased financial expenses are mainly due to realised and unrealised exchange losses on US dollars. The foreign exchange losses in USD primarily concern security provided until 2012. The company has chosen not to hedge the security provisions mentioned above.

### Tax of the 2007 result

The year's effective tax rate is 27.5%, against 3.7% in 2006. The increase is due to the fact that the tax asset from previous years was used up in 2007.

### Balance sheet

Topsil's balance sheet total as of 31 December was DKK 216.8m. Last year's figure was DKK 179.8m.

### Long-term assets

Half of the long-term assets totalling DKK 93.4m concern collateral placed in deposit accounts until 2012.

### Investments

In 2007, Topsil invested in both tangible and intangible assets, mainly new production equipment that has been put into operation, and the development of new processes.

### Equity

As of 31 December 2007, Topsil had a total equity of DKK 149.3m, corresponding to 68.9% of its total assets, against 61.8% at the end of 2006.

### The raw material markets

The global market for polysilicon at present is characterised by demand exceeding supply. This scarcity has existed since the end of 2005, and is due to the fact that the solar-cell industry currently buys about 60% of the global market's production of polysilicon. Until the end of the 1990s, silicon was mainly used for electronics components in the semiconductor industry. It is a completely

new situation in the industry that the solar-cell industry was able to buy around 55% and 60% of the global production in 2006 and 2007 (fig 2.). There will also be a serious shortage in 2008. Although the six major manufacturers of raw materials will more than double their production in the coming years, we expect that it will take several years before the raw material production is sufficient to saturate the market.

The global market's six established manufacturers of polysilicon (fig. 3) have previously experienced long periods with surplus capacity and low earnings due to lack of customer demand, often as a result of the cyclical fluctuations of the semiconductor and electronics industries. The current large demand for, and lack of, polysilicon has resulted in a dramatic rise in the prices of both the raw material and finished silicon since the end of 2005. Topsil experienced its largest price rise from 2006 to 2007, but still buys at higher prices in 2008 than we did in 2007.

Apart from the high price rises, the raw material producers have taken the opportunity to introduce new commercial conditions for buyers of polysilicon. The raw material, polysilicon, is now only available if you accept long-term contracts with the raw material producers. In this way the customers (e.g. Topsil) indirectly finance the costly investments needed for enlarging the reactors where the production of polysilicon takes place. Most raw material producers have also found that present market conditions have enabled them to conclude more contracts than warranted by their production volume. This has resulted in raw material producers being pressured to meet their customers' demands.

The long-term contracts that are concluded in the industry today contain demands for large advance payments or bank guarantees (e.g. corresponding to two years' purchases), and are also often based on fixed prices and quantities for 5-10 year periods.

In order for the customers of a raw material manufacturer to gain a contract, they thereby generally have to possess financial resources corresponding to the size of the contract (e.g. over 1-3 years), often combined with other conditions.

### Topsil's raw material supply situation

At the end of June 2005, Topsil's main supplier of polysilicon terminated their contract with us, this expired on 31 December 2005.

# Development of activities and financial matters

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.

On 11 August 2006, Topsil announced that we had concluded a long-term contract with one of our previously approved suppliers. The contract commenced at the beginning of 2007 and secures us the necessary raw materials for continuing our current activities until the end of 2012. There was no need for significant development activities in order to use the raw materials, but at the end of 2006, Topsil established production equipment that makes it possible to use polysilicon ingots of a lower grade from the manufacturer.

The new 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 thereby obligates Topsil to buy a minimum volume for six years, and at the same time the agreement is limited as to volume.

In the present market, we consider the price level for the fixed part of the agreement to be competitive, and we expect the prices of polysilicon for float-zone production to remain at a high level for the next three to four years.

There are no immediate signs 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 regarding high voltage, medium voltage and special components in the semiconductor industry. This means it seems more and more unlikely that the price of float-zone raw materials will return to the lower and more stable level of the period 2000-2004.

## Customer contracts

Simultaneously with the conclusion of the raw material agreement, Topsil also covered part of the potential long-term risk associated with the price development of polysilicon by concluding sales con-

tracts with our most important strategic customers on corresponding commercial conditions. We have concluded six-year contracts with our three largest current customers guaranteeing more than 30% of our estimated sales in the period from 2007 to 2012. This will contribute to securing better planning and a higher and more stable income than earlier.

## Other supplier contracts

Apart from Topsil's suppliers of the raw material itself (polysilicon), we have important sub-suppliers in two other areas: silicon wafering and irradiation of the silicon used for high and medium voltage components called NTD.

In the wafering field we have signed six-year contracts covering 70-80% of the product range. The agreements are comparable to our customer agreements in several respects, and thereby secure wafering capacity for Topsil.

Our third-largest sub-supplier area is irradiation of undoped silicon ingots, which are used for high and medium voltage components. The production and supply of these is one of Topsil's core competences. We currently use a range of irradiation suppliers throughout the world. In recent years, we have been seriously committed to securing the necessary capacity with the best irradiation providers. We have also concluded long-term contracts in this area and expect to be one of the two largest buyers of NTD irradiation in the years to come. As of 2008, Topsil has secured greater capacity by financing a production expansion (from a one to two shift pattern) with a European reactor via an agreement that is cost-neutral for us.

## The FZ market

Topsil's largest and most important market is the NTD market. In 2007 sales of NTD products experienced growth and the growth trend is expected to continue in 2008 as well. As mentioned, the NTD area is our core competence, and has been since the 1970s.

The production of an NTD product starts with the production of an undoped ingot (crystal rod) in our float-zone machines.



It is then transported to a reactor partner for external neutron irradiation. Finally the irradiated ingots are cut into wafers, after which they go through a number of processes at Topsil's two suppliers in Taiwan.

The NTD technique is used for medium and high voltage components, when a very precise and uniform neutron doping is required. In 2007 one of Topsil's two largest competitors stated that they would no longer neutron-dope float-zone material. Topsil's other largest competitor informed their customers already in 2006 that in future they would be able to offer their customers NTD products based on Czochralski material that would subsequently be float-zoned before being neutron-doped in the same reactors that are used by Topsil, amongst others.

One of the two largest competitors is replacing their previous NTD product with in-situ-doped PFZ products, while the other has chosen to produce a crystal for Czochralski (MCZ, a so-called magnetic Czochralski ingot), which subsequently will go through the same process as in the traditional float-zone process. For the time-being it looks as though these strategies are proving successful for the two companies, but since electrical components can not be produced equally easily with the new substitute products, this has had a positive effect for Topsil. We are getting orders and enquiries from both existing and new NTD customers who want to gain access to NTD products manufactured with traditional float-zone material.

It should also be noted that, whereas the growth in 2006 was mainly driven by the high level of activity in the solar-cell industry and its consequences (rising prices of raw materials, sales of remelt silicon to the solar-cell industry), the growth in the float-zone industry in 2007-2008 is equally driven by the success of Topsil's semiconductor customers, who produce precisely high voltage components based on NTD material.

At the same time, it is largely the green energy technology that drives the very strong growth in high voltage components based on neutron-doped float-zone material. Topsil benefits both

directly and indirectly from the growth in the alternative energy sectors. For example:

- The need for electricity distribution is growing in line with the growth of new energy forms such as wind, water and solar cells, which need their power transported away from the site of production. Topsil's float-zone silicon for high voltage components is used for the transport or control of the electricity distribution.
- Control units, rectifiers and transformers (from alternating current to direct current) for wind turbines, hydroelectric plants and solar panels are often based on NTD-manufactured float-zone materials.
- IGBT components (bipolar transistors) for hybrid cars (Toyota, Honda, Ford) also often contain float-zone materials.

High voltage components currently have an annual growth rate of between 20-30%, and as a result Topsil is experiencing increasing interest from current and potential customers.

Despite the fact that the raw materials will continue to be scarce in coming years, we expect that the favourable market conditions will continue significantly longer than we expected when we signed the six-year raw material contract in 2006.

#### **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, two members of the Board of Directors were replaced. Board member Per Jørgensen left the Board at the 2007 Annual General Meeting. He was replaced by newly elected Board member Ole Christian Andersen (Managing Director of Nangate A/S). Staff-elected representative Theis Leth Sveigaard was replaced by Ole Sinkjær Andersen, development engineer, whose term of office will end in 2011.



## 2007 Management Report

# Special risks



### Business risks

A substantial portion of the company's turnover is distributed across fewer than 25 customers, none of whom, however, represents more than 20% of the total company turnover. The turnover for our 10 largest customers contributes approximately 80% of the total turnover.

Topsil 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 float-zone production, which may force the semiconductor and the electronics industries to find other silicon products. Over time, the float-zone market may shrink or disappear altogether.

New technology may lead to a surplus of raw material, or the present investments in new capacity may lead to a surplus production of raw material. If this happens, the semiconductor industry will again squeeze the silicon producers, and prices may re-

turn to a level of heightened competition, putting the profitability under pressure. However, this seems unlikely at present as reactor plants are only investing in extra capacity and building reactors for existing 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 we can only achieve sufficient profitability in the fixed part (50%) of the supply agreement. This may necessitate a significant adjustment of the costs.

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

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

Topsil is well positioned in relation to the irradiation suppliers.



# Financial risks

As a result of its operations and financing, Topsil is exposed to the effects of changes to currencies and interest rates. We manage our financial risks centrally and coordinate our liquidity management, e.g. by placing surplus liquidity. We operate with a low risk profile, so that currency, interest and credit risks only arise due to commercial conditions.

The company's use of derivative financial instruments is regulated through a Board-approved policy which among other things sets out which derivative financial instruments can be used.

### Currency risks

A large part of the company's sales and purchases are in EUR and USD. Topsil does not use derivatives to hedge currency risks. Instead, we use commercial hedging by balancing the currency inflow and outflow. Topsil's most important currency flow is in USD, which makes up about 50% 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  $\pm$  DKK 0.50 would mean a currency risk to the company of about  $\pm$  DKK 4.1m as of the balance sheet date. The movements will affect our result before tax by a corresponding amount.

### Interest rate risks

As a result of its capital structure, Topsil is only exposed to interest rate changes to a limited extent. The company's surplus liquidity is placed in bank deposits. 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 pre-tax earnings by about DKK 0.8m 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, since part of our debts were credit insured. We evaluate all our large customers and partners as well as the need for insuring individual debtors on an ongoing basis.

### Liquidity

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 37.8m. The company considers this cash position a sufficient capital resource 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 sold to small and medium-sized customers in the semiconductor industry with a total annual float-zone consumption up to DKK 50m.

Our customers comprise both large, international, well-known groups together with a large number of more local and specialised 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;
- a supplier of the same products to small and more niche-like semiconductor companies
- a supplier of HPS products to small and more niche-like semiconductor companies.

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

As a small player in the industry, we have our own production plant and specialise as a flexible producer as far as capabilities (specifications), 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 manufacture of float-zone machines, float-zone processes and production of float-zone silicon;
2. irradiation of silicon crystals (NTD); and
3. sales and logistics to the global power market.

### 1. FZ technology

Throughout the last four years, Topsil has expanded its product programme so that we now cover about 98% of the product types in demand on the global market for FZ products. Historically, NTD

has been Topsil's primary product, and we also expect it to form an important and increasing part of our product portfolio in future. Topsil has its own competences in design, development and manufacture of machines for production of float-zone silicon, and we have developed our own production processes and float-zone machines. This is in reality a protection of the company's knowhow as regards machinery and our processes.

### 2. Irradiation of silicon crystals (NTD)

Topsil produces FZ silicon ingots, many of which are irradiated to give the material the correct electrical properties. Topsil has a history of leadership in the field of irradiated FZ silicon (NTD). In 1976, together with Risø, Topsil invented the irradiation technology used to make NTD products. We have built up expertise in the field of irradiation of silicon and subsequent heat treatment, 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 until it was closed down in 2000. Since then we have analysed the global markets for irradiation, and today we have access to irradiation capacity all over the world. Topsil uses around 10 different sub-suppliers for irradiation based on long-term contracts. At present, there is a shortage within the irradiation market, but due to our long-standing relations with the irradiation suppliers, Topsil has no limitations in this area.

### 3. Sales and logistics to the global power market

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

### Employees

With approximately 80 employees, consisting of production workers and engineers with silicon and mechanical expertise, it is crucial for Topsil to hire the right people; their expertise and commitment are essential for efficiency, customer satisfaction and innovation.

Topsil has a low employee turnover, which may partly be due to the nature of the silicon/semiconductor industry which is not

present anywhere else in Denmark, and partly because of the company's unique production plant and local site in Frederiksund, Denmark.

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

At the beginning of 2007, we started a comprehensive optimisation project in collaboration with a Danish consultancy firm, mainly using Lean principles. In the course of the first year, it proved harder to meet the expectations for improvement than we first thought, so at the end of 2007 we restructured the project, making it a Lean Six Sigma project. We are currently working with two recognised, external consultancy firms with a view to simplifying our methods and reducing variation in the production processes. All Topsil employees are involved in this project, which is expected to take a number of years. As an associated effect, we expect the project to result in an upgrading of the organisation's staff in a number of areas.

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

To realise our objectives, we 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 until the present day to significantly alter the evaluation of the annual report.



TOPSIL



**THz Technology**

X-ray luggage scanners are well-known in every airport and in connection with transport of cargo. They can reveal metal objects through clothes and in suitcases, and register their shape and appearance. Because of the intense focus on security in connection with the transport of passengers and cargo, there is also an increasing need to be able to identify liquids and chemicals. THz technology can make it possible to scan for liquids and chemicals in connection with the transport of passengers and cargo because THz radiation can identify molecules in the liquid/chemical, while THz detectors can trace the interfering signals. Float-zone silicon is extremely well-suited for generating and tracing THz radiation. In addition, THz cameras are used in satellites for monitoring ice movements on the surface of the Earth.

# Anticipated future trends

The development of the company's order intake for delivery in the following financial year has been very positive in recent years, as shown by the following table:

<b>Volume of orders as of January 1</b>	DKK 1 million
2008 (for delivery in 2008)	DKK 130
2007 (for delivery in 2007)	DKK 117
2006 (for delivery in 2006)	DKK 50
2005 (for delivery in 2005)	DKK 29

As the table shows, as of 1 January 2008, the company's confirmed order volume for delivery in 2008 made up DKK 130m.

In the second half of 2007 and the beginning of 2008, the company received more orders and enquiries for the following year than ever before. The activity level for 2008 is therefore expected to be higher than in 2007. We assess that we will be able to buy a similar quantity of raw materials for production in 2008 as we had at our disposal in 2007. This means that the opportunities for order intake exceed the quantity of raw materials the company

expects to have at its disposal during 2008. The customer demand which Topsil is unable to fully satisfy in 2008 has originated from both existing and potential customers.

Our expectations for the net turnover in 2008 are based on a production output corresponding to that of 2007, which means that the growth in turnover and earnings cannot be attributed to rising raw material prices and a customer and product mix that is mainly based on the higher grade NTD products.

We would like to secure greater access to raw material for the company, either from the established manufacturers of raw materials for float-zone production or via development of Czochralski material for subsequent float-zoning. We expect to scale the production in line with our access to raw materials and customer interest. As mentioned previously, Topsil is working hard to meet these targets, incorporating both organic and inorganic solution models to do so.

We expect to reach a turnover of DKK 220-240m in 2008, and a profit before tax of DKK 50-60m.





**TOPSIL**





# Corporate governance

### Openness and transparency

The Board of Directors and management strive for an 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 future opportunities.

### The role of shareholders and interaction with the company management

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

Topsil regularly holds meetings with investors, financial analysts and the press at least once a quarter immediately after publishing the accounts for that quarter. All investor presentations are made available on the website prior to the presentation taking place.

Topsil has established silent periods 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' nor participate in investor meetings. The silent periods in 2008 are stated below under "Financial calendar for 2008".

Once a year, the Board assesses whether the capital and share structures of the company are in the interest of the shareholders. With the profit realised for 2007, the Board finds that the capital and share structures of the company are appropriate and sufficient for a foreseeable future.

### 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, pursuant to section 65b of the Danish Public 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 not more than 4 weeks' notice. Shareholders, who have requested to be convened to General Meetings by indicating their email address, will be convened by email. A notice is sent to the shareholders convening the meeting with all relevant appendices including a power 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 him/her and an accompanying advisor, if relevant, not later than 3 days prior to the meeting with reference to the recording of 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.

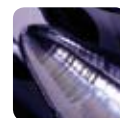
According to Topsil's Articles of Association, the voting right may be exercised by proxy on presentation of a written and dated power of attorney. The design of the power of attorney gives the shareholder the possibility to decide each individual item on the agenda. A power of attorney may only be granted for a General Meeting specified in advance. However, a power of attorney to attend 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.

Should the company receive a public acquisition offer, which is supported by the Board of Directors, the company will convene an Extraordinary General Meeting and present the offer for approval by the General Meeting.

### Rules for amending 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 entitled to vote and 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 entitled to vote 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 their importance to the company**

The Board shall ensure that good and constructive relations as well as an 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 conducts customer satisfaction analyses at 18-month intervals to elucidate our customers' experience of Topsil as a partner. The next customer satisfaction analysis will be conducted during 2008.

#### **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 what extent the annual report is to be supplemented and whether the report should contain detailed 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, strategies and action plans.
- 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.
- Ensuring 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 is 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 written management instructions. The management provides information to the Board on an ongoing basis through written and oral communication. In addition, 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 a profit and loss account, a balance sheet, an updated profit forecast 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 employee representatives who are elected in accordance with the provisions of the Danish Public Companies Act in this regard.

The Board members elected by the General Meeting are elected for one year at a time whereas the employee 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 attain the age of 70 at the latest.

Members of the company's management may not be nominated for and elected to the Board of Directors.

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 competencies 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 majority 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 Frederiksund to the company. The transactions appear from note 38 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 and 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 2007 the Board of Directors held 7 meetings, and so far, 5 meetings are scheduled for 2008.

It has been decided that the Board of Directors and the management will meet once a year to discuss and define their most important tasks relating to the overall strategic management, financial and managerial control, and to evaluate the auditor and the competencies, work, results and collaboration of the Board of Directors and the management.

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 connection with the annual self-evaluation of the Board of Directors.

The company does not have Board committees.

### Management

The Board of Directors assesses and decides the number of directors and appoints and dismisses the management. The Chairman and the Vice-Chairman determine the terms of engagement of the

management in the form of a contract 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 office. The fee of the Board of Directors is determined at the first Board meeting and is paid as a lump sum 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 by means of 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.) must reflect the interests of the shareholders, be adjusted to the circumstances and be reasonable having regard to 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. for the management, such contributions will also be specified in the annual report. There have been no costs of this nature in 2007.

In addition to their basic salary, the management and the managerial employees have a bonus scheme based on the ordinary profit before tax for 2007 and subsequent financial years, pursuant to stock exchange announcements 05/06, 13/06, 16/07 and 20/07.

In addition to this, the management of the company and several managerial employees have been given warrants, pursuant to 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 incentive programmes for the management to promote long-term conduct 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 2007 were as follows:

## Shares

	Shareholding by number of shares (own and related parties *)	Shareholding by nominal value in DKK
Jens Borelli-Kjær, Chairman	450,000	112,500.00
Eivind Dam Jensen (EDJ-Gruppen), Vice-Chairman	62,757,311	15,689,327.75
Jørgen Frost, Member of the Board	100,000	25,000.00
Ole Christian Andersen, Member of the Board	150,000	37,500.00
Trine Schønnemann, Member of the Board	82,000	20,500.00
Ole Sinkjær Andersen, Member of the Board	22,000	5,500.00
Keld Lindegaard Andersen, Managing Director	965,750	241,437.50
Jørgen Bødker, Sales and Marketing Director	985,500	246,375.00
Leif Jensen, Senior Silicon Scientist	455,937	113,984.25
Hans Peder Mikkelsen, Purchasing and Quality Mng.	250,937	62,734.25
Theis Leth Sveigaard, PTA Manager	184,042	46,010.50
<b>Total</b>	<b>66,403,477</b>	<b>16,600,869.25</b>

\* Related parties are the nearest relatives of the management and companies in which management functions are filled

Warrants/subscription options by number	Holding 01.01.07	Exercised 21.02.07	Granted 15.05.07	Granted 23.08.07	Holding 31.12.07
Keld Lindegaard Andersen, Managing Director	5,897,250	1,965,750	0	0	3,931,500
Jørgen Bødker, Sales and Marketing Director	3,931,500	1,310,500	0	0	2,621,000
Martin Overgaard Hansen*, CFO	1,292,812	430,937	0	0	0
Leif Jensen, Senior Silicon Scientist	1,292,812	430,937	0	0	861,875
Hans Peder Mikkelsen, Pur. and Quality Mng.	1,292,812	430,937	0	0	861,875
Theis Leth Sveigaard, PTA Manager	1,292,812	430,937	0	0	861,875
Jens Peter Faldt, Production Manager	0	0	790,051	0	790,051
Thomas Clausen, R&D Manager	0	0	646,405	0	646,405
Jens Christian Nielsen, Finance Director	0	0	0	574,582	574,582
<b>Total</b>	<b>14,999,998</b>	<b>4,999,998</b>	<b>1,436,456</b>	<b>574,582</b>	<b>11,149,163</b>

\* Retired on 30.06.07 (861.875 options lapsed)

Transactions in 2007/number of shares	Beginning	Purchase	Sale	End
Jens Borelli-Kjær Chairman	450,000			450,000
Eivind Dam Jensen, Vice-Chairman (EDJ-Gruppen)	61,940,249			
Purchase on 11.05.2007		55,000		61,995,249
Purchase on 30.05.2007		262,062		62,257,311
Purchase on 26.10.2007		500,000		<b>62,757,311</b>
Jørgen Frost, Member of the Board	0			
Purchase on 20.09.2007		100,000		<b>100,000</b>
Ole Christian Andersen, Member of the Board	0			
Purchase on 27.08.2007		150,000		<b>150,000</b>
Trine Schønnemann, Member of the Board	94,980			
Sale on 26.02.2007			34,980	60,000
Purchase on 19.03.2007 (employee shares)		22,000		<b>82,000</b>
Ole Sinkjær Andersen, Member of the Board	0			
Purchase on 19.03.2007 (employee shares)		22,000		<b>22,000</b>
Keld Lindegaard Andersen, Managing Director	0			
Purchase on 21.02.2007*		1,965,750		1,965,750
Sale on 22.02.2007			1,000,000	<b>965,750</b>
Jørgen Bødker, Sales and Marketing Director	375,000			
Purchase on 21.02.2007*		1,310,500		1,685,500
Sale on 22.02.2007			700,000	<b>985,500</b>
Martin Overgaard Hansen, CFO	0			
Purchase on 21.02.2007*		430,937		430,937
Sale on 22.02.2007			250,000	180,937
Sale on 30.05.2007			180,937	<b>0</b>
Leif Jensen, Senior Silicon Scientist	275,000			
Purchase on 21.02.2007*		430,937		705,937
Sale on 22.02.2007			250,000	<b>455,937</b>
Hans P. Mikkelsen, Pur. and Quality Manager	70,000			
Purchase on 21.02.2007*		430,937		500,937
Sale on 22.02.2007			250,000	250,937
Theis Leth Sveigaard, PTA Manager	3,105			
Purchase on 21.02.2007*		430,937		434,042
Sale on 22.02.2007			250,000	<b>184,042</b>

\* New shares in connection with the exercising of options by the management on 21.02.2007

The remaining subscription options may be exercised for up to six weeks following the publishing of the announcement of the annual report with 5,287,290 options in 2008 and 5,861.873 options in 2009.

**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 a 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 in section "Special risks" in the management report.

The management has developed a plan for the company's risk management and regularly reports at the Board meetings. The section 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 appointment of an auditor by the General Meeting and together with the management to ensure that the contractual basis of the audit is reasonable and satisfactory.

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 audit book comments 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 audit book comments. 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 thereby 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".

**Own shares**

The Board of Directors has adopted some guidelines for transactions with the company's shares, which are laid down in the rules

**Shareholder structure as at 31 December 2007**

The share capital of the company amounts to a nominal value of DKK 99,705,652.25 and consists of 398,822,609 shares of DKK 0.25 each. The shares are not sub-divided into classes.

**Shareholder composition  
as at 31 December 2007**

EDJ-Gruppen, Bangs Gård, Torvet 21,  
DK-6701 Esbjerg, Denmark

Other registered shareholders

Unregistered shareholders

**Total**

	Units	Capital in DKK	Capital in %	Votes in %
EDJ-Gruppen, Bangs Gård, Torvet 21, DK-6701 Esbjerg, Denmark	62,757,311	15,689,327.75	15.74	15.74
Other registered shareholders	214,240,549	53,560,137.25	53.72	53.72
Unregistered shareholders	121,824,749	30,456,187.25	30.54	30.54
<b>Total</b>	<b>398,822,609</b>	<b>99,705,652.25</b>	<b>100.00</b>	<b>100.00</b>

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 employees. 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 at 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 2007. The proposal is based on a wish to strengthen the capital resources required to continue the development of the company.

#### List of stock exchange announcements in 2007:

Date	Announcement
21.02	Preliminary announcement of annual report 2006
22.02	Capital increase as a consequence of subscription options
22.02	Reporting of insider transactions
27.02	Reporting of insider transactions
02.03	Employee share ownership plan
15.03	Election of employee representatives
19.03	Capital increase as a consequence of subscription to employee shares
19.03	Reporting of insider transactions
20.03	Notice convening the Annual General Meeting
27.03	Change of Board of Directors
28.03	Summary of the Annual General Meeting 2007
04.04	Notice convening an Extraordinary General Meeting
19.04	Summary of Extraordinary General Meeting
02.05	Quarterly report – 1st quarter 2007
14.05	Reporting of insider transactions

15.05	Warrant and bonus scheme for the management
30.05	Reporting of insider transactions
30.05	Correction regarding insider trading
23.08	Interim report – 1st half year 2007
23.08	Warrant and bonus scheme for the management
28.08	Reporting of insider transactions
20.09	Reporting of insider transactions
26.10	Quarterly report – 3rd quarter 2007
26.10	Reporting of insider transactions
21.12	Financial calendar 2008

#### Financial calendar 2008

Date	Announcement	Silent periods
28.02	Preliminary announcement of annual report 2007	31.01.08 – 28.02.08
25.03	Annual report	
02.04	Annual General Meeting	
07.05	Quarterly report – 1st quarter 2008	16.04.08 – 07.05.08
21.08	Interim report – 1st half year 2008	24.07.08 – 21.08.08
30.10	Quarterly report – 3rd quarter 2008	02.10.08 – 30.10.08

#### Further information

Inquiries regarding the stock exchange announcements may be addressed to:

Jens Borelli-Kjær, Chairman, tel. +45 40 16 14 82

Keld Lindegaard Andersen, Managing Director tel. +45 21 70 87 72

#### Group chart:

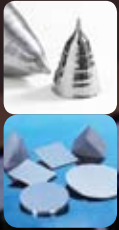
Topsil Semiconductor Materials A/S owns a company in the USA, Topsil Inc., which is being voluntarily wound up.

Topsil Inc. has been an inactive company in 2007. The company has taken measures to wind up Topsil Inc. and the company is expected to be voluntarily wound up in 2008.

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 situation in the subsidiaries, it was decided not to prepare any group accounts. If group accounts had been prepared, they would not show any differences compared with the annual accounts of the parent company.

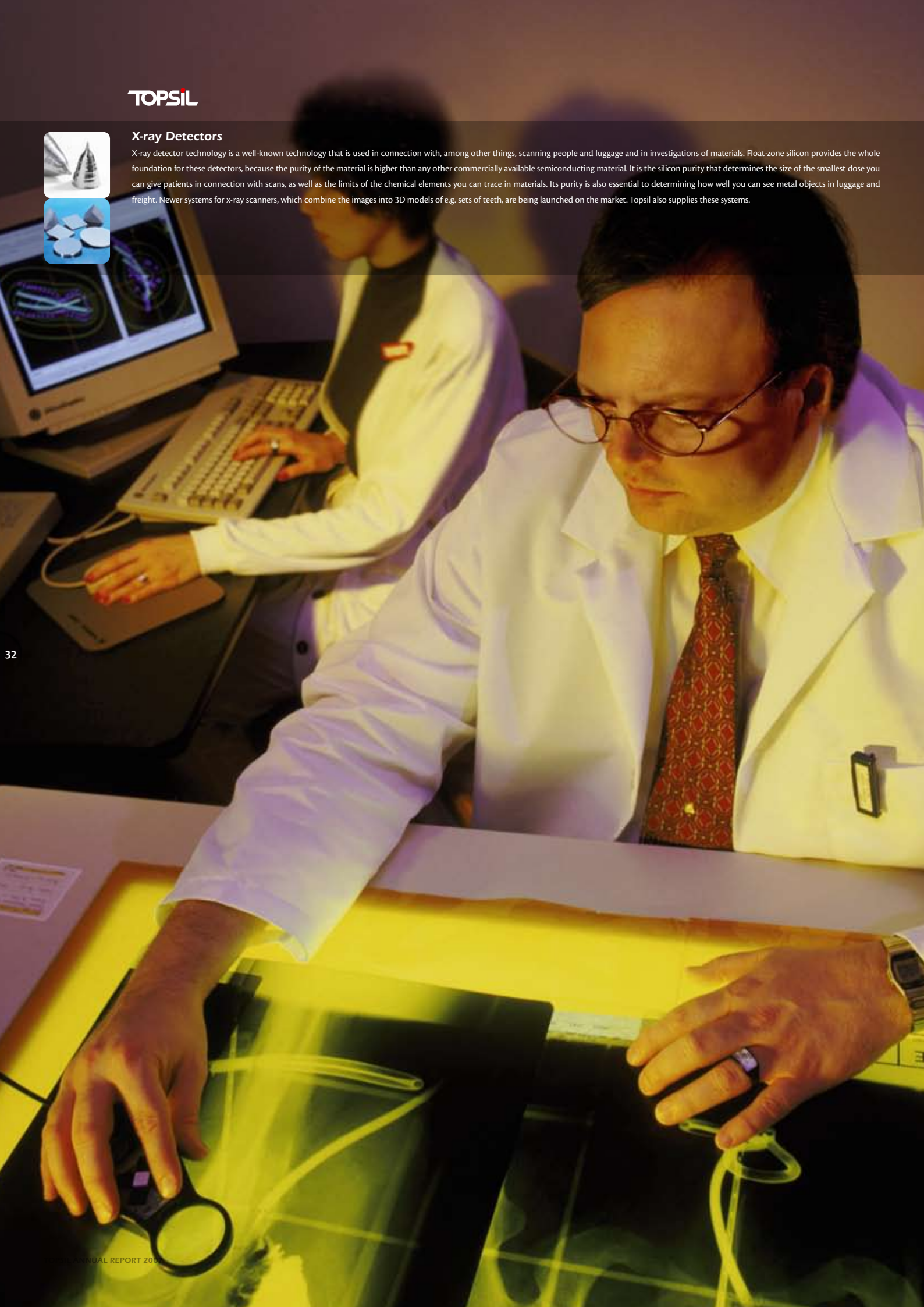
Topsil International A/S, which was the second subsidiary in the group at the beginning of the year, was voluntarily wound up in 2007.





### X-ray Detectors

X-ray detector technology is a well-known technology that is used in connection with, among other things, scanning people and luggage and in investigations of materials. Float-zone silicon provides the whole foundation for these detectors, because the purity of the material is higher than any other commercially available semiconducting material. It is the silicon purity that determines the size of the smallest dose you can give patients in connection with scans, as well as the limits of the chemical elements you can trace in materials. Its purity is also essential to determining how well you can see metal objects in luggage and freight. Newer systems for x-ray scanners, which combine the images into 3D models of e.g. sets of teeth, are being launched on the market. Topsil also supplies these systems.





# Statement of the Board of Directors and the management

We have today reviewed and approved the annual report and accounts of Topsil Semiconductor Materials A/S for the financial year 1 January – 31 December 2007.

The annual report has been presented in accordance with the International Financial Reporting Standards as adopted by the European Union as well as additional Danish disclosure requirements for the annual reporting of listed companies, including the Rules and Regulations of the OMX, Nordic Exchange Copenhagen.

We consider the accounting policies applied to be expedient for the annual report and accounts to give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2007 and of the results of its activities and cash flows for the financial year 1 January – 31 December 2007.

The annual report and accounts are recommended for approval by the General Meeting.

Frederikssund, 28 February 2008

## Management:



Keld Lindegaard Andersen  
Managing Director



Jørgen Bødker  
Sales and Marketing Director

## Board of Directors:



Jens Borelli-Kjær  
Chairman



Eivind Dam Jensen  
Vice-Chairman



Jørgen Frost  
Member of the Board



Ole C. Andersen  
Member of the Board



Ole Sinkjær Andersen  
Employee representative



Trine Schønnemann  
Employee representative

# The independent auditors' 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 2007 comprising the statement of the Board of Directors and the management, the management report, the profit and loss account, the balance sheet, the statement of changes in 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 additional Danish disclosure requirements for the 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 which gives a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union as well as additional Danish disclosure requirements for the 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 which gives 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 application of appropriate accounting policies and the exercising of reasonable accounting estimates in the circumstances.

### Auditors' responsibilities and basis of opinion

It is our responsibility to express an opinion about the annual report and accounts based on our audit. We have conducted our audit in accordance with Danish and International Auditing Standards. These standards require that we meet ethical standards

and that we plan and conduct our audit to obtain reasonable assurance that the annual report and accounts do not contain any material misstatements.

An audit includes audit procedures to obtain evidence supporting the amounts and disclosures in the annual report. The procedures chosen depend on the auditors' assessment including the assessment of the risk of material misstatements in the annual report regardless of whether any such misstatements are due to fraud or errors. In assessing the risk, the auditors consider internal controls that are relevant to the company's preparation and presentation of an annual report which gives a true and fair view and aim to establish audit procedures that are appropriate in the circumstances, but not with the purpose of expressing any opinion as to the effectiveness of the internal controls of the company. An audit also includes an assessment of whether the accounting policies applied by the management are appropriate and whether the accounting estimates made by the management are reasonable as well as an evaluation of the overall annual report presentation.

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 position of the company as at 31 December 2007 and of the results of its activities and cash flows for the financial year 1 January – 31 December 2007 in accordance with the International Financial Reporting Standards as adopted by the European Union as well as additional Danish disclosure requirements for the annual reporting of listed companies.

Copenhagen, 28 February 2008

DELOITTE

Statsautoriseret Revisionsaktieselskab



Tim Kjær-Hansen  
State-Authorised Public Accountant



Jørgen Holm Andersen  
State-Authorised Public Accountant

# Profit and loss account for 2007

DKK '000	Note	2007	2006
Net turnover	4	193,231	147,503
Adjustments of finished goods and work in progress		24,438	(2,137)
Work carried out for own account		796	1,392
Other operating income		28	159
Costs for raw materials and ancillary materials		(95,384)	(60,213)
Other external expenses		(27,850)	(20,836)
Employment costs	5, 6, 7	(37,339)	(27,121)
Depreciation, amortisation and impairment	8	(5,827)	(5,154)
<b>Operating profit (EBIT)</b>		<b>52,093</b>	<b>33,593</b>
Interest and similar income	9	3,566	1,223
Interest and similar expenses	10	(7,582)	(5,582)
<b>Profit before tax</b>		<b>48,077</b>	<b>29,234</b>
Tax on the profit for the year	11	(13,210)	(1,091)
<b>Profit for the year</b>		<b>34,867</b>	<b>28,143</b>
Earnings per share (DKK)	12	0.09	0.10
Earnings per share, diluted (DKK)	12	0.09	0.09
<b>Proposed distribution of the profit:</b>			
Carried forward		34,867	28,143
		<b>34,867</b>	<b>28,143</b>

# Balance sheet as at 31 December 2007

## Assets

DKK '000	Note	2007	2006
Completed development projects		12,168	15,044
Patents and licences		11	22
Development projects in progress		1,504	1,240
<b>Intangible assets</b>	8, 13, 14	<b>13,683</b>	<b>16,306</b>
Plant and machinery		22,023	18,995
Other fixtures and fittings, tools and equipment		2,597	1,950
Tangible assets under construction		2,910	2,017
<b>Tangible assets</b>	8, 15	<b>27,530</b>	<b>22,962</b>
Participating interests in subsidiaries	16	0	1,526
Other long-term receivables	17	52,206	62,562
<b>Financial assets</b>		<b>52,206</b>	<b>64,088</b>
Deferred tax receivables	11	0	7,251
<b>Long-term assets</b>		<b>93,419</b>	<b>110,607</b>
<b>Stocks</b>	18	<b>47,001</b>	<b>22,562</b>
Trade receivables	19	28,911	14,859
Other receivables	20	8,652	6,010
Prepayments and accrued income		1,094	945
<b>Receivables</b>		<b>38,657</b>	<b>21,814</b>
Cash and cash equivalents	21	37,770	24,844
<b>Current assets</b>		<b>123,428</b>	<b>69,220</b>
<b>Assets</b>		<b>216,847</b>	<b>179,827</b>

# Balance sheet as at 31 December 2007

ANNUAL REPORT 2007

## Equity and liabilities

DKK '000	Note	2007	2006
Share capital	22	99,706	98,288
Reserve for market value adjustment of financial assets available for sale	23	0	1,026
Reserve for market value adjustment of hedging instruments	23	0	17
Share-based payment reserve	23	1,111	686
Retained profit		48,510	11,062
<b>Equity capital</b>		<b>149,327</b>	<b>111,079</b>
Amounts owed to credit institutions	24	0	6,786
Finance lease commitments	25	0	4,889
Payments received on account from customers		12,090	15,822
Deferred tax liabilities	11	2,261	0
<b>Long-term liabilities</b>		<b>14,351</b>	<b>27,497</b>
Amounts owed to credit institutions	24	0	1,508
Finance lease commitments	25	0	1,239
Trade creditors	26	29,572	19,522
Amounts owed to subsidiaries		0	1,526
Payments received on account from customers		214	5,011
Corporation tax payable	11	3,698	0
Provisions	27	232	0
Other payables	28	19,453	12,445
<b>Short-term liabilities</b>		<b>53,169</b>	<b>41,251</b>
<b>Total liabilities</b>		<b>67,520</b>	<b>68,748</b>
<b>Equity and liabilities</b>		<b>216,847</b>	<b>179,827</b>
Operating lease commitments	31		
Mortgaging, guarantee commitments and contingent liabilities	32-33		
Notes without reference	34-41		

# Statement of changes in the equity capital for 2007

DKK '000	Share capital	Reserve for market value adjustment of financial assets available for sale	Share-based payment reserve	Reserve for market value adjustment of hedging instruments	Retained profit	Total equity capital
Equity capital as at 01.01.2006	65,525	1,026	497	0	(16,795)	50,253
Market value adjustment of financial instruments acquired to hedge future cash flows	0	0	0	17	0	17
<b>Net income recognised directly in equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>17</b>
Profit for the year	0	0	0	0	28,143	28,143
<b>Total recognised income and expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>28,143</b>	<b>28,160</b>
Share-based payment, see note 7	0	0	189	0	0	189
Cash capital increase	32,763	0	0	0	0	32,763
Premium on issue	0	0	0	0	1,638	1,638
Issue expenses	0	0	0	0	(2,075)	(2,075)
Tax on expenses relating to capital increase	0	0	0	0	151	151
<b>Equity capital as at 31.12.2006</b>	<b>98,288</b>	<b>1,026</b>	<b>686</b>	<b>17</b>	<b>11,062</b>	<b>111,079</b>
Equity capital as at 01.01.2007	98,288	1,026	686	17	11,062	111,079
Market value adjustment of participating interests	0	(1,026)	0	0	1,026	0
Market value adjustment of financial instruments acquired to hedge future cash flows	0	0	0	(17)	0	(17)
<b>Net income recognised directly in equity</b>	<b>0</b>	<b>(1,026)</b>	<b>0</b>	<b>(17)</b>	<b>1,026</b>	<b>(17)</b>
Profit for the year	0	0	0	0	34,867	34,867
<b>Total recognised income and expenses</b>	<b>0</b>	<b>(1,026)</b>	<b>0</b>	<b>(17)</b>	<b>35,893</b>	<b>34,850</b>
Share-based payment, see note 7	0	0	783	0	0	783
Share-based payment, utilised share options, see note 7	0	0	(358)	0	358	0
Employee share plan, see note 7	0	0	0	0	1,042	1,042
Cash increase of capital	1,418	0	0	0	0	1,418
Premium on increase of capital	0	0	0	0	155	155
<b>Equity capital as at 31.12.2007</b>	<b>99,706</b>	<b>0</b>	<b>1,111</b>	<b>0</b>	<b>48,510</b>	<b>149,327</b>

# Cash flow statement for 2007

DKK '000	Note	2007	2006
<b>Operating profit (EBIT)</b>		<b>52,093</b>	<b>33,593</b>
Depreciation, amortisation and impairment		5,827	5,154
Loss/profit on the sale of assets		0	(76)
Share-based payment recognised in the profit and loss account		783	189
Employee share plan recognised in the profit and loss account		1,042	0
Adjustment for market value of hedging instruments recognised in the profit and loss account		(17)	17
Change in net working capital	29	(26,561)	12,638
<b>Cash flows from primary operations</b>		<b>33,167</b>	<b>51,515</b>
Financial income received		3,566	1,223
Financial expenses paid		(851)	(2,535)
Joint taxation refund received		0	369
<b>Cash flows from operations</b>		<b>35,882</b>	<b>50,572</b>
Acquisition, etc. of intangible assets		(401)	(1,240)
Acquisition, etc. of tangible assets		(7,372)	(4,534)
Sale of tangible assets		0	234
<b>Cash flows from investments</b>		<b>(7,773)</b>	<b>(5,540)</b>
Other repayments to credit institutions		(8,294)	(9,510)
Proceeds from the issue of shares, net		1,573	32,326
Repayment of lease commitment		(6,128)	(1,079)
Paid-up deposit		0	(47,250)
<b>Cash flows from financing</b>		<b>(12,849)</b>	<b>(25,513)</b>
<b>Cash flows for the year</b>		<b>15,260</b>	<b>19,519</b>
Cash and cash equivalents at 1 January		24,844	5,862
Value adjustment of cash and cash equivalents		(2,334)	(537)
<b>Cash and cash equivalents at 31 January</b>	<b>21</b>	<b>37,770</b>	<b>24,844</b>



TOPSIL



H<sub>2</sub>O

CO<sub>2</sub>

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### Fundamental Matter Detector

The discovery of new elementary particles can give us important information about the Earth, our solar system and the rest of the universe. The research mainly takes place at the large particle accelerator plants (e.g. CERN), where massive ring systems accelerate particles and collide them with other particles. The energy density of these collisions is so great that they far exceed nuclear explosions. In addition, they generate an enormous amount of radiation and particles that are subsequently traced with advanced detectors, arranged in a cube around the collision area. These detectors are produced solely on float-zone silicon due to this material's high degree of purity.



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# Notes

## 1. Accounting policies

The annual report for 2007 of 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), pursuant to the IFRS Executive Order issued in accordance with the Danish Financial Statements Act as well as the Rules and Regulations of the OMX, Nordic Exchange Copenhagen.

The annual report also meets the requirements 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 the functional currency of the company. The annual report is based on historic cost prices with the exception of certain financial instruments, which are recognised at market value.

### Implementation of new and altered Standards and Interpretations

The annual report for 2007 is presented in accordance with the new and altered Standards (IFRS/IAS) as well as the new Interpretations (IFRIC) that apply to financial years beginning 1 January 2007 or later. These Standards and Interpretations are:

- IFRS 7, Financial instruments: Information
- IAS 1, Presentation of financial statements (updated 2005)
- IAS 32, Financial instruments: Presentation (updated 2005)
- IFRIC 7, Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8, Scope of IFRS 2
- IFRIC 9, Reassessment of embedded financial instruments
- IFRIC 10, Interim financial reporting and impairment

The implementation of the new and altered Standards and Interpretations in the annual report for 2007 has not led to any changes in the accounting policies, but has only affected the scope and nature of the notes to the annual report.

### Standards and Interpretations that have not yet come into force

At the time of publishing the present annual report, the following new or amended Standards and Interpretations have not yet taken effect and therefore have not been incorporated into the present annual report:

- Amended IFRS 2, Share-based payment. The standard takes effect for financial years beginning 1 January 2009 or later. The standard has not yet been adopted for the European Union.
- Amended IFRS 3, Business combinations. The standard takes effect for financial years beginning 1 July 2009 or later. The standard has not yet been adopted for the European Union.
- IFRS 8, Operating segments. The standard takes effect for financial years beginning 1 January 2009 or later.
- Amended IAS 1, Presentation of financial statements. The amended standard takes effect for financial years beginning 1 January 2009 or later. The standard has not yet been adopted for the European Union.
- Amended IAS 23, Borrowing costs. The amended standard takes effect for financial years beginning 1 January 2009 or later. The standard has not yet been adopted for the European Union.
- Amended IAS 27, Consolidated and separate financial statements. The amended standard takes effect for financial years beginning 1 July 2009 or later.
- IFRIC 11, Group and treasury share transactions. The Interpretation takes effect for financial years beginning 1 March 2007 or later.
- IFRIC 12, Service concession arrangements. The Interpretation takes effect for financial years beginning 1 January 2008 or later. The Interpretation has not yet been adopted for the European Union.
- IFRIC 13, Customer loyalty programmes. The Interpretation takes effect for financial years beginning 1 August 2008 or later. The Interpretation has not yet been adopted for the European Union.
- IFRIC 14, The limit on a defined benefit asset, minimum funding requirements and their interaction. The Interpretation takes effect for financial years beginning 1 January 2008 or later. The Interpretation has not yet been adopted for the European Union.

The implementation of the amended IAS 23, Borrowing costs, will mean that as from and including the financial year 2009 the company will have to include borrowing costs in the cost of qualifying assets in the form of intangible and tangible assets as well as stocks with long production periods. So far, the company has not included borrowing costs in the cost of tangible and intangible

assets. In the opinion of the management, the use of these new and amended Standards and Interpretations will not have any significant impact on the annual report for the coming financial years except for the additional disclosure requirements for business segments that result from the implementation of IFRS 8.

### Group accounts

The company has not prepared any group accounts for the financial year 2007, even though Topsil Semiconductor Materials A/S owns a company in the USA, Topsil Inc., as the company is inactive and is furthermore being voluntarily wound up, and as it amounts to 0% of the balance sheet total in Topsil Semiconductor Materials A/S. Topsil International A/S, which was the second subsidiary in the group at the beginning of the year, was voluntarily wound up in 2007.

The reason for this is the fact that Topsil International A/S was voluntarily wound up in 2007. Topsil Inc. was an inactive company in 2007. The company has taken steps to dissolve Topsil Inc., which is expected to be voluntarily wound up in 2008.

Topsil Inc. 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 situation in the subsidiaries, it was decided not to prepare any group accounts. If group accounts had been prepared, they would not show any differences compared with the annual accounts of the parent company.

### Conversion of foreign currency

When first recognised, transactions in other currencies than the individual company's functional currency are converted at the rate on the transaction date. Outstanding accounts, debts and other monetary items in foreign currency, which have not been settled on the balance sheet date, are converted at the exchange rate on the balance sheet date. Exchange differences arising between the rate on the transaction date and the rate on the payment date, respectively, are recognised as interest and similar income and expenses in the profit and loss account.

Tangible and intangible assets as well as stocks and other non-monetary assets purchased in foreign currencies are estimated based on the historic cost prices and converted at the rate of the transaction date.

### Derivatives

When first recognised, derivatives are measured at market value at the settling date. Directly attributable costs connected with the purchase or issue of the individual financial instrument (transaction costs) are added to the market value upon initial recognition unless the financial asset or the financial liability is measured at market value with recognition of market value adjustments in the profit and loss account.

Following the first recognition, the derivatives are measured at their market value at the balance sheet date. Positive and negative market values of derivatives are included as Other receivables and Other payables, respectively.

Changes in the market value of derivatives that are classified as and meet the conditions for effective hedging of the market value of a recognised asset or a recognised liability are recognised in the profit and loss account together with changes in the value of the hedged asset or the hedged liability.

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.

Derivatives that do not meet the conditions for being treated as hedging instruments are regarded as part of a trading portfolio and are measured at market value with current inclusion of market value adjustments in the profit and loss account under Interest and similar income and expenses.

Certain contracts include conditions similar to those of derivatives. To the extent the embedded derivatives differ materially from the overall contract, they are recognised and measured as separate instruments at market value, unless the contract in question as a whole is recognised and measured at market value.

### 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.

They are recognised in the profit and loss account under employment costs over the period during which the employees

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obtain the right to purchase the shares. The counterpart 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.

Employee shares allotted and exercised in the financial year are recognised as an expense at the amount calculated as the difference between the listed price and the exercise price at the time of allotment.

## 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 profit or loss 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 measured 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 in the profit and loss account unless the deferred tax is attributable to items which have previously been recognised directly in the equity capital. In the latter case, the change is also recognised directly in equity.

Deferred tax is recognised according to the balance sheet liability method of all temporary 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 liabilities, including the tax value of deferrable tax losses is recognised in the balance sheet at the value at which the asset is expected to be realised either as a setoff against deferred tax liabilities or as net tax assets for setoff against future positive taxable income. On every balance sheet date, the probability of sufficient taxable income being generated in the future to use the deferred tax asset is assessed.

## The profit and loss account

### Net turnover

The net turnover is recognised in the profit and loss account once delivery has taken place and the risk has passed to the buyer.

The net turnover is measured 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 discounting 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 interest rate 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 in the production environment that do not meet the criteria for recognition in the balance sheet are also recognised under costs for 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 gains and losses in connection with the realisation of intangible and tangible assets, if the sales price of the assets exceeds the original cost price.

### Other external expenses

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

Other external expenses 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

over 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 payment, 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.

### Interest and similar income and expenses

Interest and similar income and expenses comprise interest earnings and expenses, the interest part of finance lease payments, realised and unrealised foreign exchange gains and losses as well as surcharges and allowances under the Tax Prepayment Scheme.

### 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 measurement 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 measured at cost price. The cost price of development projects includes costs such as salaries and amortisation, 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 amortised according to the straight-line method over their expected economic life. The amortisation period is usually 5 years, but in some cases it can be up to 20 years if the longer amortisation period is deemed to better reflect the benefit to the company of the product developed, etc. The amortisation for the year is included in the profit and loss account under the item amortisation.

Development projects are written down to a possible lower recoverable amount, see below. Current development projects

are tested for impairment at least once a year. Acquired intellectual property rights in the form of patents are estimated at cost price deducting accumulated amortisation and impairment. Patents are amortised 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, amortisation is provided over the shorter life of the patent.

Acquired intellectual property rights are written down to a possible lower recoverable amount, see below.

#### Tangible assets

Plant and machinery, operating equipment, fixtures and fittings are estimated at cost price deducting accumulated depreciation and impairment. 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 assets held under finance leases, the cost price is the market value of the asset or the present value of the future lease payments, whichever is the lower.

Interest expenses on loans to finance the production of tangible assets are not included 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 there is a difference in the economic life of the components.

Straight-line depreciation is provided based on the following estimate of the expected economic life of the assets:

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

Depreciation methods, economic life and net book values are reassessed annually. Tangible assets are reduced to their recoverable value if this value is lower than the book value, see below.

#### Impairment of tangible and intangible assets and participating interests in subsidiaries

The book values of tangible assets, intangible assets with deter-

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minable economic lives and participating interests in subsidiaries are reviewed on the balance sheet date to determine whether there are any indications of impairment. If this is the case, the recoverable value of the asset is calculated to establish the possible need for recognition and impairment loss and the extent of such impairment. The recoverable value for current development projects is calculated yearly whether indications of impairment have been established or not. If the asset does not produce any cash flows independent of other assets, the recoverable value of the smallest cash flow producing unit of which the asset forms part is calculated.

The recoverable value is calculated as the market value of the asset or the market value of the cash flow producing unit, whichever is the lower, less marketing costs and the capital value. The capital value is calculated by discounting 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 recoverable values of the asset and the cash flow producing unit, respectively, are lower than the book value, the book value is reduced to the recoverable value. For cash flow producing units the impairment loss is distributed within the unit, as the individual asset is not reduced to a lower value than its market value less expected marketing costs.

Impairment losses are recognised in the profit and loss account. In any subsequent reversal of an impairment as a consequence of changes in the conditions for the calculated recoverable value, the book value of the asset or the cash flow producing unit, respectively, is increased to the adjusted recoverable value, however, as a maximum to the book value, which the asset or the cash flow producing unit would have if its value had not been written down.

## **Participating interests in subsidiaries**

When first recognised, participating interests in subsidiaries are measured at market value plus transaction costs.

Subsequently, participating interests in subsidiaries are estimated at market value, representing the amount at which the subsidiary can be sold to an independent buyer. Participating interests in subsidiaries are treated as financial assets available for sale.

The subsidiary is revaluated annually on the basis of calculated capital values and future cash flows. Changes in market values are recognised directly in the equity capital.

## **Stocks**

Stocks are measured 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 comprises the acquisition price plus delivery costs. The cost price of manufactured goods as well as work in progress 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 goods actually produced. Fixed indirect production costs comprise costs for maintenance of and depreciation on and impairment 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 of stocks is calculated as the expected sales price less costs of completion and costs paid to effect the transaction.

## **Receivables**

Receivables comprise trade receivables. Other receivables are included in the category of financial assets, which are financial assets with fixed or determinable payments not listed on an active market and which are not derivatives.

Receivables are measured at market value when first recognised and subsequently at the amortised cost price, which usually corresponds to the nominal value less impairment to counter expected losses. Impairment losses are assessed individually.

## **Prepayments and accrued income**

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

## **Provision for pensions, etc.**

The company has concluded defined contribution plans and similar agreements with a substantial 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 qualifying them

for the contribution. Amounts due are recognised in the balance sheet as a liability.

## Provisions

Provisions 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 discharging the liability will result in a strain on the company's financial resources. Guarantee commitments comprise commitments to remedy faults and defects in goods sold during the guarantee period.

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

## Lease commitments

Lease commitments concerning assets held under finance leases are recognised in the balance sheet as liabilities and measured at the time of concluding the contract at the market value of the leased asset or the present value of future lease payments, whichever is the lower.

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 expense. Lease payments concerning operating leases are recognised according to the straight-line method over the lease term.

## Other financial liabilities

Other financial liabilities include bank loans, trade creditors and other amounts owed to public authorities. Upon initial recognition, other financial liabilities are measured at market value. Subsequently, the liabilities are measured at amortised cost price according to the effective interest rate method so that the difference between the proceeds and the nominal value is recognised in the profit and loss account as a financial expense 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 from operations, investments and financing as well as cash at the beginning and the end of the year.

Cash flows concerning operating activities are stated as the operating profit adjusted for non-cash operating items and changes in the working capital and paid financial income and expenses deducted from the corporation tax paid during the financial year, which are 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 assets held under finance leases in the form of lease payments made are recognised. Cash comprises cash and cash equivalents 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 located 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 (%)	$\frac{\text{Profit for the year after tax}}{\text{Average equity capital}}$
Gearing	$\frac{\text{Net interest-bearing debt}}{\text{Total equity capital}}$

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

EBITA (Earnings Before Interest, Tax and Amortisation) is defined as the operating profit (EBIT) plus amortisation and impairment of goodwill for the year.

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. Cash and cash equivalents 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 cash and cash equivalents.

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 previously made estimates 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 impact on the annual report:

- The value of assets and liabilities often depends on future events that are rather uncertain. In this connection it is necessary to presuppose a sequence of events, etc. that reflects the management's assessment of the most likely sequence of events.
- To the extent the market value of derivatives and other financial instruments cannot be derived from an active market, it is necessary for the management to assess and choose an appropriate method for stating the market values. In this connection valuation methods are used that are generally accepted for the instrument in question. For derivatives, the statement of market values is based on official foreign exchange rates, market interest rates and other market data, such as volatility, adjusted for the special features of the individual instrument.

- Though the company trades extensively with customers and suppliers in foreign currencies, the functional currency of the company is still found to be Danish kroner based on IAS 21.9-12.

## 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	2007	2006
Europe	115,400	83,793
USA	26,627	22,760
Asia	51,204	40,950
<b>Total</b>	<b>193,231</b>	<b>147,503</b>

The company's assets are located in Denmark.

## 4. Net turnover

The company's entire net turnover derives from the sale of goods.



**5. Employment costs**

		2007	2006
Directors' fees	DKK '000	723	450
Salaries and wages		29,484	22,694
Bonus for managerial employees		1,188	617
Bonus for the management		1,527	925
Share-based payment, see note 7		783	189
Employee share plan		1,042	0
Defined contribution plan		2,277	1,941
Other social costs		315	305
		<b>37,339</b>	<b>27,121</b>
Average number of full-time employees		73	64

**Remuneration of Board of Directors and management**

	Board of Directors		Management		Other managerial employees	
	2007	2006	2007	2006	2007	2006
Directors' fees	723	450	0	0	0	0
Salaries and wages	0	0	2,375	2,436	3,022	2,803
Bonus for managerial employees	0	0	0	0	1,188	617
Bonus for the management	0	0	1,527	925	0	0
Defined contribution plan	0	0	234	240	306	232
Share-based payment	0	0	458	82	325	107
	<b>723</b>	<b>450</b>	<b>4,594</b>	<b>3,683</b>	<b>4,841</b>	<b>3,759</b>

The management and other managerial employees have special bonus schemes according to individually agreed performance targets. The value of these bonus schemes amounts to 6% of the profit for the year before tax for the period 2006-2008.

The fee for the Chairman of the Board makes up DKK 200,000. The fee for the Vice-Chairman of the Board is DKK 150,000 and the fee for the members of the Board is DKK 100,000.

**6. Pension plans**

The company has solely concluded agreements for defined contribution plans.

		2007	2006
Contributions to defined contribution plans	DKK '000	2,277	1,941
		<b>2,277</b>	<b>1,941</b>

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

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## 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 plan 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 exercising of the options no further recognition is made in the profit and loss account.

		<b>Managerial employees</b>	<b>Management</b>
<b>Specification of outstanding subscription options</b>			
Allotted subscription options as at 01.01.2005	DKK '000	0	0
Allotted subscription options		0	3,931
<b>Allotted subscription options as at 31.12.2005</b>		<b>0</b>	<b>3,931</b>
Allotted subscription options as at 01.01.2006		0	3,931
Allotted subscription options, managerial employees		5,172	5,897
<b>Allotted subscription options as at 31.12.2006</b>		<b>5,172</b>	<b>9,828</b>
Allotted subscription options as at 01.01.2007		5,172	9,828
Allotted subscription options, managerial employees		2,011	0
Subscription options exercised		(1,724)	(3,276)
Lapsed subscription options, managerial employees		(862)	0
<b>Allotted subscription options as at 31.12.2007</b>		<b>4,597</b>	<b>6,552</b>

		<b>2007</b>	<b>2006</b>
Number of options that may be exercised at the end of the year		0	0
Number of options that may be exercised upon the preliminary announcement of the annual report	'000 units	5,287	5,000
Total market value of outstanding options	DKK '000	<b>10,677</b>	<b>18,188</b>
Market value per option		0.96	1.21
Weighted average strike price per option		0.57	0.28

In 2007 a market value of the subscription options of DKK 783,000 has been recognised in the profit and loss account against DKK 189,000 in 2006.

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

Allotment year	Strike price (*)	Exercise period (**)	Allotted	Lapsed	Exercised	Unexercised
2005	0.27	2007	1,310,500	0	1,310,500	0
2006	0.28	2007	3,689,500	0	3,689,500	0
2006	0.28	2008	5,000,000	430,937	0	4,569,063
2006	0.28	2009	5,000,000	430,938	0	4,569,062
2007	1.98	2009	1,436,456	0	0	1,436,456
2007	1.80	2009	574,582	0	0	574,582

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

(\*\*) The subscription options may be exercised during a 6-week period after publication of the the preliminary announcement of the annual accounts.

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.

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

#### Subscription options allotted during the year, managerial employees:

		Allotted in 2007	Allotted in 2006
Average share price	DKK '000	1.93	0.34
Strike price		1.93	0.29
Expected volatility		51.8%	60.8%
Expected term		1-2 year(s)	1-3 year(s)
Expected earnings per share		0	0
Risk-free interest rate		4.9%	3.6%
Allotted subscription options	'000 units*	2,011	6,069
Market value per subscription option	DKK	0.14	0.13
Total market value	DKK '000	238	776

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

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 relation between the company's share capital before and after the change in its capital structure. In case of changes in the control of the company, the employee will be entitled to exercise all his/her subscription options, such exercising to take place during the first exercise period. If the subscription options are not exercised during the first exercise period, the unexercised subscription options will lapse.

# Notes

## 7. Share-based payment (continued)

Employee shares allotted and exercised in 2007. The amount recognised as an expense is calculated as the difference between the listed price and the exercise price at the time of allotment.

### Employee share plan:

Shares allotted to employees

Strike price

Bonus element, share price, recognised as an expense

	Allotted in 2007	Allotted in 2006
'000 units	673	0
Strike price	0.25	0
Bonus element, share price, recognised as an expense	DKK '000 1,042	0

## 8. Depreciation, amortisation and impairment

Amortisation on intangible assets

Depreciation on tangible assets

	2007	2006
DKK '000	3,024	3,096
	2,803	2,058
	5,827	5,154

## 9. Financial income

Interest on bank deposits etc.

Interest on receivables, subsidiaries

	2007	2006
DKK '000	3,566	1,198
	0	25
	3,566	1,223

## 10. Financial expenses

Interest on mortgage and bank loans

Fee payable in connection with guarantees provided, etc.

Exchange rate adjustments

	2007	2006
DKK '000	362	2,288
	489	247
	6,731	3,047
	7,582	5,582

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

The current corporation tax for the financial year is calculated on the basis of a tax rate of 25% (2006: 28%)

	2007		2006	
Current tax	DKK '000	(3,698)	-	
Change in deferred tax		(8,735)	(8,250)	
Effect of changed corporation tax rate (from 28% to 25%)		(777)	-	
Adjustment of deferred tax concerning previous years		-	7,165	
Adjustment concerning previous years		-	(6)	
		<b>(13,210)</b>	<b>(1,091)</b>	
The tax on the profit for the year can be explained as follows:				
<b>Profit before tax</b>		<b>48,077</b>	<b>29,234</b>	
Tax at a tax rate of 25% (2006: 28%)		(12,019)	(8,185)	(28.0%)
Effect of changed tax rate		(777)	-	-
Tax value of disallowed costs		(414)	(65)	(0.2%)
Adjustment concerning previous years		-	(6)	(0%)
Value adjustment in respect of tax asset, etc.		0	7,165	24.5%
<b>Effective tax rate for the year</b>		<b>(13,210)</b>	<b>(1,091)</b>	<b>(3.7%)</b>
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)	
		-	(151)	

## Notes

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

		Deferred tax 01.01.06	Recognised in the profit and loss account 2006	Recognised in equity 2006	Deferred tax 31.12.06
Intangible assets	DKK '000	(3,933)	(120)	0	(4,053)
Tangible assets		8,926	(5,420)	0	3,506
Stocks		2,165	(2,830)	0	(665)
Trade receivables		106	(106)	0	0
Other payables		424	(283)	0	141
<b>Temporary differences</b>		<b>7,688</b>	<b>(8,759)</b>	<b>0</b>	<b>(1,071)</b>
Deferrable tax losses		8,864	(693)	151	8,322
<b>Unused tax losses</b>		<b>8,864</b>	<b>(693)</b>	<b>151</b>	<b>8,322</b>
Value adjustment		(8,367)	8,367	0	0
<b>Value adjustment</b>		<b>(8,367)</b>	<b>8,367</b>	<b>0</b>	<b>0</b>
		<b>8,185</b>	<b>(1,085)</b>	<b>151</b>	<b>7,251</b>

		Deferred tax 01.01.07	Recognised in the profit and loss account 2007	Recognised in equity 2007	Deferred tax 31.12.07
Intangible assets	DKK '000	(4,053)	632	0	(3,421)
Tangible assets		3,506	(2,238)	0	1,268
Stocks		(665)	(341)	0	(1,006)
Trade receivables		0	0	0	0
Other receivables		141	290	0	431
<b>Temporary differences</b>		<b>(1,071)</b>	<b>(1,657)</b>	<b>0</b>	<b>(2,728)</b>
Tax losses to be carried forward		8,322	(7,855)	0	467
<b>Unutilised tax losses</b>		<b>8,322</b>	<b>(7,855)</b>	<b>0</b>	<b>467</b>
Value adjustment		0	0	0	0
<b>Value adjustment</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
		<b>7,251</b>	<b>(9,512)</b>	<b>0</b>	<b>(2,261)</b>

**12. Earnings per share**

		2007	2006
Earnings per share	DKK	0.09	0.10
Earnings per share, diluted		0.09	0.09

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

Earnings used in the calculation of diluted earnings per share

		2007	2006
DKK '000		34,867	28,143
		34,867	28,143

Average number of shares issued

Average number of shares used in the calculation of earnings per share

Average dilution effect of outstanding subscription rights

Average number of shares used in the calculation of earnings per share

		2007	2006
'000 units		398,294	287,993
		398,294	287,993
		11,149	15,000
		409,443	302,993

**13. Intangible assets**

		Patents and licences	Completed development projects	Development projects in progress	Total
Cost price at 1 January 2006	DKK '000	56	32,014	4,740	36,810
Addition of self-developed assets		0	0	1,240	1,240
Disposals		0	0	(4,740)	(4,740)
Cost price at 31 December 2006		56	32,014	1,240	33,310
Amortisation and impairment at 1 January 2006		(22)	(13,886)	(4,740)	(18,648)
Amortisation and impairment		(12)	(3,084)	0	(3,096)
Reversal upon disposal		0	0	4,740	4,740
Amortisation and impairment at 31 Dec. 2006		(34)	(16,970)	0	(17,004)
Book value at 31 December 2006		22	15,044	1,240	16,306

# Notes

## 13. Intangible assets (continued)

		Patents and licences	Completed development projects	Development projects in progress	Total
Cost price at 1 January 2007	DKK '000	56	32,014	1,240	33,310
Addition of self-developed assets		0	0	3,429	3,429
Disposals		0	137	(137)	0
Reversal upon disposal		0	0	(3,028)	(3,028)
<b>Cost price at 31 December 2007</b>		<b>56</b>	<b>32,151</b>	<b>1,504</b>	<b>33,711</b>
Amortisation and impairment at 1 January 2007		(34)	(16,970)	0	(17,004)
Amortisation and impairment		(11)	(3,013)	0	(3,024)
Reversal upon disposals		0	0	0	0
<b>Amortisation and impairment at 31 Dec. 2007</b>		<b>(45)</b>	<b>(19,983)</b>	<b>0</b>	<b>(20,028)</b>
<b>Book value at 31 December 2007</b>		<b>11</b>	<b>12,168</b>	<b>1,504</b>	<b>13,683</b>

Development projects are tested once annually for impairment and more often if there are indications of impairment.

The recoverable value for individual cash flow producing 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 sales 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 the 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 sales prices and production costs are based on historic experience as well as expectations regarding 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 16 years.

In 2006 and 2007 the company paid internal as well as external expenses for a Lean project. The company finds that the activities in the project had a positive impact, even though several sub-activities of the Lean project took longer time to complete than originally planned. This means that it has not been possible to identify the financial impact of the Lean project in 2007 and consequently the project is closed.

The development in the project means that the project no longer complies with the criteria for recognition in the balance sheet. Consequently, the project is reversed from the balance sheet ("Development projects in progress") and is recognised as an expense in the profit and loss account.

The expense of DKK 2,869,000 is entered under "Work carried out for own account" and "Other external expenses" with DKK 907,000 and DKK 1,962,000, respectively.

The company will continue to introduce Lean principles in the future as well.



# Notes

## 14. Research and development costs

		2007	2006
Research and development costs incurred	DKK '000	4,373	4,528
Development costs recognised as intangible assets		(1,504)	(1,240)
Government grants received to partly cover research costs incurred		0	(1,075)
<b>Incurring research and development costs recognised in the profit and loss account</b>		<b>2,869</b>	<b>2,213</b>

## 15. Tangible assets

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

Cost price at 1 January 2007	DKK '000	57,575	5,199	2,017	64,791
Additions		2,860	1,151	3,360	7,371
Transfers		2,068	399	(2,467)	0
Disposals		(3,070)	0	0	(3,070)
<b>Cost price at 31 December 2007</b>		<b>59,433</b>	<b>6,749</b>	<b>2,910</b>	<b>69,092</b>
Depreciation and impairment 1 January 2007		(38,580)	(3,249)	0	(41,829)
Depreciation		(1,900)	(903)	0	(2,803)
Disposals		3,070	0	0	3,070
<b>Depreciation and impairment at 31 Dec. 2007</b>		<b>(37,410)</b>	<b>(4,152)</b>	<b>0</b>	<b>(41,562)</b>
<b>Book value at 31 December 2007</b>		<b>22,023</b>	<b>2,597</b>	<b>2,910</b>	<b>27,530</b>

The book value of production plant and machinery, etc. includes assets held under finance leases with DKK 0 (2006: DKK 6,446,000)

# Notes

## 16. Participating interests in subsidiaries

	2007	2006
Market value at 1 January	DKK '000 1,526	1,526
Disposals in connection with winding-up	(1,526)	0
<b>Market value at 31 December</b>	<b>0</b>	<b>1,526</b>

## 17. Other long-term receivables

	2007	2006
Deposit concerning guarantee to supplier	DKK '000 38,065	42,460
Deposit of prepayment from customers	11,891	15,852
Deposit of rent	2,250	2,250
Deposit concerning security for finance lease	0	2,000
	<b>52,206</b>	<b>62,562</b>

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, whereupon the deposit will be released.

Prepayment from customers covers an agreement to deliver goods until 2012 in which connection security has been provided for the company in the form of an escrow account until 2012. This escrow account is frozen.

## 18. Stocks

	2007	2006
Raw materials and ancillary materials	DKK '000 16,303	8,848
Work in progress	22,408	5,030
Manufactured goods and goods for resale	8,290	8,684
	<b>47,001</b>	<b>22,562</b>

The stock has been written-down by a total of DKK 56,000 in 2007 compared with DKK 207,000 in 2006.

## 19. Trade receivables

	2007	2006
Trade receivables	DKK '000 28,911	14,859
	<b>28,911</b>	<b>14,859</b>
The impairment contained in the above receivables has been recognised under Other external expenses	0	0
	<b>0</b>	<b>0</b>

**19. Trade receivables (continued)**

	2007	2006
Overdue receivables		
Overdue by up to 1 month	2,330	4,957
Overdue by 1 to 3 months	0	0
Overdue by more than 3 months	350	405
<b>Total</b>	<b>2,680</b>	<b>5,362</b>

**Overdue receivables distributed by geographical segment, debtors not written off**

	2007	2006
Europe	2,067	4,089
USA	143	838
Asia	470	435
<b>Total</b>	<b>2,680</b>	<b>5,362</b>

Impairment losses are recognised for receivables if the value is found to be impaired based on an individual assessment of the ability to pay the individual debtor, e.g. in case of a suspension of payments, bankruptcy, etc. The receivables are written down to the net realisable value corresponding to the sum of the future net payments that the receivables are expected to generate. The impairment 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 date, interest is accrued on the receivables with a monthly 1% of the outstanding amount.

**20. Other receivables**

	2007	2006
Market value of interest rate swap	0	17
Other receivables	8,652	5,993
	<b>8,652</b>	<b>6,010</b>

Other receivables are measured at amortised cost price unless otherwise stated. The category "Other receivables" includes VAT on exports, prepaid VAT and refunds.

Other receivables are not subject to particular credit risks. In conformity with last year, impairment losses on these receivables are not included. None of the receivables are overdue.

# Notes

## 21. Cash and cash equivalents

	2007	2006
Cash and cash equivalents and bank deposits	DKK '000	DKK '000
	37,770	24,844
	37,770	24,844

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

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

## 22. Share capital

The share capital consists of 398,822,609 shares with a denomination of DKK 0.25 each. The shares are not subdivided into classes and no shares have special rights.

	2007	2006
Number of shares at 1 January	Units	Units
Capital increase through cash payment	5,672,498	131,050,037
<b>Number of shares at 31 December</b>	<b>398,822,609</b>	<b>393,150,111</b>
Denomination, nom. value DKK 0.25	DKK '000	DKK '000
Capital increase through cash payment	98,288	65,525
	1,418	32,763
	<b>99,706</b>	<b>98,288</b>

The capital increase in 2007 concerns the exercising of warrants for the management and managerial employees as well as the issue of employee shares.

## 23. Other reserves

The reserve for value adjustment of financial assets available for sale comprises the accumulated net change in the 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 hedging instruments comprises 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 carried out.

The share-based payment reserve comprises the accumulated value of the qualification for share option plans (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 rights to acquire share options.

## 24. Other credit institutions and bank debt

		2007	2006
Amounts owed to credit institutions	DKK '000	0	8,294
		0	8,294
The debt falls due as follows:			
Within 1 year		0	1,508
Between 1 and 2 years from the balance sheet date		0	1,508
Between 2 and 3 years from the balance sheet date		0	1,508
Between 3 and 4 years from the balance sheet date		0	1,508
Between 4 and 5 years from the balance sheet date		0	1,508
More than 5 years after the balance sheet date		0	754
		<b>0</b>	<b>8,294</b>
Debt to other credit institutions and bank debt are recognised in the balance sheet as follows:			
Short-term liabilities		0	1,508
Long-term liabilities		0	6,786
		<b>0</b>	<b>8,294</b>

The debt to credit institutions was repaid in 2007. The loan was raised in DKK and was a floating-rate loan expiring in 2012.

## 25. Finance lease commitments

	DKK '000	Minimum lease payment		Present value of minimum lease payments	
		2007	2006	2007	2006
The finance lease commitments fall due as follows:					
Within 1 year after the balance sheet date		0	1,239	0	1,239
Between 1 and 5 years after the balance sheet date		0	4,149	0	4,149
<b>As at 31 December</b>		<b>0</b>	<b>5,388</b>	<b>0</b>	<b>5,388</b>

In 2005 a finance lease for a Float Zone machine for production was concluded. The lease term is 5 years, and the rate of interest on the lease is variable. The company has guaranteed the residual value of the machine, DKK 730,000 at the expiry of the lease term. The lease commitment was fulfilled in 2007.

## 26. Trade creditors

		2007	2006
Trade creditors	DKK '000	29,572	19,522
		<b>29,572</b>	<b>19,522</b>

The book value equals the market value of the liabilities.

# Notes

## 27. Provisions

	2007	2006
Guarantee commitments at 1 January	DKK '000 0	0
Used during the year	0	0
Provisions during the year	232	0
<b>Guarantee commitments at 31 December</b>	<b>232</b>	<b>0</b>

This year a provision of DKK 232,000 was made for guarantee commitments, corresponding to 50% of the manufacturing costs of a specific customer order. The customer order was for selected silicon wafers not compliant with the specifications. Consequently, new wafers will be delivered in the first half of 2008, free of charge.

## 28. Other payables

	2007	2006
Payroll liabilities, income tax liabilities, accrued contributions to social security, etc.	DKK '000 114	267
Holiday pay commitments, etc.	3,731	2,580
VAT and tax liabilities	9,344	5,819
Other accrued expenses	6,264	3,779
	<b>19,453</b>	<b>12,445</b>

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

Holiday pay commitments, etc. represent the company's obligations to pay wages and salaries when the employees take holidays to which they are entitled as at the balance sheet date in the next financial year.

## 29. Change in net working capital

	2007	2006
Change in stocks	DKK '000 (24,439)	2,137
Change in receivables	(10,883)	6,973
Change in trade creditors and other payables	8,761	3,528
	<b>(26,561)</b>	<b>12,638</b>

**30. Non-cash transactions**

	2007	2006
Tangible assets held under finance leases	DKK '000 0	0
Deposit concerning prepayment from customer	0	(15,822)
<b>Non-cash transactions concerning tangible and financial assets</b>	<b>0</b>	<b>(15,822)</b>
	<b>2007</b>	<b>2006</b>
Finance lease commitments	DKK '000 0	0
Prepayment from customer deposited in escrow account	0	15,822
<b>Non-financial loan for purchase of tangible and financial assets</b>	<b>0</b>	<b>15,822</b>

**31. Operating lease commitments**

For the years 2006-2010 operating leases have been concluded concerning the lease of cars as well as the lease of a photocopier. Leases have been concluded for cars with a minimum of 2-4 years of fixed lease payments whereas the lease for the photocopier of minimum 4 years was concluded with variable payments. The leases are non-cancellable in the period mentioned.

	2007	2006
Non-cancellable operating leases are as follows:	DKK '000	
0-1 year	701	663
1-5 years	975	754
More than 5 years	0	0
	<b>1,676</b>	<b>1,417</b>

In the profit and loss account DKK 780,000 has been recognised for 2007 (2006: DKK 763,000) concerning operating leases.

**32. Mortgaging**

The company has two uncanceled and undeposited mortgage deeds registered to the mortgagor, one mortgage deed nom. DKK 10,000,000 concerning production plant and one mortgage deed nom. DKK 5,250,000 concerning chattels.

Deposits in escrow accounts have been provided as security to a customer as well as a letter of credit in favour of a supplier.

	2007	2006
Book value of mortgaged tangible fixed assets	DKK '000 0	20,945
Book value of escrow accounts	49,956	58,312
Deposit in cover-for-liabilities accounts with factoring company	0	65

**33. Guarantee commitments and contingent liabilities**

The company has made no guarantee commitments and has no contingent liabilities.

# Notes

## 34. Other contractual liabilities

### Raw materials 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 an approved raw material supplier. 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 individual calendar year. The agreement is therefore limited as to volume.

The long-term contract places the company under an obligation to purchase a minimum volume.

### Customers

To minimise the company's exposure when 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/forecast turnover for the period 2008-2012 has been sold through customer contracts at fixed (index-linked) prices to several of the company's key customers.

## 35. Financial risks and financial instruments

The company's financial assets and liabilities can be specified as follows:

	2007	2006
	DKK '000	
Trade receivables	28,911	14,859
Other receivables, short-term	8,652	6,010
Other receivables, long-term	52,206	62,562
Cash and cash equivalents	37,770	24,844
<b>Loans and receivables</b>	<b>127,539</b>	<b>108,275</b>
Derivatives concluded to hedge future cash flows	0	17
<b>Financial liabilities used as hedging instruments</b>	<b>0</b>	<b>17</b>
Debt to credit institutions	0	1,508
Finance lease commitments	0	1,239
Trade creditors	29,572	19,522
Prepayments received from customers, long-term	12,090	15,822
Prepayments received from customers, short-term	214	5,011
Corporation tax payable	3,698	0
Provisions	232	0
Other payables	19,453	15,822
<b>Financial liabilities measured at amortised cost price</b>	<b>65,259</b>	<b>58,924</b>

### Financial risk management policy

As a result of its operations and financing, the company is exposed to changes in exchange rates and interest rate level. The company manages the financial risks centrally and coordinates its 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. It is the company's policy not to actively speculate in financial risks.

The company manages its financial risks by means of a model for managing its cash forecasting, which covers a period of 1 year.



**35. Financial risks and financial instruments (continued)****Currency risks**

Currency risks comprise the risk of loss (or the possibility of a gain) when the exchange rates change. Currency risks arise when income and expense items in foreign currencies are entered in the profit and loss account. A major part of the company's sales and purchases takes place in USD and EUR. 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 50% 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 4.1m at the balance sheet date.

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	59,773	14,099	(20,812)	53,060	0	53,060
EUR	351	11,659	(171)	11,839	0	11,839
GBP	0	882	0	882	0	882
NOK	0	0	(587)	(587)	0	(587)
Other currencies	32	1,887	(399)	1,520	0	1,520
<b>31.12.2007</b>	<b>60,156</b>	<b>28,527</b>	<b>(21,969)</b>	<b>66,714</b>	<b>0</b>	<b>66,714</b>
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)
<b>31.12.2006</b>	<b>68,608</b>	<b>12,391</b>	<b>(16,744)</b>	<b>64,255</b>	<b>0</b>	<b>64,255</b>

**Equity capital sensitivity to currency fluctuations**

Impact if the USD exchange rate were DKK 0.50 lower than the actual rate

	2007	2006
DKK '000	(4,100)	(5,700)

**Profit sensitivity to currency fluctuations**

Impact if the USD exchange rate were DKK 0.50 lower than the actual rate

	2007	2006
DKK '000	800	500

**Interest rate risks****Profit sensitivity to interest rate changes**

Impact of an effective interest rate of +/- 1%

# Notes

## 35. Financial risks and financial instruments (continued)

### Interest rate risks

As a consequence of its capital structure, the company has limited exposure to changes in the level of interest rates. The company's surplus cash is deposited with the bank. As of the balance sheet date, the company has a positive net cash position and consequently 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 0.8m per year.

### Credit risks

The company's credit risks associated with financial activities correspond to the values recognised in the balance sheet. The company assesses the need for insuring individual debtors on an ongoing basis.

The primary credit risk of the company is associated with trade receivables. The company has no material risks regarding individual customers. The cash and cash equivalents and deposits of the company are placed with the company's bankers. No special credit risks are found to exist in this regard.

### Capital management

The company evaluates the need for adapting its capital structure on an ongoing basis. The capital increase in 2006 has enabled the company to repay the loans obtained in 2007. At the end of 2007 the equity capital amounted to 68.9% of the total equity and liabilities (2006: 61.8%). The realised return on equity was 26.7% in 2007. The management regards the company as firmly based, which is found to be necessary. The company operates on a market that makes extensive requirements on capital resources, as expansion and growth typically require prepayments to be made to suppliers before raw materials are delivered.

It is the company's policy that the shareholders should obtain a yield on their investment in the form of a price increase and a dividend, which exceeds a risk-free investment in bonds.

The company's gearing can be stated as follows  
as at the balance sheet date:

	2007	2006
	DKK '000	
Credit institutions/bank debt	0	8,294
Finance lease commitments	0	6,128
Cash and cash equivalents	(37,770)	(24,844)
Deposits	(52,206)	(60,312)
<b>Net interest-bearing</b>	<b>(89,976)</b>	<b>(70,734)</b>
<b>Equity capital</b>	<b>149,327</b>	<b>111,079</b>
<b>Gearing</b>	<b>(60.3)</b>	<b>(63.7)</b>

### Cash flow

During the financial year, the company had a significantly positive cash flow and at the balance sheet date it has a free cash flow of DKK 37.8m (2006: 24.8m). The company considers this cash position to provide sufficient capital resources to meet coming investments, prepayments on possible new raw materials contracts, etc.

**36. Fee for auditors appointed by the general meeting**

	2007	2006
Deloitte, audit of interim report	DKK '000 0	95
Deloitte, audit of annual report	330	320
Deloitte, services other than audit	1,188	950
	<b>1,518</b>	<b>1,365</b>

**37. Related parties**

The company has no related parties with control.

The company had transactions with the following related parties in 2007:

- Ejendomsaktieselskabet Bangs Gård
- Frost Invest A/S
- CCMA Holding ApS

The Deputy-Chairman of the Board Eivind Dam Jensen is the managing director and a member of the board of Ejendomsaktieselskabet Bangs Gård, which owns the company's premises in Frederikssund.

The Chairman of the Board Jens Borelli-Kjær is the manager of CCMA Holding ApS.

The member of the Board Jørgen Frost is the managing director and a member of the board of Frost Invest A/S.

**38. Transactions between related parties and Topsil Semiconductor Materials A/S in 2007**

	2007	2006
Rent, Ejendomsaktieselskabet Bangs Gård	DKK '000 1,088	1,056
Consulting assistance, Ejendomsaktieselskabet Bangs Gård	18	0
Consulting assistance, Frost Invest A/S	20	0
Consulting assistance, CCMA Holding ApS	7	0
Interest on receivables from associated companies	0	25

Other management remuneration, etc. is stated separately in connection with note 5, employment costs.

All transactions with related parties have been carried out at arm's length.

**Overview of outstanding balance between related parties and Topsil Semiconductor Materials A/S in 2007**

	2007	2006
Topsil International A/S	DKK '000 0	(1,526)
Deposit, Ejendomsaktieselskabet Bangs Gård	2,250	2,250
Rent, etc., Ejendomsaktieselskabet Bangs Gård	(127)	636
Consulting assistance, Frost Invest A/S	20	0
Consulting assistance, CCMA Holding ApS	7	0
	<b>2,150</b>	<b>1,360</b>

# Notes

## 39. Shareholder situation

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

Composition of shareholders as at 31 December 2007

	Units	Capital in DKK	Capital %	Votes %
EDJ-Gruppen, Bangs Gård, Torvet 21, DK-6701 Esbjerg, Denmark	62,757,311	15,689,327.75	15.74	15.7

## 40. Events after the balance sheet date

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

## 41. Approval of the annual report for publication

The Board of Directors has approved this annual report for publication at a board meeting held on 28 February 2008. The annual report will be presented to the shareholders of the company for approval at the Annual General Meeting on 2 April 2008.





# TOPSIL

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