# ANNUAL REPORT 2010

TOPSIL

# CONTENT

## MANAGEMENT REPORT



## FINANCIAL STATEMENTS



This annual report is produced in Danish and English.
In case of discrepancies, the Danish version shall prevail.

# FINANCIAL HIGHLIGHTS

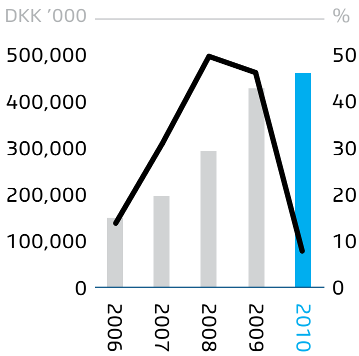
DKK'000

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **FIVE-YEAR FINANCIAL HIGHLIGHTS, DKK ´000** | | | | | |
| Revenue | 456,705 | 423,483 | 289,402 | 193,231 | 147,503 |
| EBITDA | 102,040 | 99,813 | 72,225 | 57,920 | 38,747 |
| EBIT | 89,047 | 84,233 | 64,154 | 52,093 | 33,593 |
| Net financials | (7,211) | (8,474) | (2,085) | (4,016) | (4,359) |
| **Profit for the year** | **63,013** | **51,782** | **45,865** | **34,867** | **28,143** |
| | | | | | |
| Invested capital | 346,965 | 330,751 | 292,091 | 65,310 | 30,717 |
| Net working capital (NWC) | 118,673 | 132,161 | 106,539 | 36,187 | 5,872 |
| Equity ex. minority interests | 401,784 | 236,040 | 179,049 | 149,327 | 111,079 |
| Balance sheet total | 592,267 | 591,767 | 503,875 | 216,847 | 179,827 |
| Investments in property, plant and equipment | 54,641 | 22,179 | 8,058 | 7,372 | 4,534 |
| Net-interest bearing debt (net interest asset) | (92,637) | 30,721 | 35,922 | (89,976) | (70,734) |
| Number of employees (FTE) | 384 | 377 | 140 | 73 | 64 |
| No. of shares ('000) | 520,090 | 407,961 | 403,392 | 398,823 | 393,150 |
| | | | | | |
| **FINANCIAL RATIOS** | | | | | |
| EBITDA margin (%) | 22.3 | 23.6 | 25.0 | 30.0 | 26.3 |
| EBIT margin (%) | 19.5 | 19.9 | 22.2 | 27.0 | 22.8 |
| | | | | | |
| Return on invested capital (%) | 26.3 | 27.0 | 35.9 | 108.5 | 110.2 |
| Return on equity (%) | 19.6 | 24.3 | 28.0 | 26.7 | 34.9 |
| Earnings per share (DKK) | 0.13 | 0.12 | 0.11 | 0.09 | 0.10 |

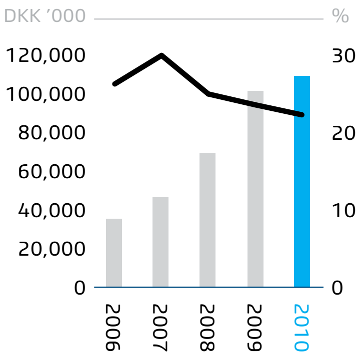
*The financial highlights for 2006-2010 have been prepared in accordance with "Recommendations and Financial Ratios". See the description in note 1 to the financial statements, Accounting policies.*

*"Assets held for sale", which are recognised in a separate line item in the balance sheet, have been recognised in the various financial items in respect of financial highlights and ratios related to the balance sheet (invested capital, net working capital, net interest-bearing debt).*

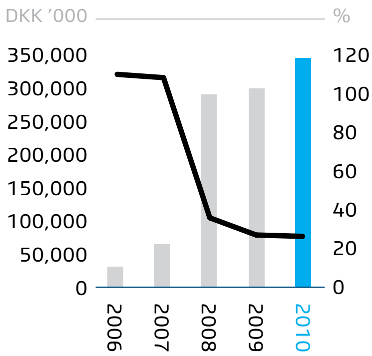
**Revenue and growth**




**Operating profit/loss and profit margin (rolling 12 months)**




**Invested capital and return**



# TOPSIL IN BRIEF

Topsil was founded by Haldor Topsøe in 1958. Focusing on innovation technology and process optimisation, Topsil is today among the world's leading enterprises in the development and production of ultra-pure silicon for niche markets in the semiconductor industry. At the end of 2010, Topsil's markets were worth slightly more than DKK 7 billion, equal to 10% of the total semiconductor silicon market, according to the independent industry analysts, Yole Developpement.

Topsil manufactures silicon used as semiconductors and forming part of components used for conducting electricity from one point to another with a minimum loss of power. Most of Topsil's products are ultra-pure, which means that they can be used as a basic material in critical high and medium-voltage components, especially within the areas of production, transport and power consumption. Silicon, which is sold in wafers, is used in e.g. high-speed trains, wind turbines, industrial motor controls and the power grid, contributing to minimising the loss of efficiency. Hence, Topsil's products support a more intelligent use of energy.

Driven by globally increasing energy consumption and increasing investments in transport and energy control, the semiconductor industry has seen good growth rates in recent years. Yole Developpement estimates that this growth will continue, especially within the medium-voltage segments and that the markets in which Topsil operates will see a compound annual growth rate of about 8% in 2011-2012.

At the end of 2010, Topsil had 396 employees. Group revenue for 2010 amounted to DKK 456.7 million and the EBITDA margin was 22.3%.

## AIMS AND STRATEGY FOCUSED ON VALUE CREATION

In order to accommodate the increasing demand, Topsil has initiated its offensive growth strategy "Seizing the Opportunity". This strategy covers a strengthening of the Group's competitive position through attractive long-term supplier and customer contracts as well as a broader product range within the growth areas. At the same time, Topsil plans to build a new plant in 2011-2012, which will be able to optimise production processes and handle larger products and which will be scalable in line with demand.

"Seizing the Opportunity" involves an investment programme of some DKK 300 million for capacity expansion (including a new plant) and product development. The strategy runs until the end of 2012 and is financed through cash flows from operation, the proceeds from a fully subscribed rights issue in 2010 and loans obtained through Topsil's bankers. The rollout of "Seizing the Opportunity" will strengthen Topsil's market position substantially and expand the production capacity.

## OUTLOOK FOR 2011

Overall, the Group expects to see organic growth in the range of 5%, corresponding to revenue in the range of DKK 480 million and EBITDA in the range of DKK 100 million. At the beginning of 2011, Topsil's order book for silicon for high and medium-voltage components amounted to DKK 247 million against DKK 215 million at the beginning of 2010. The size of the order book confirms the underlying market growth and reflects Topsil's increase in activities with large contract customers. In respect of silicon for the lower voltage segments, Topsil expects revenue growth in 2011 compared with 2010.

In 2011, several of Topsil's major customers, who buy silicon for the highest voltage segments, will restructure their production facilities to accommodate the significantly increasing volumes expected in the future as a result of an expansion of intelligent energy distribution networks and focus on efficient and environment-friendly use of energy in transport and industry. For this reason, Topsil's customers manufactured to stock in late 2010 and early 2011 to be able to serve their own customers on the basis of shorter overall production times in 2011. Hence, revenue for FZ-NTD for 2011 is forecast to be in line with 2010.

Capacity adjustments by NTD customers, which normally result in seasonal fluctuations in Topsil's revenue, will be stronger in 2011. As usual, the main share (60%) of Group revenue is expected to be generated in the second half of the year. Concurrently, Topsil is preparing to meet the growing demand by investing in the construction of a new plant, new and improved production equipment and the employment and training of new employees.

# MAIN EVENTS IN 2010

**TOPSIL'S OVERALL REVENUE** amounted to DKK 456.7 million in 2010, equal to an 8% increase compared with 2009. The level of activities was in line with recently announced expectations.

**EBITDA** amounted to DKK 102.0 million in 2010, compared with DKK 99.8m in 2009, corresponding to an EBITDA margin of 22.3% against 23.6% in 2009.

**EBIT** for 2009 was DKK 89.0 million in 2010 against DKK 84.2 million in 2009, equivalent to an EBIT margin of 19.5% against 19.9% the year before.

**PROFIT BEFORE TAX** for 2010 came to DKK 81.8 million, an increase of DKK 6.0 million on 2009. Profit for the year after tax was DKK 63.0 million against DKK 51.8 million in 2009.

At the beginning of the year, Topsil renewed its raw materials contract with one of its two suppliers of the critical raw material for the FZ-production. Hence, Topsil still has long-term contracts with both of the world's two suppliers of this raw material.

At the beginning of the year, Topsil concluded new long-term contracts with a number of its largest customers. Hence, Topsil has entered into long-term contracts with all of its six largest customers, the three largest of which accounted for more than 50% of revenue in 2010.

May 2010, Topsil completed a share issue, raising proceeds of DKK 86 million. August 2010, the company entered into an agreement with a new bank.

Topsil completed the project planning of a new plant during the year. The plant will be constructed during 2011-2012. After the end of the financial period, Topsil acquired land for the construction of the plant in Frederikssund, Denmark.

**THE PROFIT WAS THE LARGEST EVER** reported in Group history, and the Board of Directors and Management Board consider it to be satisfactory.

# ENERGY FOR CHANGE

The infrastructure of tomorrow is based on silicon. Intelligent energy distribution networks, smart cars and energy efficiency enhancements in transport and industry are all based on ultra-pure silicon which is produced by only a few enterprises in the world. As one of the globally leading suppliers of ultra-pure silicon, which form the basis of smarter energy exploitation in the future, Topsil plays a key role in reducing the energy loss when electricity is conducted from one point to another. This is a position that we wish to expand in the years ahead.

Ordinary silicon forming part of low-voltage products such as mobile telephones and flat screens is a widely known product. But the type of silicon which we produce and which is pure enough to be used in high-voltage applications is complex to produce and perhaps therefore not as well-known.

Low and medium-voltage components in private homes, at offices and airports and in hospitals may be based on Topsil's silicon. But our main focus is on the higher voltage segments which are essential for the generation and transmission of energy and for transport and industry. It is these segments that are currently experiencing substantial progress thanks to new technology which will contribute to changing the way we see energy in the future. This is the wave that Topsil will be riding.

A new form of infrastructure is being created which is based on ultra-pure silicon meeting the requirements of energy savings and energy efficiency. Already today, three out of four Topsil products form part of the energy-saving applications that we call smart power. This type of applications will become even more widespread in the future.

## READY FOR GROWTH

Opportunities are substantial. Most of Topsil's customers are growing rapidly and are expanding capacity. We must support our customers' growth by expanding our production capacity and offering products and processes that meet the growing demand. To this end, we must expand our staff and strengthen our qualifications and we must adjust costs to develop the production and flow required if we are to maintain our attractive position in the global semiconductor industry.

We achieved progress on all fronts in 2010. In order to strengthen the Company's growth platform, we renewed our long-term contract with one of the world's two suppliers of the critical raw material for ultra-pure silicon. At the same time, we have ensured long-term volume contracts with several of our largest customers. The rights issue completed in May was fully subscribed and contributed significantly to our ability to achieve our growth potential.

In 2010, we developed a communications strategy focussed on the concept of Energy for Change, which is our brand identity. The core message is that Topsil has the technology, products, resources and the will to change – a change which will imply smarter and more careful use of energy.

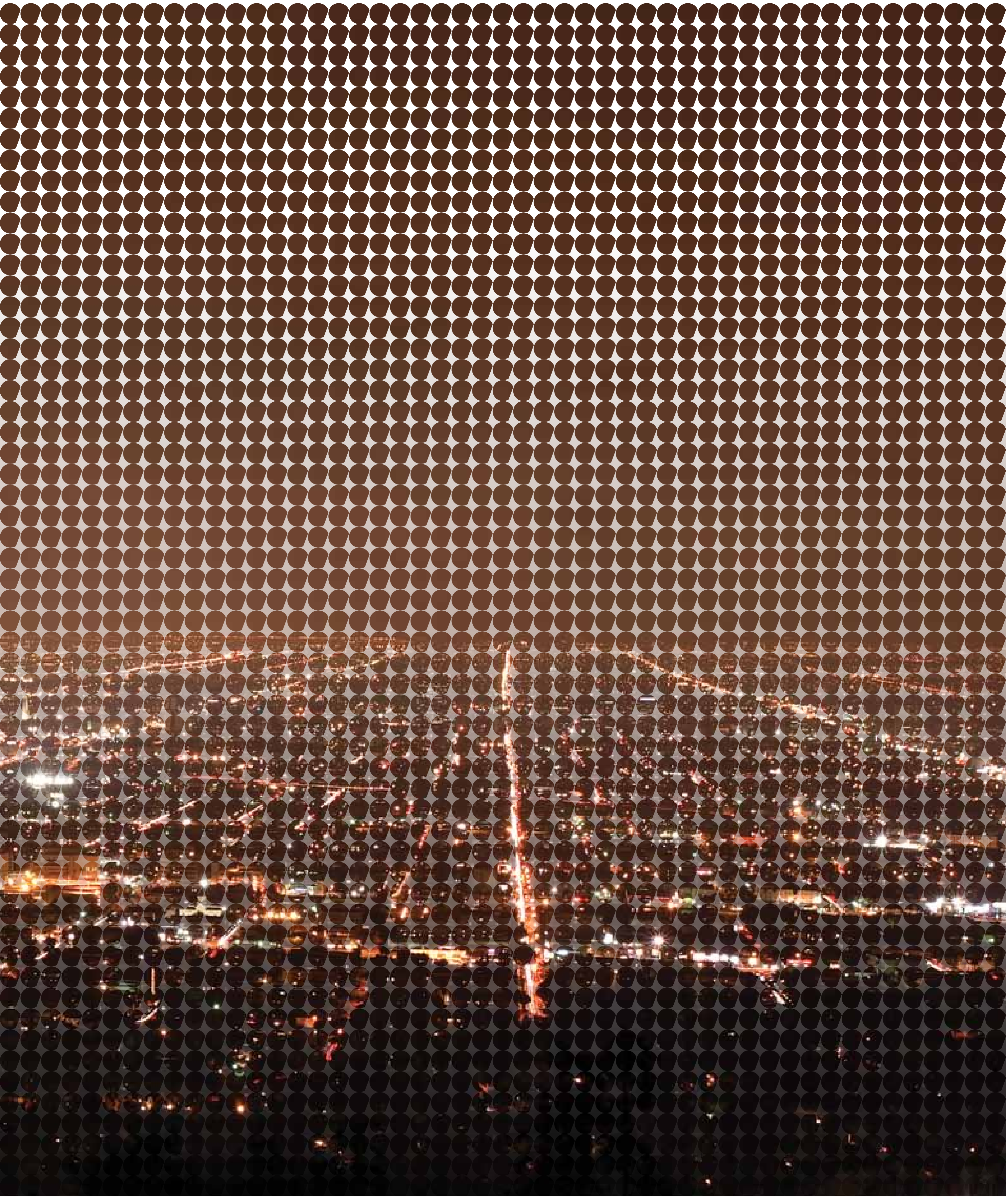
We are working to integrate our production processes with a view to creating one single company, known for its superior quality and service. Topsil and its subsidiary Cemat complement each other in terms of production and product development and we have already achieved many synergies. The Cemat aquisition has strengthened our overall market position and enabled us to offer our customers an even broader product range.

The Group is anchored in the same vision and the same fundamental values, which is a good platform for continued integration. In 2011, we will begin the work of adapting existing logos and other material to support a uniform and common corporate identity. The adaptation will be a current process enabling both companies to maintain their names until the time when we believe using the Topsil name globally will be an advantage to us.

A larger and improved production capacity is just around the corner. We have completed the project planning of the new plant and acquired a building site in an adjacent, newly established cleantech park. We will be ready to begin construction in early April 2011 with gradual relocation to the new facilities during the second half of 2012. In addition to significant flow and capacity improvements, the new plant and new manufacturing equipment will give us the opportunity to offer products with larger diameters than we can today. At the same time, the location of the plant supports our commitment to the environment.

We have come a long way in 2010 and in 2011, we will be speeding up even more. Now is our chance to exploit the long-term growth potential for the continued benefit of our customers, shareholders and employees.

KELD LINDEGAARD ANDERSEN
Chief Executive Officer



# STATUS FOR STRATEGY 2010-2012 "SEIZING THE OPPORTUNITY"

Topsil's strategy "Seizing the Opportunity" was introduced in early 2010 and covers the period until the end of 2012. The strategy determines the framework for how Topsil can translate substantial underlying market growth and a strong business platform into increasing activity and earnings.

The strategy's overall theme is to exploit the Group's expertise, technology and market position within ultra-pure silicon to optimise its niche position as a supplier to the high-voltage market (the power market) and three other selected semiconductor markets. According to the independent industry analysts, Yole Developpement, these markets are expected to see average annual growth rates of about 8% in the strategy period as a result of strong demand for energy-saving solutions to infrastructure and energy distribution, intelligent industrial solutions and electric and hybrid vehicles.

## A NICHE PLUS STRATEGY

"Seizing the Opportunity" is defined as a niche plus strategy and Topsil will use its strong position in the core range of silicon for the highest voltage segments in a focused approach to working the medium-voltage segment, which is expected to see the strongest growth going forward.

The main elements of "Seizing the Opportunity" are:

- To increase business with existing and new customers through expansion of the production capacity following the construction of a new plant for the production of ultra-pure silicon (FZ-silicon) and reduction of production costs.
- To expand the market position in ultra-pure silicon and focus the sale of silicon to the lowest voltage segments (CZ-silicon) on the most profitable products.
- To increase focus on research and development within the core range of ultra-pure silicon, not least with the development of products with larger diameters than we produce today to accommodate customer demands.

The implementation of the strategy builds on four focus areas:

- Achieving optimum customer satisfaction
- Improving Topsil's cost position through production efficiency enhancements and higher utilisation of raw silicon
- Generating synergies between Cemat Silicon S.A. and Topsil
- Strengthening Topsil's financial position.

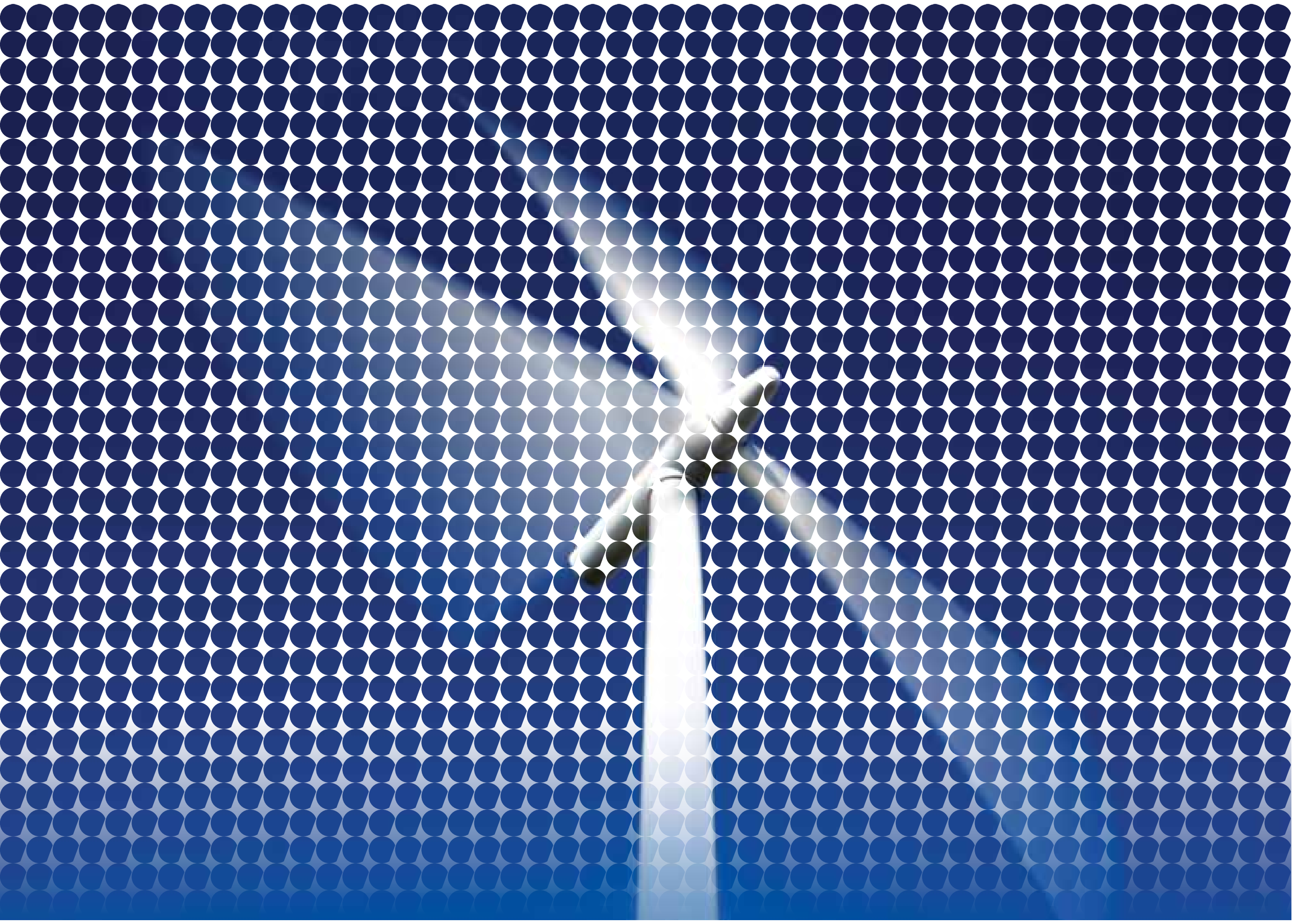
**Achieving the highest possible customer satisfaction**

High satisfaction, sufficient production capacity and strong delivery capacity are the prerequisites for Topsil's ability to strengthen collaboration with existing and new customers and hence increase earnings.

Completion of changes in the supply chain in order to optimise flows, increasing focus on research and development and quality improvements are the cornerstones of meeting customer needs and requirements.

**Improving Topsil's cost position**

Improvements to Topsil's cost position in the price-sensitive medium-voltage segment make up the most important focus area during the strategy period. A higher yield from the raw materials is key in this respect, which requires investments in automation and more efficient machinery as well as additional engineering resources required to implement production and process changes. The construction of a new plant during 2011 and 2012 is an integral part of these improvement measures and a prerequisite for achieving



the growth potential expected to emerge in the years ahead within the silicon market for the highest voltage segments and for the medium-voltage segments.

### Generating synergies with Cemat Silicon S.A.

For the period until the end of 2012, Topsil has increased its focus on achieving substantial earnings synergies through changes in the product mix and transfer of wafering activities from external partners to Cemat.

Also, the merger of sales, quality and IT functions across the Group, as well as the implementation of a targeted efficiency enhancement programme, will contribute to increasing earnings generated from activities in the lower voltage segments during the strategy period.

### Strengthening Topsil's financial position

Topsil's overall investment programme for the strategy period amounts to around DKK 300 million with the largest cash outflow being in 2011. Around DKK 200 million of the investment budget has been allocated to the construction of a new plant which is to facilitate an expansion of production capacity and thus the achievement of our growth potential. To this should be added investments in further capacity expansion, first and foremost in wafering equipment which is able to handle larger diameters than we produce today, and intensifying the product development efforts.

In order to achieve the growth strategy, Topsil expects that more capital will have to be tied up in inventories. However, Management will sustain its enhanced focus on ensuring efficient working capital management to enable the Group to maintain and expand its cash flow from operations.

The financing to implement "Seizing the Opportunity" was largely obtained through borrowing, the proceeds from the rights issue in 2010 and expected cash flows from operation.

## INCREASING CAPACITY TO MODIFY FINANCIAL TARGETS

The strategy "Seizing the Opportunity" is the foundation for a significant strengthening of Topsil's competitive position and continuation of the substantial growth experienced by the Group in recent years. Hence, through extended product focus and the construction of a new plant, investments in the existing plant in Poland and focus on product development, the Group aims to build a production capacity which will be scalable in line with growing demand.

In 2011, several of Topsil's major customer buying silicon for the highest voltage segments (FZ-NTD) will begin restructuring their production facilities. This is done to accommodate the significantly increasing volumes expected in the future as a result of the expansion of intelligent energy distribution networks and focus on efficient and environment-friendly use of energy in transport and industry. For this reason, Topsil's customers manufactured to stock in late 2010 and early 2011 to be able to serve their customers on the basis of shorter overall production times in 2011.

Topsil's sale of FZ-NTD products in the strategy period will therefore not grow as much as expected a year ago and Group revenue growth will to a larger extent be generated in the medium-voltage segment (PFZ and CZ-EPI) which generate lower contribution margins. Topsil customers are expected to increase their capacity during 2012 and once this has happened, Topsil's revenue will return to previously expected levels.

Topsil has initiated a significant investment programme involving production at two FZ-facilities by 2012 and therefore, the Group's cost levels will be higher during the strategy period.

As a consequence, the previous Group target of an EBITDA-margin of 25%, must be adjusted to around 22% in 2012. The Group maintains that the favourable growth scenario must be profitable and value adding, and that the long term target is a capital structure that partly supports an optimum use of capital sources and partly supports the continued development of the business platform by offering flexibility and allowing desirable investments, in alignment with the activities and risk profile of Topsil.

# ACTIVITIES IN 2010

Topsil's markets have seen continuous growth in the past few years. The trend is still towards increasing energy consumption, growing focus on energy efficiency and exploitation and energy solutions which are both economically sound and environmentally friendly. Representing the highest voltage segments, the power market is characterised by energy-efficient components able to handle very high voltage segments and this market is Topsil's largest business platform by far, representing 90% of revenue. With its business focus and strength on this power market, Topsil holds a strong position to meet the continuously growing demand.

### Raw materials contracts ensuring access to polysilicon

Raw materials for the production of ultra-pure silicon are particularly critical for Topsil. As there are only two suppliers in the world, Topsil has concluded long-term contracts with both of them. In early 2010, Topsil renewed one of these contracts until and including 2015 on improved terms. The contract fixes minimum and maximum purchases with the possibility of increasing volumes year by year and provides future access to the commodity to be used for products with larger diameters.

### Customer contracts providing long-term and stable basic revenue

In the first quarter of 2010 Topsil concluded five strategically important customer contracts, which combined with one other contract secures a minimum purchase order influx which is 3-4 times higher than before, corresponding to approximately 40% of Group revenue in 2010. Based on the raw materials contracts, Topsil has been able to offer customers substantially larger deliveries in terms of volumes, which contributes to strengthening the Company's position as a preferred supplier.

### Adapting the product mix

The implementation of the Group strategy allows Topsil to expand its position within other ultra-pure silicon products, including larger diameters, and a new product for the medium-voltage segment offering improved conducting properties. At the same time, production to lower voltage segments with strong price competition are shifted towards a larger proportion of more specialised products targeting slightly higher voltage segments with less price competition. The development and shifting process went on throughout 2010 and will accelerate further in 2011.

### New machinery improving production capacity

In 2010, Topsil received new specialised machinery for the production in Frederikssund. These were the first of a number of new machines and the adjustment and start-up of these machines during the autumn months 2010 is the prerequisite for installing more new machines directly at the new plant. The machines are a further development of previous, thoroughly tested models but they offer significantly greater capacity and are able to handle larger diameters than the previous models.

### Continuing close integration of the two Group locations

Topsil's efforts to integrate systems, processes and business procedures at its two locations continue unabated. The work of implementing the supply chain and ERP systems in Cemat continued in 2010 and the integration is expected to be finally completed during 2011.

One of the main reasons for Topsil's acquisition of Cemat in 2008 was the access to in-house wafering capacity. In the past, all wafering activities were performed by external suppliers, but after the acquisition, Topsil has transferred part of the wafering activities to Cemat based on an overall evaluation of costs, volumes, production times and flows.

### Preparing for quality standards with stricter quality requirements

Topsil's production facilities are certified to the ISO9001 standard. As part of the planned production expansion, in the second half of 2010, Topsil began preparing for certification to the TS16949 standard relevant for automotive production, which imposes even stricter quality requirements on production and which is to contribute to paving the way for increased sales in the medium-voltage segment.

### Strengthened supply chain improving lead times

Topsil has spent significant resources on optimising its product flow in 2010 across own locations and externally, especially external irradiation. These efforts resulted in stronger transparency in the individual process stages of the value chain and noticeably improved lead times. At the same time, the introduction of intermediate stocks resulted in larger flexibility and enabled us to better supplement larger orders with smaller orders during the year.

### "Energy for Change" will be the new common communications platform

In order to strengthen its brand and communications with customers, Topsil initiated a project in the autumn of 2010 for the purpose of establishing a common communication framework for the Company, visually and in terms of contents, which at the same time differentiates Topsil from its competitors.

The result will be implemented step by step on all communications platforms during 2011, among other things in the form of a new website. The core message is that Topsil sells three out of four silicon wafers to components used in energy-saving and energy-efficient solutions. At the same time, it will be emphasised that Topsil has the drive, dedication and resources to support the energy scenario of tomorrow.

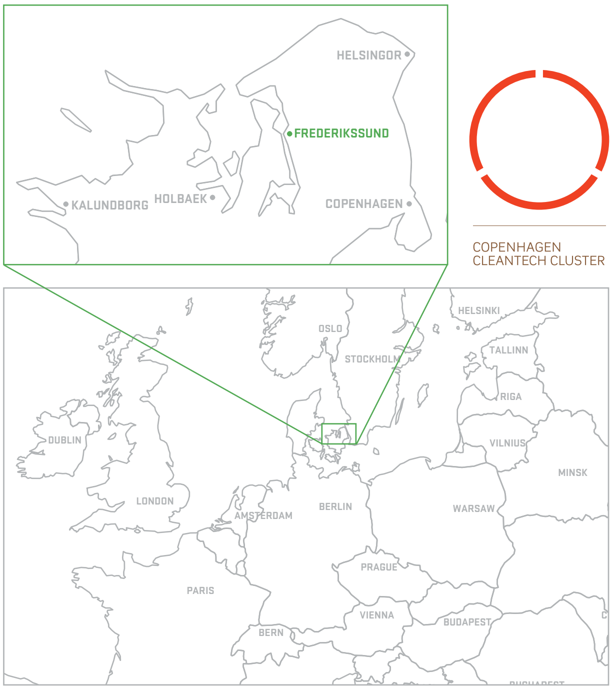
### Increased R&D commitment supporting future customer requirements

An important element in the "Seizing the Opportunity" strategy is to intensify research and development in order to increase diameters and the precision of the electrical parameters in Topsil's products. This is relevant for all products but the main focus in 2010 was on the development of an improved product targeting the medium-voltage segment and products with larger diameters (8 inches). The improved product for the medium-voltage segment is expected to be ready for launch in the first quarter of 2011, whereas the 8-inch product will not generate revenue in 2011.

In order to secure its R&D activities as much as possible, in 2010, Topsil filed patent applications for the key technology of the new machinery in Frederikssund and for a process for manufacturing next-generation products with improved properties.

### Rights issue and new banking agreement strengthening Topsil's financial platform

In the second quarter of 2010, Topsil completed a fully subscribed rights issue which generated net proceeds of DKK 86 million and in August, the Company concluded an agreement with a new bank. The change of bankers resulted in committed loan facilities for Topsil over the next three years and significantly greater flexibility and improved borrowing terms.




COPENHAGEN
CLEANTECH CLUSTER

## PLANNING OF A NEW PLANT IN NEWLY ESTABLISHED CLEANTECH PARK IN FREDERIKSSUND, DENMARK

A substantial part of Topsil's activities in the past year involved the project planning of a new flow-optimised plant for the manufacture of ultra-pure silicon, which will be located in the municipality of Frederikssund, Denmark, in a newly established cleantech park. The construction phase will begin in 2011 and be completed in 2012 when production will be initiated. The current production in rented premises will gradually be relocated to the future address.

In 2010, the plant layout was completed. The plant is based on the route of silicon throughout the supply chain, in that the size, location and layout support the production flow. Hence in future, the flow will not be limited by the current fixed boundaries.

The plant offers optimum conditions for the manufacture of silicon, due to silicon management in each step of the production processes as well as the introduction of clean room facilities.

The facility will accommodate larger volumes and will be scalable, allowing new machinery to be installed as

demand grows. The plant will house thorough inspection, poly-etching, production of ultra-pure silicon, crystal processing, metering and shipping. To this should be added offices, canteen, workshops, warehouse and other facilities.

The new plant will have cleanroom facilities to provide optimum conditions for the manufacture of superior quality and shorter lead times. At the same time, the plant will support the development of new processes and products, including products with larger diameters. Not only will the new plant contribute to tying existing customers closer to Topsil through a persistent focus on costs, quality and reliable delivery, it is also a prerequisite for Topsil being able to win new customers in the future.

Topsil believes that the new location close to the present facilitates will provide a relatively smooth relocation of machinery and retain critical know-how in the organisation. At the same time, the location in the cleantech park is a fully deliberate choice, as it is Topsil's ambition to create strong correlation going forward between the factors driving the market, including clean technologies and energy efficiency, and increased in-house focus on energy-friendly and sustainable production.

# FINANCIAL PERFORMANCE IN 2010

## INCOME STATEMENT

**Revenue** in Topsil came to DKK 125.3 million in Q4 2010, bringing total revenue for 2010 to DKK 456.7 million against DKK 423.5 million in 2009, equivalent to revenue growth of 8%. Revenue was in line with the most recent forecast of revenue of DKK 440-460 million for the 2010 financial year.

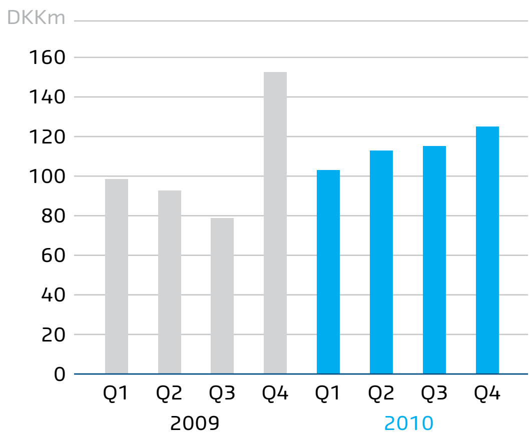
Customer contracts entered into resulted in more favourable purchase and delivery terms for contract customers in 2010. Together with a general increase in demand, this contributed to an increase in total FZ-silicon volumes sold during the year. In 2010, around 70% of Group revenue was generated by FZ-products, of which FZ-NTD products accounted for the major part. The sale of CZ-products rose by 80% in 2010 relative to 2009 and was positively impacted by a strong increase in demand from the electronics industry. In volumes, the overall rise was around 20% relative to 2009. The increase in CZ-products was the main reason for the shift in the Group's product groups.

**Costs of raw materials and consumables** grew to DKK 229.3 million in 2010 from 216.4 million in 2009. This increase was attributable to larger FZ and CZ-product volumes. The price reductions obtained by the conclusion of a new raw materials contract in the spring of 2010 took full effect in H2 2010. The contribution margin for 2010 declined relative to 2009 as a result of improved purchase terms for the contract customers already from the beginning of the year and lower raw materials prices for Topsil which did not feed through until H2 2010.

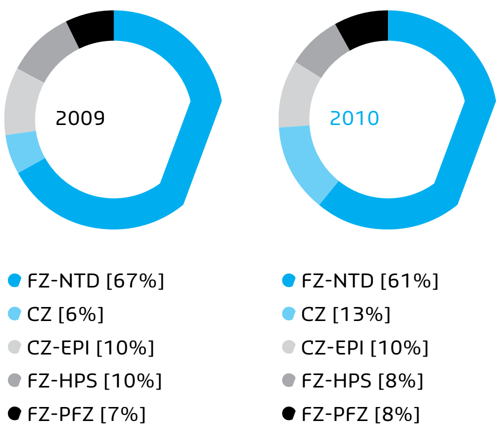
**Staff costs** increased to DKK 83.0 million in 2010 from DKK 73.5 million in 2009. This increase of DKK 9.5 million reflects increased staffing, higher bonus payments for hourly workers, increased social security costs in Poland and restructuring costs in Cemat70 S.A. The average number of employees in the Group in 2010 increased to 384 against 377 in 2009 and the number of employees in the Group at 31 December 2010 was 396 against 370 in 2009.

**EBITDA** amounted to DKK 32.0 million in Q4 2010, equal to an EBITDA-margin or 25.5%. As expected, profits peaked in Q4, driven among other things by the full effect of new lower raw materials prices applying in H2. As in previous years, H2 was the Group's best period in terms of earnings as well as revenue. For the financial year 2010, EBITDA amounted to DKK 102.0 million, or 22.3% of revenue, against DKK 99.8 million in 2009 and an EBITDA margin of 23.6%. The reduction in the Group's EBITDA margin in 2010 compared with 2009

**Net turnover**




**Revenue, 2010 breakdown**

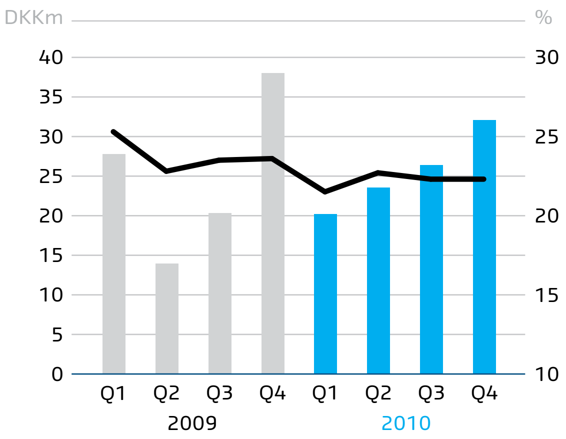


was due to the lower price agreed in new long-term customer contracts and a larger proportion of CZ-products in Group revenue. The result was in line with the most recent forecast of EBITDA of DKK 100-110 million, although, contrary to expectations, the Polish operations generated a small loss of DKK 2.0 million with Cemat Silicon S.A. generating a loss of DKK 4.2 million and Cemat70 S.A. generating a small profit of DKK 2.2 million.

Topsil's **EBIT** for 2010 came to DKK 89.0 million against DKK 84.2 million in 2009, corresponding to a profit margin of 19.5% relative to 19.9% in 2009. As expected, the EBIT for 2010 was slightly better than the year before.

**Financial items** were a net expense of DKK 7.2 million in 2010 against DKK 8.5 million in 2009. The net expense was affected by a minor fall in financial income and reduced financial expenses, mostly as a result of the Group's repayment of debt, deposits and investment of the net proceeds from the rights issue in the spring of 2010.

**EBITDA and EBITDA-margin (rolling 12 months)**




**Profit before tax** came to DKK 81.8 million in 2010, equivalent to an increase of DKK 6.0 million compared with 2009.

**Tax on the profit for the year** was DKK 18.8 million, corresponding to an effective tax rate for the year of 22.9% against 31.6% in 2009. The decline in the effective tax rate was attributable to capitalisation of tax losses carried forward in the Polish operations.

**The profit for the year** came to DKK 63.0 million after tax against DKK 51.8 million in 2009, equivalent to an increase of DKK 11.2 million. Management considers the performance to be satisfactory.

## BALANCE SHEET

The balance sheet total amounted to DKK 592.3 million at 31 December 2010, which was unchanged relative to last year.

On the balance sheet, the ownership interest in Cemat70 S.A. is recognised under "Assets held for sale" and "Liability relating to assets held for sale". The distribution on the individual items is specified in a note to the financial statements.

## ASSETS

**Intangible assets and tangible assets** came to a total of DKK 165.3 million at the end of 2010 against DKK 125.6 million in 2009. The increase was mainly due to an increase in investments in the form of product development and optimisation of production processes as well as investments in new production equipment. During the year, new FZ-machines were acquired and installed together with ovens for heat treatment of silicon.

**Financial assets** came to DKK 32.5 million in 2010 against DKK 80.1 million in 2009. The reduction was caused by the release of guarantees held in escrow in connection with the conclusion of a new banking agreement. Hence, the amounts released from escrow were added to the Group's cash resources.

**Inventories** came to DKK 113. 0 million at the end of the year, which was the same as last year's level (2009: DKK 108.0 million). Relative to revenue for the year, inventories came to 24.7% at the end of the year, compared with 25.5% last year.

**Receivables** declined from DKK 118.9 million in 2009 to DKK 77.6 million at the end of 2010. This decline was due to lower revenue in Q4 2010, compared with the same period of the previous year, which saw exceptionally high revenue. Receivables made up 16.6% of reveneu at the end of the year, compared with 28.1% last year.

**Assets held for sale** were down by DKK 47.4 million, mainly as a result of substantial dividend payments in Cemat70 S.A. in 2010 of almost DKK 58 million (PLN 31 million). The carrying amount (net realisable value less expected cost of sales) of the buildings in Cemat70 S.A. is supported by an evaluation report prepared by an independent appraiser.

## CASH AND CASH EQUIVALENTS

On the balance sheet date, the Group had cash holdings of DKK 107.7 million, of which DKK 7.5 million was reclassified to "Assets held for sale" because this part belongs to Cemat70 S.A. On the balance sheet date, the Group had unutilised operating credits of DKK 40 million and assurance of further DKK 80 million, once the plant constrution work is initiated. Compared with last year, cash holdings in Cemat70 S.A. were substantially reduced (from DKK 61.9 million to DKK 7.5 million), mainly as a result of dividend payments in Cemat70 S.A.

## EQUITY AND LIABILITIES

The Group's **equity** at 31 December 2010 was DKK 442.1 million, of which DKK 40.3 million was attributable to minority interests and DKK 401.8 million to shareholders of Topsil Semiconductor Materials A/S. The change in equity before minority interests was primarily due to growth in the profit for the year and the net proceeds from the rights issue completed in the spring of 2010. Shifts in minority interests were due to distribution of dividends from Cemat70 S.A.

The Group's **non-current liabilities** came to DKK 44.3 million at the end of 2010. The fall of DKK 76.6 million from DKK 120.9 million in 2009 was due to instalments of DKK 105.3 million paid on the Group's acquisition loan and to extraordinary prepayments by customers in connection with the conclusion of new long-term contracts. The instalments paid on the acquisition loan is an interim withdrawal reduction of the credit facilities, until implementation of the planned investments.

**Current liabilities** amounted to DKK 91.2 million at 31 December 2010 against DKK 157.3 million in 2009. The decline was primarily due to a reduction of operating credits and the current part of the acquisition loan raised in 2008.

**Invested capital** came to DKK 347.0 million at the end of 2010 compared with DKK 330.8 million at the beginning of the year, which was mainly attributable to investments in tangible assets.

**The return on invested capital** came to 26.3% in 2010 against 27.0% in 2009.

## CASH FLOWS AND INTEREST-BEARING DEBT

**Cash flows from operations** improved in 2010 to DKK 135.8 million against DKK 61.2 million in 2009. The change in net working capital contributed DKK 29.1 million in 2010 compared with (42.9) million in 2009, primarily due to lower trade receivables. The net working capital was 25% of Group revenue in 2010, against 31% in 2009.

**Cash flows from investing activities** came to DKK (52.7) million against DKK (24.7) million in 2009. The increase is among others due to investments in machinery and other production equipment in 2010, which in addition to the capacity expansion is expected to contribute favourably to future process improvements.

**Cash flows from financing activities** came to DKK (10.7) million against (21.7) million in 2009 and mainly related to instalments on loans, dividend payments to minority interests, release of amounts in escrow and the net proceeds from the rights issue.

Hence, **cash flows for the year** hence came to DKK 29.3 million against DKK (9.2) million for 2009.

At 31 December 2010, the Group had a **net interest-bearing asset** of DKK 88.1 million compared with net interest-bearing debt of DKK 30.7 million in 2009. The Group's positive cash flows and the proceeds from rights issue are the main reasons for this positive development.

Net interest-bearing debt amounted to DKK 17.3 million at 31 December 2010 against DKK 152.9 million in 2009. The difference of DKK 105.4 million relative to the net interest-bearing asset was made up by interest-bearing assets, mainly cash and cash equivalents.

# OUTLOOK FOR 2011

The strategy plan "Seizing the Opportunity" will have a significant impact on developments in 2011. The majority of the measures to be introduced at Topsil will relate to factory expansion and production flow optimisation. As a result, the Group's capacity costs will increase in 2011. On the product and development front, the Company will hire new employees with a view to developing an 8 inch FZ product and ensuring implementation of several projects relating to specification, sourcing and initiation of production equipment. In 2011, more resources will be added to the sales and logistics organisation, and the finance and IT functions will also be upgraded.

In 2011, the Group expects to generate organic growth in the region of 5%, corresponding to revenue of approximately DKK 480 million. Operating profit (EBITDA) is expected to come to approximately DKK 100 million. The revenue growth will positively affect EBITDA by about DKK 10 million, which is, however, expected to be offset by an increase in capacity costs also of about DKK 10 million relating to the implementation of the strategy plan.

Total investments in property, plant and equipment for 2011 are expected to amount to approximately DKK 200 million, of which the major part will relate to the factory expansion.

## ASSUMPTIONS

At the beginning of 2011, Topsil's FZ order book amounted to DKK 247 million against DKK 215 million at the beginning of 2010. The size of the order book confirms the underlying organic growth.

In accordance with the growth strategy, Topsil will begin to change its product mix in the next few years. Already in 2011, growth in the high and medium-voltage segments will mainly be generated within the rapidly growing medium-voltage segment. Sales of products for the highest voltage segments (FZ-NTD) are expected to remain unchanged in 2011 compared with 2010, because a number of the Group's contract customers will decommission their FZ-NTD based production lines for shorter periods during the first to the third quarters of 2011 in order to upgrade production capacity and prepare for future growth.

As a result of capacity adjustments by a number of Topsil's customers, the seasonal fluctuations which normally characterise the Company's revenue are expected to be stronger in 2011, and some 60% of Group revenue and earnings is expected to be generated in the second half of the year.

The expectations are based on exchange rates of DKK 550/USD 100 and DKK 190/PLN 100.

# SPECIAL RISKS

### Business risks

Although Topsil is one of the world's largest suppliers of ultra-pure silicon to all voltage levels, the Group is also a relatively small player in a market with very large competitors. This may entail a business risk due to Topsil's weaker capital base.

Sales to the Group's three largest customers account for more than 50% of revenue, and the customers each account for at least 10% of consolidated revenue.

In the long term, the most substantial risks are:

- The two global suppliers of raw materials for the production of ultra-pure silicon could cease the production of the raw materials, which would force the semiconductor and electronics industries to find substitute silicon products. In the longer term, raw materials to the power market might therefore become scarce or disappear altogether.
- New technology might lead to a surplus of raw materials, or the current investments in new capacity might lead to renewed surplus production of raw materials. If this were to happen, the semiconductor industry would again squeeze silicon producers, and prices could return to a level creating a more competitive market and putting profitability under pressure. However, this scenario seems relatively unlikely at this point.

The Group has long-term contracts with the two global suppliers of raw materials for ultra-pure silicon and for this reason, access to these raw materials does not constitute the same risk it did previously. Access to raw materials for the Group's products targeted towards lower voltage segments is not believed to be at risk.

The Group is still dependent on access to irradiation capacity. Topsil is well positioned in relation to the irradiation suppliers.

The Group has initiated the establishment of a new plant in Denmark. The completion of this project and the subsequent transition from the old to the new plant is a process requiring strong management focus. Despite this, projects of this type are associated with a higher degree of risk than ordinary operations.

As a result of the Group's activities, the equity and financial results are impacted by several risks, mainly relating to changes in exchange rates and interest rate levels. See note 35 for further information.

The Group's capital resources are reviewed regularly and consist of binding loan commitments, operating credits and cash reserves in the parent company and the subsidiaries. Management believes the existing capital resources and the expected future cash flows will be sufficient to maintain operations and at the same time fund the measures planned to expand production.

# BUSINESS PLATFORM
# ATTRACTIVE POSITION IN THE VALUE CHAIN

## THE SILLCON RAW MATERIAL

Topsil's main raw material, ultra-pure polysilicon, is produced from naturally occurring quartz sand, which is found in large volumes all over the world. The quartz sand is repeatedly refined in large chemical facilities and converted into technically pure silicon, after which it goes through a number of cleansing processes. The final result is polysilicon ingots of up to two meters.

The production of polysilicon requires billions of kroner investments which explains why there are only a few global manufacturers. The raw materials production for FZ-silicon is particularly complicated and there are only two global suppliers in this segment.

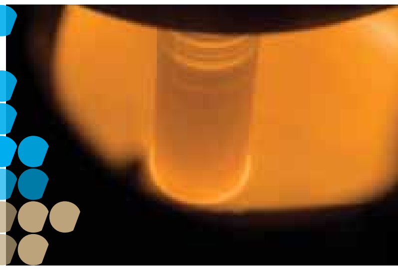
Topsil has concluded long-term contracts with both of these suppliers of raw material for FZ-manufacturing. Raw materials for the production of CZ silicon have been secured through annual contracts with three producers.

## THE FZ-PROCESS

The FZ-process, which takes place at Frederikssund, begins with the preparation and surface purification of polysilicon ingots which are then mounted in a FZ-processing machine together with a seed crystal and melted at high induction heating temperatures. Once the silicon has melted, a seed crystal is introduced into the smelter, and the crystal is grown by adjusting heat conditions.

The electrical conduction of the silicon is adjusted by adding phosphorus to the crystal, either by adding phosphorus directly in the FZ-process (FZ-PFZ) or through neutron irradiation (FZ-NTD) which is more costly but results in more precise doping. This is done in nuclear reactors at the facilities of around 10 collaboration partners around the world.

FZ-silicon products are characterised by a very high degree of purity and electrical uniformity, and so they can be used in the most demanding high and medium-voltage components. The production process is based on customer specifications.



## THE CZ-PROCESS

The CZ-process is based on crushed polysilicon that is melted in a quarts crucible at high temperatures. A seed crystal is subsequently dipped into the molten silicon and is slowly pulled upwards causing the CZ-crystal to solidify.

In the CZ-process, the crucible is dissolved during the heating process, resulting in contamination of the crystal. Hence, the purity of CZ-products may be up to 100 times lower than FZ-products, which reduces the electrical properties of CZ-products substantially. For this reason, they are primarily used in components to low-voltage applications such as microchips.

As in the FZ-process, the customer also defines the exact production parameters of the CZ-process. Production of CZ-silicon takes place at Topsil's subsidiary Cemat Silicon S.A. in Warsaw.

**The production of silicon wafers for the semiconductor industry is based on a long value chain in which Topsil holds an attractive position. The value chain comprises production of the raw material, ultra-pure poly, Topsil's complex float zone (FZ) and czochralski (CZ) production processes, which give silicon its specific conducting properties, wafering, customers' production of electronic components based on Topsil's silicon wafers, and finally, mounting of the components in their final applications, e.g. in electric motors, computers, cars, solar cell panels, wind turbines, high-speed trains and power distribution networks.**

## WAFERING

The final step in Topsil's production of FZ and CZ-silicon is the productions of wafers. The wafers are produced using various grinding and cutting techniques and the wafers are cut in various thickness to customer specifications. The wafering process is the same for FZ and CZ-silicon.

A special type of wafer is the CZ-EPI wafer, which is based on the CZ-process. The CZ-EPI technology involves the application of a crystalline layer of silicon on a polished CZ-wafer, which improves the conducting properties of the wafer. The thicker the layer, the better the electrical properties.

Since the acquisition of Cemat in 2008, Topsil has transferred some of the wafering activities for FZ-silicon to the subsidiary which also handles the wafering of CZ and production of CZ-EPI. The remaining wafering takes place at third-party suppliers in Taiwan and the USA.


## CUSTOMERS

Topsil sells most of its products directly but the Company also uses distributors in selected markets.

The customers produce electronic components on the basis of Topsil's silicon wafers. During production, the wafers undergo a number of processing phases in which electric conduction patterns are created and the final component properties are achieved.

The FZ-products are sold to some 30 customers, of which the three largest account for around 50% of total FZ-volumes.

CZ-products are sold to 20-25 customers, of which the five largest contributed around 90% of total CZ-sales.

## END USE

Topsil's customers' customers mount the components in controls or systems for-ming part of the finished applications, such as electric motors, wind turbines or flat screens.

### Examples

A wind turbine is fitted with up to 50 energy-saving power controls based on FZ-NTD and FZ-PFZ silicon. The components control the movable parts of the turbine, rotation stop and start, and adjust the energy to the power grid.

The speed of an electric motor can be changed by regulating power in the motor through a frequency converter which allows efficient, fast and precise regulation. The transformer ensures lower overall energy consumption, since the motor does not run full speed all the time.

A frequency converter consists of electrical modules in the form of circuit boards mounted with system-adjusting components. A frequency converter contains between 20 and 50 components based on FZ-silicon.

# BUSINESS FOUNDATION
# MARKET AND POSITION

| TOPSIL'S SILICON PRODUCTS MAY BE DIVIDED INTO THE FOLLOWING MAIN AREAS | |
|---|---|
| FZ-NTD: Neutron Transmutation Doping | Neutron-irradiated FZ-wafer used in very high and high voltage components. NTD-wafers are used for building infrastructure, power production and distribution and in connection with wind farms, electric trains, hybrid vehicles and energy-saving motor controls for the industrial and transport sectors |
| FZ-PFZ: Preferred Float Zone | Gas-doped FZ-wafer primarily used in medium-voltage components for industrial plants and consumer electronics. The components are used in energy-saving motor controls, solar cell panel controls and white goods. |
| FZ-PV™: Float Zone Photo Voltaic | FZ-wafer used for high-efficiency solar cells and as reference material in the development of new solar cell designs. |
| FZ-HPS: High Purity Silicon | FZ-wafer mainly used in special components such as detectors and sensors, e.g. in medtech equipment and security scanners. |
| CZ-EPI: Epitaxy layered CZ | CZ- wafer coated with a layer of EPI (epitaxi). Used in medium and low -voltage components, e.g. power supplies for computers and motor controls |
| CZ: Czochralski | CZ- wafer used as a basic material in electronics components for digital signal processing, e.g. in microchips. |

## STRONG POSITION IN THE POWER MARKET

According to the independent source Semiconductor Equipment and Materials International (SEMI), average annual growth in the power market has been around 3-5% since 2000 and more than 10% in the past year as a result of greater demand for energy transport and control.

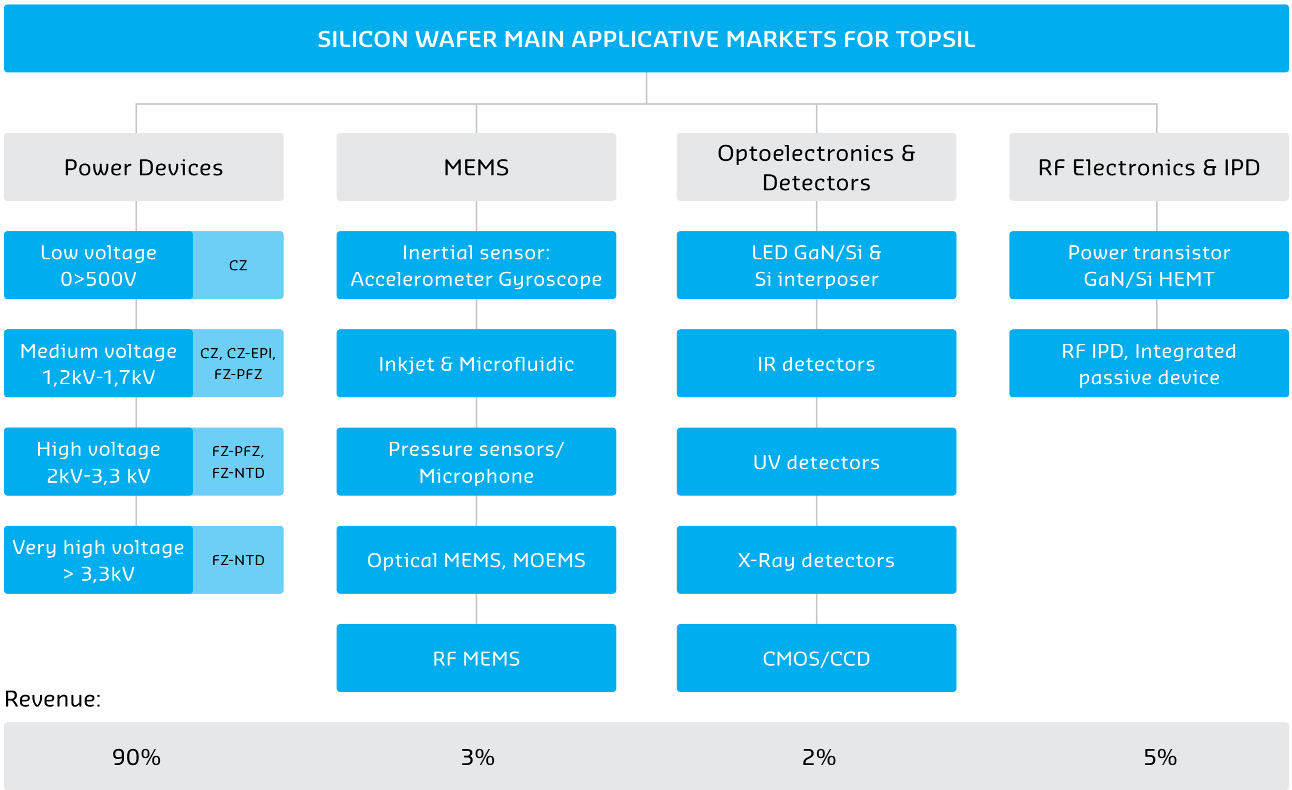
Amounting to almost DKK 6 billion in 2010 and covering components for energy-saving and energy-efficient solutions, e.g. to electric motors, trains and vessels and intelligent control solutions for the production of conventional and renewable energy, the power market accounts for the major part (around 80%) of the total accessible market in Topsil's four main markets. The remaining markets, in which Topsil operates, account for around 10% for MEMS, 8% for Optoelectronics & Detectors and 1% for RF Electronics & IPD, according to the independent industry analysts Yole Developpement.

The main part of Topsil's FZ-NTD and FZ-PFZ-production was sold to the power market in 2010 together with the smaller product PFZ-HPS and the entire CZ and CZ-EPI production. Overall, the Group's deliveries to the power market accounted for around 90% of total revenue in 2010.

## GLOBAL MARKET LEADER THANKS TO FOCUSED STRATEGY

Since 2006, Topsil has focused on the development and sale of highly-processed FZ-NTD products which are used for the highest voltage segments. The FZ-NTD efforts were mainly directed at the industrial, transport and energy segments in Europe and China, whereas the Company did not address the very competitive Japanese market.

As part of the implementation of the "Seizing the Opportunity" strategy, Topsil has extended its strategic




focus to activities in the medium-voltage segment, which is expected to grow by more than 10% over the coming years, according to Yole Developpement. Hence, in the future, Topsil will operate on a wider platform covering also FZ-PFZ, which is more price sensitive than FZ-NTD but which represents a significantly greater market potential for the Group.

At the same time, the CZ-range will be converted to target the highly-processed CZ-EPI product which matches the FZ-PFZ-product in several areas and which can also be used in medium-voltage components. Concurrently, the CZ-production will be focused on special orders with small diameters which offer stronger earnings potential.

Finally, Topsil will be intensifying its R&D activities in the years ahead. The increased activities primarily relate to the developing a new 8 inch wafer with special properties for the medium-voltage segment and a new PFZ-product with improved conducting properties.

## Semiconductor markets with strong growth prospects

Driven by underlying megatrends, such as increasing investments in the supply chain, infrastructure and industrial processes, Topsil expects recent years' market growth in its semiconductor markets to continue.

Yole Developpement estimates that compound annual growth rates for the four semiconductor markets in which Topsil operates will be 8% over the next few years, of which growth in the power market is estimated to account for 7,5%.

# GROUP OVERVIEW

The Group consists of the parent company Topsil Semiconductor Materials A/S and its Polish subsidiary Cemat Silicon S.A. together with Cemat70 S.A., which is a subsidiary of Cemat Silicon S.A. The Polish companies were acquired in 2008.

Cemat Silicon S.A. is a fully owned subsidiary.

Cemat Silicon S.A. has a 52.92% stake in Cemat70 S.A., which is a property company. The other 47.1% is owned by the Polish state (24.7%), SPEC (local Polish energy company) (9.4%), the employees (7.6%) and other investors (5.4%). The property is located in Warsaw and the portfolio consists of the buildings from which Cemat Silicon runs its business and around 60 other leases. Cemat Silicon S.A. occupies around 1/3 of Cemat70 S.A.'s building space. Cemat Silicon S.A.'s share of the capital corresponds to its share of votes in the subsidiary.

The ownership interest in Cemat70 S.A. is for sale and negotiations have been conducted with potential buyers but have so far not resulted in a sale. Concurrently with the sales process, the Group has initiated an efficiency enhancing process for Cemat70 S.A. for the purpose of optimising the operation of the letting activities. In this connection, Cemat Silicon S.A.'s CEO was appointed chairman of the board of Cemat70 in early 2010 and a new CEO was appointed in Cemat70 S.A. Topsil will continue to explore the opportunities for divesting its ownership interest in Cemat70 S.A. in order to dedicate its resources to its core business: the production of silicon.

The properties in Cemat70 S.A. are not mortgaged and the company does not constitute a financial burden to the Group. The carrying amount of the company is specified in a separate note to the financial statements.

TOPSIL SEMICONDUCTOR MATERIALS A/S

CEMAT SILICON S.A., 100%

CEMAT 70 S.A., 52,9%

# STATUTORY REPORT ON CORPORATE GOVERNANCE

Pursuant to s. 107(b) of the Danish Financial Statements Act and clause 4.3 of the "Rules for issuers of Shares – NASDAQ OMX Copenhagen", listed companies must report on how they address the recommendations published by The Committee on Corporate Governance in Denmark on 1 April 2010.

In this report on corporate governance, companies must apply the "comply or explain" principle according to which they must either comply with the recommendations or explain why the recommendations are not complied with in full or in part. The purpose is to create transparency in respect of a company's management structure and it is up to the individual companies to assess whether it is prudent to comply with the recommendations.

Topsil's statutory report on corporate governance, including a consideration of each item under the recommendations, can be found on the Company's website at

www.topsil.com/files/pdf/UKcorporategovernance2010.pdf

### TOPSIL MANAGEMENT

Topsil's management comprises the Board of Directors and the Management Board.

### THE BOARD OF DIRECTORS

The Board of Directors has the overall responsibility for the management of the Group and supervises the Management Board. The Board of Directors lays down the policies for the Company's business strategy, organisation, accounting and financing and appoints a Management Board to be in charge of the day-to-day operations of the Group.

The Board of Directors is made up of four members elected by the shareholders and two members elected by the employees. See pages 32-34 for an overview of the Board of Directors and the Management Board.

Pursuant to the Articles of Association, the members of the Board of Directors elected by the shareholders are elected for terms of one year at the annual general meeting. The term for the current Board of Directors expires on 14 April 2011 and the members are eligible for re-election. According to the rules of procedure for the Board of Directors, the retirement age for Board members is 70 years.

The term of Board members elected by the employees is four years as laid down by the Danish Companies Act. Members elected by the employees have the same rights, duties and responsibilities and they receive the same fees as the other members of the Board of Directors. The term of the current members elected by the employees expires in 2011 and employee elections will be held on 5 April 2011. Further details on the rules for election of employee representatives can be found on the Company's website under "Management".

When composing the Board of Directors, the aim is for the majority of the Board members elected by the shareholders to be independent of special interests relative to the Group, major shareholders, chief suppliers and key accounts.

Three of the four Board members elected by the shareholders are independent of special interests. Topsil's Deputy Chairman, Eivind Dam Jensen, is not independent, as he controls 12.2% of the capital in Topsil and owns and leases the property at Linderupvej 4, Frederikssund, to Topsil. The transactions are disclosed in a separate note to the financial statements. Employee representatives are not considered to be independent due to their employment relationship with Topsil.

The Board of Directors is composed of members who represent general management experience in globally oriented industrial businesses, have industry insight and possess professional skills pertaining to listed companies' financial and economic matters.

Board meetings are held at least six times a year and one of the meetings is held at the subsidiary Cemat Silicon S.A. in Warsaw. The Board of Directors follows an annual schedule fixed each year in November together with the financial calendar and otherwise convenes as and when deemed necessary. In 2010, five ordinary and four extraordinary Board meetings were held together with a strategy seminar determining the most important tasks in relation to the overall strategic management.

The Board of Directors conducts its business in accordance with the rules of procedure, which comply with the provisions of s. 130 of the Danish Companies Act applicable to listed companies. Among other things, the rules of procedure contain guidelines for the division of responsibilities between the Board of Directors and the Management Board, and provide for the application of minute books, a register of shareholders and other protocols. The rules of procedure determine the Board of Directors's duties to actively discuss the Company's organisation and internal control procedures as well as its duties to actively follow up on plans, budgets and the cash position, as well as other important issues.

## EVALUATION OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The evaluation of the working methods, skills, efforts, interaction and performance of the Board of Directors and Management Board forms part of the annual schedule for the Board of Directors and is included as an item on the agenda of the annual general meeting.

The Chairman is in charge of the evaluation on the basis of a working document filled in by each Board member. The individual items are discussed openly among the members of the Board of Directors and the Management Board and the conclusions are recorded in the minute book. The self-evaluation is considered to be a tool for mapping the strengths and weaknesses of the management. It is also used as the recruitment base for new Board members and selection of future focus areas for the Board work. In 2010, the self-evaluation did not give rise to any significant changes in focus areas or the composition of the Board of Directors.

## BOARD COMMITTEES

As the only committee under the Board of Directors, Topsil set up an Audit Committee in 2009. Tasks relating to nomination and remuneration are considered to be of a scope that can be handled by the chairmanship. The latter is regulated by the Company's remuneration policy.

### Audit committee

The Audit Committee monitors the Group's financial reporting, accounting policies, internal control procedures and the framework for the independent auditors. Topsil's Audit Committee held six meetings in 2010. From April 2010 the committee consists of Michael Hedegaard Lyng, chairman, and Jørgen Frost, deputy chairman. The Audit Committee members are elected by the Board of Directors from among its members and in compliance with Danish law, at least one of the two members must be an accounting expert. The Committee conducts annual self-evaluation to assess each member's performance.

The Audit Committee has worked out its terms of reference and a detailed annual schedule. According to the terms of reference, the tasks of the Audit Committee include approval of relevant guidelines and policies and discussions of material accounting policies applied by the Group. Furthermore, the Committee is considering whether individual controls should be extended and tightened to ensure compliance and improvement of the internal control procedures in the Group companies. Further details on the Audit Committee's is terms of reference can be found on the Company's website.

## MANAGEMENT BOARD

Topsil's Management Board comprises two registered executive officers, the CEO and the EVP, Logistics, Sales & Marketing. The CEO is responsible for the day-to-day management of the Company in accordance with the guidelines laid down by the Board of Directors. Also, the Management Board is responsible for submitting proposals for the Group's overall strategies, action plans, objectives and operating and investment budgets to the Board of Directors.

## REMUNERATION POLICY

Topsil's remuneration policy for the Board of Directors and the registered executive officers reflects the shareholders' and the Company's interests and must support the long-term objectives. Furthermore, the Company seeks a compensation package for the Board of Directors and the Management Board which is consistent with market levels to retain the current management and attract new qualified candidates.

The remuneration policy can be found on the website and will be presented to the shareholders for approval at the annual general meeting to be held on 14 April 2011.

### Remuneration of the board of directors

For the financial year 2010, the members of the Board of

Directors of Topsil received a fixed remuneration of DKK 150,000. The Chairman received double remuneration and the Deputy Chairman one and a half times the basic remuneration for their extended Board tasks. The members of the Audit Committee received DKK 37,500 and the chairman received double that amount. Total remuneration to the Board of Directors came to DKK 1.2 million, as specified in note 5.The Board of Directors receives no options, bonus or any other performance-related pay and is not covered by Topsil's pension scheme.

### Remuneration to the management board

The Board of Directors believes that a combination of fixed and performance-based compensation to the Management Board helps the Company to attract and retain the best qualified executive officers while at the same time encouraging long-term value creation for the shareholders. Performance-related incentive schemes contribute to promoting behaviour that supports the achievement of the Company's long-term objectives. Against this background, the Board of Directors resolved to introduce incentive remuneration to the Management Board and other managerial employees of the Group.

The Management Board's compensation package comprises four elements: a fixed basic salary including company car, telephone, etc., a bonus based on the financial results achieved, pensions and a share option scheme.

The bonus scheme for the CEO comprises a bonus of 1% of profit before tax and 4% of the increase in the profit before tax relative to the previous year. For the EVP, Logistics, Sales & Marketing, the corresponding rates are 0.7% and 2.8%, respectively.

Topsil's Management Board and a number of managerial employees have been granted warrants. The Management Board's share of these warrants, the terms and conditions and their valuation are disclosed in note 6 to the financial statements. Topsil's current incentive-based remuneration scheme and guidelines have been approved by the shareholders and are available on Topsil's website under 'Investor Relations'. Some of the criteria of the option scheme do not comply with the recommendations of the Committee on Corporate Governance in Denmark issued on 1 April 2010 and the scheme will be reconsidered in 2012 when it expires.

In 2010, the total remuneration to the Management Board came to DKK 7.2 million as specified in note 4. Topsil did not provide any substantial or atypical contributions to non-pay benefits, severance plans, etc. to the Management Board in 2010.

### MATERIAL AGREEMENTS WITH MANAGEMENT

Other than as provided above, the Group has not entered into any material agreements with the Management. The members of the Management Board are employed under executive service contracts. The service contract for the CEO is terminable by the CEO giving a notice of nine months. Termination by the Company is subject to 18 months' notice. In the event of a change of control of the Company (more than 50% of the shares or the voting rights) to a legal entity or a person, the notice given by the CEO will be extended to 12 months and the notice given by the Company will be extended to 24 months. The CEO is subject to a non-competition clause. The service contract for the EVP, Logistics, Sales & Marketing is terminable by the EVP giving six months' notice, whereas termination by the Company is subject to 12 months' notice.

### RISK ASSESSMENT AND INTERNAL CONTROL SYSTEMS

The Board of Directors of Topsil has the overall responsibility for the establishment of an efficient risk management system, comprising systematic internal controls and follow-up. Risk management and internal controls in relation to the prensentation of accounts process are monitored by the Audit Committee.

### GENERAL RISK ASSESSMENT AND MANAGEMENT

As part of the Board of Director's annual strategy review, management conducts an overall risk assessment for the Group in order to determine which processes and factors, internal as well as external, could possibly affect the Group's business platform and development.

The risk assessment mainly comprises identification of business risks and control measures are identified for the most significant risks, e.g. in the form of action plans to reduce and handle risks.

The statutory report on corporate governance for Topsil is available at

www.topsil.com/files/pdf/statutory2010.pdf

# STATUTORY REPORT ON CORPORATE SOCIAL RESPONSIBILITY

In the summer of 2010, Topsil initiated a discussion on its activities within and its position on corporate social responsibility (CSR). These efforts resulted in an overall strategy comprising a number of policies, activities and performance indicators, particularly within environment, security and welfare.

Among other things, the CSR efforts resulted in a decision to join the UN Global Compact. Hence, Topsil can apply the internationally recognised principles of the UN Global Compact as a frame of reference in its supplier chain and moreover, Topsil has undertaken to publish its CSR progress on the UN website. During 2011, Topsil will introduce Key Performance Indicators (KPIs) for its CSR goals.

The statutory report on corporate social responsibility and the Company's CSR efforts are specified in a separate report "Topsil CSR 2010", which can be found on:

www.topsil.com/files/pdf/csr2010.pdf.

# SHAREHOLDER INFORMATION

Topsil has adopted an information and communications policy to ensure that Topsil is perceived as a visible, trustworthy, accessible and professional business with a high level of information, a consistent information flow and an open approach to its stakeholders.

The Board of Directors and Management aim to provide the best basis for the stakeholders to assess the Company's shares and thus for the share price to reflect the current position of the Group and its future prospects.

At the same time, the information and communications policy will ensure that Topsil meets the disclosure requirements of the equity market and that inside information which must be assumed to influence the price of Topsil's shares considerably is not disclosed to unauthorised persons.

Topsil observes a four-week silent period prior to the publication of annual and interim reports, during which the Group will not comment on financial matters or participate in investor meetings. The full wording of Topsil's information and communications policy is available on the Group's website under "Investor Relations".

The Group makes use of electronic document exchange and electronic mail in its communications with shareholders, see s. 92 of the Danish Companies Act and article 17 in the Articles of Association. Shareholders and other stakeholders who have subscribed for Topsil's electronic news service on the Group's website will automatically receive copies of annual and interim reports and other announcements.

The contact to shareholders, prospective investors and equity analysts is handled by Keld Lindegaard Andersen, CEO, e-mail: keld.lindegaard.andersen@topsil.com, Tel.: +45 4736 5600.

## INVESTOR RELATIONS

Topsil participated in a number of investor meetings and seminars during 2010 in connection with the presentation of financial results, capital market days, trade fairs and company visits. In 2010, the Topsil share was covered by S|E|B Enskilda, see the Company's website for further details.

## SHARE CAPITAL

The share capital of Topsil Semiconductor Materials A/S amounts to DKK 130,022,412.50 nominal value divided into 520,089,650 shares of DKK 0.25 each. There is only one share class and no restrictions on voting rights.

The Board of Directors and Management Board perform current assessments of whether the Group's capital and share structures are consistent with the interests of the shareholders and the Company. In 2010, the share capital was increased by DKK 28 million, of which almost DKK 26 million came from a rights issue in May 2010. In addition, there was a capital increase of DKK 1.8 million in March in connection with Management's exercise of warrants and of DKK 0.2 million for employee shares.

## AUTHORITY

Pursuant to the Articles of Association, the Board of Directors, up until 1 April 2013, is authorised by the general meeting to issue up to 196,109,849 new shares. Furthermore, the general meeting has authorised the

| **Shareholder composition at 31 December 2010** | **Number of shares** | **Capital DKK** | **Capital %** | **Votes %** |
|---|---|---|---|---|
| EDJ-Gruppen<br>Bangs Gård, Torvet 21,<br>DK-6701 Esbjerg, Denmark | 63,439,811 | 15,859,952.75 | 12.2 | 12.2 |
| Other registered shareholders | 315,707,532 | 78,926,883.00 | 60.7 | 60.7 |
| Shareholders not registered by name | 140,942,307 | 35,235,576.75 | 27.1 | 27.1 |
| **Total** | **520,086,650** | **130,022,412.50** | **100.0** | **100.0** |

*EDJ-gruppen consists of Eivind Dam Jensen and related parties together with companies controlled by Eivind Dam Jensen.*

Board of Directors to issue until 1 April 2012 up to 9,361,105 employee shares under s. 7(A) of the Danish Tax Assessment Act. Finally, the general meeting has authorised the Board of Directors until 29 April 2014 to issue up to 7,080,058 warrants for managerial staff. The Articles of Association were most recently updated on 18 November 2010.

## SHARE PRICE PERFORMANCE

Topsil's shares are listed on NASDAQ OMX Copenhagen and trade under ISIN code DK0010271584. At the end of 2009, the share price was DKK 1.25. In 2010, the price of the Topsil share increased by 18%, and the share traded at 1.47 at 31 December 2010, equivalent to a market capitalisation of DKK 765 million.

## SHAREHOLDER STRUCTURE

At the end of 2010, Topsil had 7,447 registered shareholders owning a total of 73% of the share capital. Shareholders who have reported that they hold more than 5% of the share capital are listed in the table on page 29.

## REGISTER OF SHAREHOLDERS

Topsil's shares are issued to bearer but may be registered by name in the Group's register of shareholders. Shareholders can have their shares registered by name by contacting their custody bank. Topsil's register of shareholders is managed by Computershare A/S, Kongevejen 418, DK-2840 Holte, Denmark.

## TREASURY SHARES

Pursuant to s. 198 of the Danish Companies Act, Topsil is authorised to acquire treasury shares for a period of 18 months from the date of an annual general meeting. At the end of 2010, Topsil did not hold treasury shares.

## MANAGEMENT'S TRADE IN THE TOPSIL SHARE

The Board of Directors has adopted internal guidelines for transactions made with Topsil's shares which apply to the Group, the Board of Directors, the Management Board and managerial employees, as well as written guidelines prohibiting the abuse or disclosure of inside information. The trading window for members of the Board of Directors and Management Board and other insiders to whom the guidelines for insiders apply is set at four weeks after the publication of each interim report and only if they do not possess inside information. Subscription for employee shares/exercise of employee warrants is not covered by the rule even if the subscription/exercise takes place outside the four-week window. It is the responsibility of the Chairman of the Board of Directors to inform insiders in case the trading window is closed due to inside information. Management's transactions are subject to a notification requirement and are listed together with Topsil's announcements on the website under "Investor Relations" and in the annual report.

## MANAGEMENT'S HOLDINGS OF TOPSIL SHARES

At 31 December 2010, the Board of Directors owned 65,442,026 shares (DKK 16,360,506 nominal value), corresponding to 12.6% of the share capital and a market value of DKK 96.2 million and the Management Board owned 5,759,094 shares (DKK 1,439,774 nominal value), corresponding to 1.1% of the share capital and a market value of DKK 8.5 million. In addition, the Management Board owns a total of 9,573,652 warrants, which can be exercised to subscribe for new shares in 2011 and 2012 at a price of DKK 0.81 per share. The holdings and changes during 2010 for the individual members can be found on the Company's website and are specified in this annual report under "Company Information".

## ANNUAL GENERAL MEETING

The annual general meeting will be held on 14 April 2011 at 10:00 am, at Plesner law firm, Amerika Plads 37, DK-2100 Copenhagen Ø, Denmark. Notices convening annual general meetings and extraordinary general meetings together with agendas are forwarded by e-mail to the those shareholders who have so requested. Print versions of annual reports may be requested by telephone or by e-mail to investor@topsil.com.

At the annual general meeting, the Board of Directors proposes re-election of the current Board members elected by the shareholders and of the Company's auditor, Deloitte.

The Board of Directors has adopted a remuneration policy and expects to present the policy for approval by the annual general meeting. The remuneration policy can be found on the website under "Investor Relations".

The Board of Directors expects to present a proposal to amend the Articles of Association, introducing a retirement age of 70 for Board members which is already included in the rules of procedure for the Board of Directors. Furthermore, the Board of Directors will propose remunerations to the Board of Directors for 2011 for approval by the annual general meeting and propose that the fixing of remunerations for the Board of Directors will be a permanent item at the annual general meeting.

## DIVIDEND POLICY

It is Topsil's policy that the shareholders should obtain a return on their investment in the form of an appreciating share price and/or dividends. Dividends will be paid with due consideration to the necessary consolidation of equity that forms the basis for the continued growth of the Group.

## PROPOSED DIVIDEND

The Board of Directors recommends to the annual general meeting that no dividend be declared in respect of the 2010 financial year. The profit for the year will be applied to strengthen the Company's capital resources and to ensure that planned investments in the new plant and production equipment can be realised as described in Topsil's growth strategy, "Seizing the Opportunity".

## ANNOUNCEMENTS IN 2010 AND 2011

| 2010 | Announcement |
|---|---|
| 11.03 | Topsil establishes strong growth platform and resolves to expand production capacity |
| 25.03 | Annual report 2009 |
| 30.03 | Capital increase due to exercise of warrants |
| 31.03 | Amendments to the Articles of Association due to capital increase |
| 31.03 | Report on insider transactions |
| 07.04 | Report on insider transactions |
| 15.04 | Notice of the Annual General Meeting |
| 20.04 | Prospectus announcement |
| 28.04 | Decisions of Annual General Meeting |
| 03.05 | Report on insider transactions |
| 04.05 | Report on insider transactions |
| 05.05 | Report on insider transactions |
| 06.05 | Report on insider transactions |
| 07.05 | Report on insider transactions |
| 10.05 | Report on insider transactions |
| 10.05 | Decisions of Extraordinary General Meeting |
| 11.05 | Amendment to the Articles of Association |
| 12.05 | Report on insider transactions |
| 19.05 | Topsil Semiconductor Materials A/S has completed fully subscribed offering of shares with preemptive rights, resulting in gross proceeds of DKK 93.5 m |
| 20.05 | Amendment to the Articles of Association |
| 20.05 | Major shareholder announcement |
| 27.05 | Interim report Q1 2010 |
| 24.06 | Report on insider transactions |
| 26.08 | Interim report – H1 2010 |
| 26.08 | Warrant programme for managerial employees |
| 27.08 | Amendment to the Articles of Association |
| 06.09 | Report on insider transactions |
| 25.10 | Employee share scheme |
| 18.11 | Interim report – Q3 2010 |
| 18.11 | Capital increase due to exercise of warrants |
| 18.11 | Amendment to the Articles of Association |
| 18.11 | Financial calendar 2011 |
| 22.11 | Report on insider transactions |

| 2011 | Announcement |
|---|---|
| 26.01 | New facility becomes a reality |

## FINANCIAL CALENDAR 2011

| Date | Announcement | Silent period |
|---|---|---|
| 22.03 | Annual report 2010 | 22.02.11 – 22.03.11 |
| 14.04 | Annual General meeting | |
| 17.05 | Interim report Q1 2011 | 19.04.11 – 17.05.11 |
| 25.08 | Interim report – H1 2011 | 28.07.11 – 25.08.11 |
| 23.11 | Interim report – Q3 2011 | 26.10.11 – 23.11.11 |

# COMPANY INFORMATION

## TOPSIL SEMICONDUCTOR MATERIALS A/S

Linderupvej 4, DK-3600 Frederikssund, Denmark
CVR no. 24 93 28 18
Domicile: Frederikssund, Denmark
Tel. +45 4636 5600
Fax +45 4736 5601
E-mail: topsil@topsil.com
Website: www.topsil.com

## BOARD OF DIRECTORS

**Jens Borelli-Kjær (born 1960), Chairman**
*CEO*
MSc (Physics) MBA (INSEAD) BCOM. Elected 2006, Chairman 2006. Current term expires in 2011
No. of shares in Topsil (own and related parties): 1,087,500 (2009: 870,000)
Remuneration in 2010: DKK 300,000
Directorships and other managerial positions: CEO of Vitral A/S, CCMA Holding APS, UAB Vitral, Lithuania and Vitral UK Ltd. Member of the board of Cemat Silicon S.A.
Special qualifications: Business, industrial and general management experience from various industries (building materials, pharmaceutical equipment and electronics)

**Eivind Dam Jensen (born 1951), Deputy Chairman**
*CEO*
State-authorised estate agent. Elected 2005, Deputy Chairman 2005. Current term expires in 2011
No. of shares in Topsil (own and related parties): 63,439,811 (2009: 63,063,311)
Remuneration in 2010: DKK 225,000
Directorships and other managerial positions: CEO and member of the boards of directors of Ejendoms-aktieselskabet Bangs Gård and Aktieselskabet Eivind Dam Jensen, owner of Statsaut. Ejendomsmægler-firma E. Dam Jensen
Special qualifications: Purchase, sale, valuation and letting of commercial and investment properties and property management

**Jørgen Frost (born 1954)**

*CEO*

MSc (Engineering), BCom (Marketing). Elected 2006, member of the Audit Committee. Current term expires in 2011

No. of shares in Topsil: 165,000 (2009: 132,000)

Remuneration in 2010: DKK 187,500

Directorships and other managerial positions: CEO and member of the board of directors of Blendex A/S, founder, CEO and member of the boards of directors of Frost Invest A/S and member of the boards of directors of Vestergaard Company A/S, Vestergaard Company Holding A/S, Vestergaard Comany Finance A/S, Kongskilde Industries A/S and RM Rich. Müller A/S

Special qualifications: Industrial management experience from listed industrial companies

**Michael Hedegaard Lyng (born 1969)**

*CFO*

MSc in Business Administration & Auditing.Elected 2010, chairman of the Audit Committee 2010. Current term expires in 2011

No. of shares in Topsil: 0 (2009: 0)

Remuneration in 2010: DKK 225,000

Directorships and other managerial positions: CFO and member of the executive board of NKT Holding A/S, member of the boards of directors of several companies in the NKT group. Member of the board of directors of Burmeister & Wain Scandinavian Contractor A/S

Special qualifications: Traditional CFO disciplines in global international listed industrial companies

**Trine Schønnemann (born 1967), elected by the employees**

*Key Account Manager,* employed in 1997

Business diploma (International Marketing)

Elected in 2003. Current term expires in 2011

No. of shares in Topsil: 123,300 (2009: 82,000)

Remuneration in 2010: DKK 150,000

Directorships and other managerial positions: None.

Special qualifications: Experienced in market conditions for the silicon industry

**Leif Jensen (born 1957), elected by the employees**

*Senior Silicon Scientist,* employed in 1986

BSc (Engineering)

Elected in 2008. Current term expires in 2011

No. of shares in Topsil: 626,415 (2009: 767,812)

Remuneration in 2010: 150,000

Directorships and other managerial positions: None.

Special qualifications: Technical knowledge and experience with high-tech development activities

## MANAGEMENT BOARD

**Keld Lindegaard Andersen (born 1960)**
*CEO,* employed in 2005
MA, MBA
Chairman of the board of directors of Cemat Silicon S.A., Poland
No. of shares in Topsil: 2,843,437 (2009: 3,274,750)
No. of warrants in Topsil: 6,527,490
Directorships and other managerial positions: None.

**Jørgen Bødker (born 1958)**
*EVP, Director of Logistics, Sales & Marketing,* employed in 2002
BSc (Electronics) BCom (Business Administration)
Member of the board of Cemat Silicon S.A.
No. of shares in Topsil: 2,915,657 (2009: 2,106,500)
No. of warrants in Topsil: 3,046,162
Directorships and other managerial positions: None.

## AUDITORS

**Deloitte**
Statsautoriseret Revisionsaktieselskab

*State-authorised public accountant*
**Tim Kjær-Hansen**

*State-authorised public accountant*
**Jørgen Holm Andersen**

# MANAGEMENT STATEMENT

We have today presented the annual report of Topsil Semiconductor Materials A/S for the financial year 1 January – 31 December 2010.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

In our opinion, the consolidated and parent company financial statements give a true and fair view of the Group's and the parent company's assets, liabilities and financial position at 31 December 2010 and of the results of the Group's and the parent company's operations and cash flows for the financial year ended 31 December 2010.

We are furthermore of the opinion that the management's review includes a fair review of the development and performance of the Group's and the parent company's business and financial position, the results for the year and the Group's and the parent company's overall financial position together with a description of the principal risks and uncertainties that the Group and the parent company face.

We recommend that the annual report be approved by the shareholders in general meeting.

Frederikssund, 22 March 2011

**MANANGEMENT BOARD**

Keld Lindegaard Andersen
*CEO*

Jørgen Bødker
*EVP, Director of Logistics, Sales & Marketing*

**BOARD OF DIRECTORS**

Jens Borelli-Kjær
*Chairman*

Eivind Dam Jensen
*Deputy Chairman*

Michael Hedegaard Lyng
*Member of the Board*

Jørgen Frost
*Member of the Board*

Leif Jensen
*Elected by the employees*

Trine Schønnemann
*Elected by the employees*

# INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF TOPSIL SEMICONDUCTOR MATERIALS A/S**

**Report on the consolidated financial statements and parent financial statements**

We have audited the consolidated financial statements and parent financial statements of Topsil Semiconductor Materials A/S for the financial year 1. januar - 31. december 2010, which comprise the income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including the accounting policies, for the Group as well as the Parent. The consolidated financial statements and parent financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

**Management's responsibility for the consolidated financial statements and parent financial statements**

Management is responsible for the preparation and fair presentation of consolidated financial statements and parent financial statements in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility and basis of opinion**

Our responsibility is to express an opinion on these consolidated financial statements and parent financial statements based on our audit. We conducted our audit in accordance with Danish and International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and parent financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and parent financial statements.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidated financial statements and parent financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and parent financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

**Opinion**

In our opinion, the consolidated financial statements and parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2010, and of their financial performance and their cash flows for the financial year 1. januar - 31. december 2010 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

**Statement on the management's review**

Management is responsible for preparing a management's review that contains a fair review in accordance with the Danish Financial Statements Act.

Our audit did not include the management's review, but we have read it pursuant to the Danish Financial Statements Act. We did not perform any procedures other than those performed during the audit of the consolidated financial statements and parent financial statements.

Based on this, we believe that the disclosures in the management's review are consistent with the consolidated financial statements and parent financial statements.

Copenhagen, 22 March 2011

**Deloitte**
Statsautoriseret Revisionsaktieselskab

Tim Kjær-Hansen
*Public Accountant*

Jørgen Holm Andersen
*Public Accountant*

# ACCOUNTS

# INCOME STATEMENT

1 JANUARY – 31 DECEMBER

| PARENT COMPANY | | | | GROUP | |
|---|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | Note | 2010 | 2009 |
| 345,724 | 342,398 | Revenue | 3 | 456,705 | 423,483 |
| (1,957) | 2,425 | Change in finished goods and work in progress | | 6,597 | 15,142 |
| 2,284 | 3,919 | Work carried out for own account | | 3,919 | 2,284 |
| 131 | 69 | Other operating income | | 69 | 131 |
| (144,461) | (151,846) | Costs of raw materials and consumables | | (229,286) | (216,366) |
| (36,616) | (33,058) | Other external costs | | (52,943) | (51,349) |
| (57,346) | (60,998) | Staff costs | 4, 5, 6 | (83,021) | (73,512) |
| (6,416) | (7,754) | Depreciation, amortisation and impairment | 7 | (12,993) | (15,580) |
| **101,343** | **95,155** | **EBIT** | | **89,047** | **84,233** |
| 1,081 | 3,612 | Financial income | 8 | 1,746 | 6,577 |
| (14,204) | (6,801) | Financial expenses | 9 | (8,957) | (15,051) |
| **88,220** | **91,966** | **Profit before tax** | | **81,836** | **75,759** |
| (23,108) | (24,090) | Tax on profit for the year | 10 | (18,823) | (23,977) |
| **65,112** | **67,876** | **Profit for the year** | | **63,013** | **51,782** |
| | | **Distribution of profit for the year:** | | | |
| | | Parent company shareholders | | 62,501 | 50,520 |
| | | Minority interests | | 512 | 1,262 |
| | | | | **63,013** | **51,782** |

# STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY – 31 DECEMBER

| PARENT COMPANY | | | | GROUP | |
|---|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | Note | 2010 | 2009 |
| 65,112 | 67,876 | Profit for the year | | 63,013 | 51,782 |
| 0 | 0 | Foreign exchange adjustment relating to foreign companies | | 8,055 | 257 |
| **65,112** | **67,876** | **Comprehensive income for the year** | | **71,068** | **52,039** |
| | | **Distribution of comprehensive income for the year:** | | | |
| 65,112 | 67,876 | Parent company shareholders | | 67,828 | 50,472 |
| 0 | 0 | Minority interests | | 3,240 | 1,567 |
| **65,112** | **67,876** | | | **71,068** | **52,039** |
| 0.16 | 0.14 | Earnings per share (DKK) | 11 | 0.13 | 0.12 |
| 0.15 | 0.12 | Diluted earnings per share (DKK) | 11 | 0.12 | 0.12 |

# BALANCE SHEET

AT 31 DECEMBER 2010

| PARENT COMPANY | | ASSETS | | GROUP | |
|---|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | Note | 2010 | 2009 |
| 9,483 | 8,039 | Completed development projects | | 8,622 | 10,279 |
| 0 | 0 | Goodwill | | 18,582 | 17,830 |
| 0 | 0 | Other intangible assets | | 925 | 1,001 |
| 2,413 | 6,341 | Development projects in progress | | 6,341 | 2,413 |
| **11,896** | **14,380** | **Intangible assets** | 7, 12, 13 | **34,470** | **31,523** |
| 22,667 | 42,821 | Plant and machinery | | 92,729 | 69,800 |
| 7,851 | 7,597 | Other fixtures and fittings, tools and equipment | | 7,753 | 8,245 |
| 11,101 | 12,588 | Property, plant and equipment under construction | | 30,345 | 16,013 |
| **41,619** | **63,006** | **Property, plant and equipment** | 7, 14 | **130,827** | **94,058** |
| 159,687 | 159,987 | Investments in subsidiaries | 15 | 0 | 0 |
| 80,099 | 32,452 | Other receivables, non-current etc. | 16 | 32,452 | 80,099 |
| **239,786** | **192,439** | **Financial assets** | | **32,452** | **80,099** |
| **0** | **0** | **Deferred tax asset** | | **3,706** | **0** |
| **293,301** | **269,825** | **Non-current assets** | | **201,455** | **205,680** |
| **70,948** | **73,373** | **Inventories** | 17 | **112,973** | **107,971** |
| 75,863 | 48,171 | Trade receivables | 18 | 68,138 | 94,023 |
| 23,180 | 29,324 | Receivables from subsidiaries | | 0 | 0 |
| 19,471 | 1,644 | Other receivables | 19 | 7,055 | 24,462 |
| 0 | 1,890 | Income tax receivable | | 1,886 | 0 |
| 389 | 256 | Prepayments | | 543 | 389 |
| **118,903** | **81,285** | **Receivables** | | **77,622** | **118,874** |
| **10,377** | **99,913** | **Cash and cash equivalents** | 20 | **100,194** | **11,840** |
| 0 | 0 | Assets held for sale | 30 | 100,023 | 147,402 |
| **200,228** | **254,571** | **Current assets** | | **390,812** | **386,087** |
| **493,529** | **524,396** | **Assets** | | **592,267** | **591,767** |

## EQUITY AND LIABILITIES

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | Note | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|---|
| 101,990 | 130,022 | Share capital | 21 | 130,022 | 101,990 |
| 0 | 0 | Translation reserve | 22 | (12,425) | (17,753) |
| 4,880 | 6,118 | Reserve for share-based payments | 22 | 6,118 | 4,880 |
| 161,177 | 297,697 | Retained earnings | | 278,069 | 146,923 |
| **268,047** | **433,837** | **Equity attributable to parent company shareholders** | | **401,784** | **236,040** |
| **0** | **0** | **Equity attributable to minority interests** | | **40,309** | **64,577** |
| **268,047** | **433,837** | **Equity** | | **442,093** | **300,617** |
| 99,867 | 0 | Debt to credit institutions | 23 | 0 | 105,295 |
| 0 | 10,937 | Finance lease liabilities | 24 | 10,937 | 304 |
| 7,911 | 24,916 | Prepayments received from customers | | 24,916 | 7,911 |
| 0 | 0 | Other non-current liabilities | 25 | 1,085 | 815 |
| 4,403 | 7,374 | Deferred tax | 10 | 7,374 | 6,578 |
| **112,181** | **43,227** | **Non-current liabilities** | | **44,312** | **120,903** |
| 38,726 | 0 | Debt to credit institutions | 23 | 17,281 | 47,654 |
| 0 | 2,802 | Finance lease liabilities | 24 | 2,802 | 141 |
| 19,567 | 21,208 | Trade creditors | 26 | 48,455 | 49,176 |
| 45 | 983 | Prepayments received from customers | | 983 | 45 |
| 12,657 | 0 | Income tax payable | 10 | 0 | 12,657 |
| 4,175 | 2,018 | Provisions | 27 | 2,018 | 4,175 |
| 38,131 | 20,321 | Other payables | 28 | 19,638 | 43,472 |
| **113,301** | **47,332** | **Current liabilities** | | **91,177** | **157,320** |
| 0 | 0 | Liabilities relating to assets held for sale | 30 | 14,685 | 12,927 |
| **113,301** | **47,332** | **Current liabilities** | | **105,862** | **170,247** |
| **225,482** | **90,559** | **Total liabilities** | | **150,174** | **291,150** |
| **493,529** | **524,396** | **Equity and liabilities** | | **592,267** | **591,767** |

| | |
|---|---|
| Operating lease liabilities | 31 |
| Charges, warranty commitments and contingent liabilities | 32, 33 |
| Notes without reference | 34-42 |

# STATEMENT OF CHANGES IN EQUITY

FOR 2010

GROUP

| DKK '000 | Share capital | Translation reserve | Reserve for share-based payment | Retained earnings | Equity attributable to parent company shareholders | Equity attributable to minority interests | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity 01.01.2009** | **100,848** | **(17,706)** | **844** | **95,063** | **179,049** | **70,197** | **249,246** |
| Comprehensive income for the year | 0 | (48) | 0 | 50,520 | 50,472 | 1,567 | 52,039 |
| Acquisition of remaining minority interests in Cemat Silicon S.A. | 0 | 0 | 0 | 1,225 | 1,225 | (7,187) | (5,962) |
| Share-based payment, see note 6 | 0 | 0 | 4,036 | 0 | 4,036 | 0 | 4,036 |
| Cash capital increase | 1,142 | 0 | 0 | 115 | 1,257 | 0 | 1,257 |
| **Equity 31.12.2009** | **101,990** | **(17,754)** | **4,880** | **146,923** | **236,039** | **64,577** | **300,617** |
| **Equity 01.01.2010** | **101,990** | **(17,754)** | **4,880** | **146,923** | **236,039** | **64,577** | **300,617** |
| Comprehensive income for the year | 0 | 5,327 | 0 | 62,501 | 67,828 | 3,240 | 71,068 |
| Dividend paid | 0 | 2 | 0 | 0 | 2 | (27,508) | (27,506) |
| Share-based payment, see note 6 | 0 | 0 | 4,229 | 0 | 4,229 | 0 | 4,229 |
| Share-based payment, exercised warrants, see note 6 | 0 | 0 | (2,991) | 2,991 | 0 | 0 | 0 |
| Cash capital increase | 28,032 | 0 | 0 | 72,615 | 100,647 | 0 | 100,647 |
| Costs relating to capital increase | 0 | 0 | 0 | (6,961) | (6,961) | 0 | (6,961) |
| **Equity 31.12.2010** | **130,022** | **(12,425)** | **6,118** | **278,069** | **401,784** | **40,309** | **442,093** |

PARENT COMPANY

| DKK '000 | Share capital | Reserve for Reserve for share based payments | Retained earnings | Total equity |
|---|---|---|---|---|
| **Equity 01.01.2009** | **100,848** | **844** | **95,951** | **197,643** |
| Comprehensive income for the year | 0 | 0 | 65,112 | 65,112 |
| Share-based payment, see note 6 | 0 | 4,036 | 0 | 4,036 |
| Cash capital increase | 1,142 | 0 | 115 | 1,257 |
| **Equity 31.12.2009** | **101,990** | **4,880** | **161,177** | **268,047** |
| **Equity 01.01.2010** | **101,990** | **4,880** | **161,177** | **268,047** |
| Comprehensive income for the year | 0 | 0 | 67,876 | 67,876 |
| Share-based payment, see note 6 | 0 | 4,229 | 0 | 4,229 |
| Share-based payment, exercised warrants, see note 6 | 0 | (2,991) | 2,991 | 0 |
| Cash capital increase | 28,032 | 0 | 72,615 | 100,647 |
| Costs relating to capital increase | 0 | 0 | (6,961) | (6,961) |
| **Equity 31.12.2010** | **130,022** | **6,118** | **297,697** | **433,837** |

# CASH FLOW STATEMENT

1 JANUARY – 31 DECEMBER

| PARENT COMPANY | | | | GROUP | |
|---|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | Note | 2010 | 2009 |
| **101,343** | **95,155** | **EBIT** | | **89,047** | **84,233** |
| 6,416 | 7,754 | Depreciation, amortisation and impairment | | 12,993 | 15,826 |
| 4,036 | 4,644 | Share-based payment recognised in the income statement | | 4,644 | 4,036 |
| (73,352) | 34,888 | Change in net working capital | 29 | 29,134 | (42,928) |
| **38,443** | **142,441** | **Cash generated from operations (operating activities)** | | **135,818** | **61,167** |
| (14,649) | (35,716) | Tax paid | | (35,998) | (15,829) |
| 1,081 | 331 | Financial income received | | 1,746 | 4,101 |
| (13,394) | (3,470) | Financial expenses paid | | (8,907) | (12,258) |
| **11,481** | **103,586** | **Cash flows from operating activities** | | **92,659** | **37,181** |
| (1,775) | (4,809) | Acquisition etc. of intangible assets | | (4,809) | (2,557) |
| (14,264) | (26,815) | Acquisition etc. of property, plant and equipment | | (47,860) | (22,179) |
| (5,962) | (300) | Acquisition of financial assets/company | | 0 | 0 |
| **(22,001)** | **(31,924)** | **Cash flows from investing activities** | | **(52,669)** | **(24,736)** |
| (3,288) | (124,200) | Other repayments to credit institutions | | (139,634) | (16,961) |
| 1,257 | 93,270 | Proceeds from the issue of shares, net | | 93,270 | 1,257 |
| (869) | 63,197 | Changes in deposits relating to suppliers/customer contracts | 29 | 63,197 | 0 |
| 0 | 0 | Acquisition of minority interests | | 0 | (5,962) |
| 0 | 0 | Dividends paid to minorities | | (27,508) | 0 |
| **(2,900)** | **(32,267)** | **Cash flows from financing activities** | | **(10,675)** | **(21,666)** |
| **(13,420)** | **103,929** | **Cash flows for the year** | | 29,315 | (9,221) |
| 9,404 | (4,016) | Cash and cash equivalents at 1 January | | 59,351 | 68,154 |
| 0 | 0 | Market value adjustment of cash and cash equivalents | | 1,720 | 418 |
| **(4,016)** | **99,913** | **Cash and cash equivalents at 31 December** | 20 | **90,386** | **59,351** |

# NOTES

# 1. ACCOUNTING POLICIES

The annual report of Topsil Semiconductor Materials A/S for 2010, comprising the financial statements of the parent company and the consolidated financial statements, is presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies in reporting class D, pursuant to the Danish Statutory Order on Adoption of IFRS issued in accordance with the Danish Financial Statements Act and the Rules and Regulations of NASDAQ OMX Copenhagen.

The consolidated financial statements and the parent company financial statements also comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The consolidated financial statements and the parent company financial statements are presented in Danish kroner (DKK), which is the Group's presentation currency and the functional currency of the parent company.

The consolidated financial statements and parent company financial statements are prepared on the basis of the historical cost convention.

### Implementation of new and amended standards and interpretations

The following new and amended standards and interpretations, which apply for financial years beginning on 1 January 2010, have been implemented in the annual report for 2010.

### Standards and interpretations impacting the profit for the year or the financial position

The implementation of the new and amended standards and interpretations in the annual report for 2010 has not resulted in changes to accounting policies.

### Standards and interpretations impacting presentation and disclosure

The implementation of the new and amended standards and interpretations in the annual report for 2010 has not resulted in changes to presentation and disclosure.

### Standards and interpretations implemented with no effect on the annual report

| | |
|---|---|
| Amended IAS 27, Consolidated and Separate Financial Statements (January 2008) | The amended IAS 27 has been implemented with effect as from the financial year beginning on 1 January 2010. The most significant amendments to IAS 27 concern the accounting treatment of transactions resulting in changes in the Group's ownership interests in subsidiaries. The Group did not perform such transactions in 2010 and the annual report was therefore not affected by the change. |
| Amended IAS 39, Financial Instruments: Recognition and measurement (Eligible Hedged Items) (July 2008) | The amended IAS 39 has been implemented in the current financial year.<br><br>The amendments clarify the hedging provisions for hedging inflation risk and using options as hedging instruments. These provisions are irrelevant to the Group and the annual report was therefore not affected by the implementation. |
| IFRIC 17 Distributions of Non-Cash Assets to Owners (November 2008) | The interpretation has been implemented for the financial year beginning on 1 January 2010.<br><br>IFRIC 17 concerns the accounting treatment of distributions of non-cash assets to the owners. As the Company has not distributed non-cash assets, the annual report was not affected by the implementation. |
| Minor amendments of various standards as a result of the IASB's annual improvement process (2009) | The amendments are the result of a number of proposals contained in the IASB's annual improvement process.<br><br>The individual amendments have been considered and implemented in the current financial year. The implementation did not affect the annual report. |

### Standards and interpretations not yet in force

At the date of publication of this annual report, the following new or amended standards and interpretations have not yet entered into force and are therefore not included in this annual report:

| | |
|---|---|
| Amended IFRS 7, Financial Instruments: Disclosures (Enhancing disclosures about transfers of financial assets) (October 2010) | The amendment increases the disclosure requirements of IFRS 7 for transactions involving transfer of financial assets where the transferor retains some ”continuing involvement” in the asset.<br><br>An entity has continuing involvement in a transferred asset if:<br>• the entity retains some of the contractual rights or obligations related to the transferred financial asset, or<br>• the entity achieves new contractual rights or obligations related to the transferred financial asset.<br><br>Disclosure is required for all transferred financial assets where the transferor retains continuing involvement in the asset, regardless of whether the asset is derecognised or not.<br><br>The amendments come into force for financial years starting on or after 1 July 2011. The amendment has not yet been adopted for use in the EU. |
| IFRS 9, Financial Instruments: Classification and measurement (November 2009) | IFRS 9 concerns the accounting treatment of financial assets in relation to classification and measurement. Pursuant to IFRS 9, the “held-to-maturity” and “available-for-sale” categories are eliminated. A new optional category is defined for equity instruments which are not held for sale and which at initial recognition are classified in the category “fair value through other comprehensive income”. In future, financial assets will thus be classified either as “measured at amortised cost” or “measured at fair value through profit or loss” or – in case of qualifying equity instruments – as “measured at fair value through other comprehensive income”.<br><br>The standard comes into force for financial years starting on or after 1 January 2013. The standard has not yet been adopted for use in the EU. |
| IAS 24, Related Parties (November 2009) | The amendment provides exemption from certain of the disclosure requirements for transactions between entities which are controlled or significantly influenced by the same state. Furthermore, the definition of a related party has been clarified.<br><br>The amendment comes into force for financial years starting on or after 1 January 2011. |
| Amended IAS 32, Financial Instruments: Presentation (Classification of Rights Issue) (October 2009) | The amendment clarifies the accounting treatment of subscription rights, options or warrants denominated in another currency than the issuer’s functional currency.<br><br>The amended standard comes into force for the financial years beginning on or after 1 February 2010. |

| | |
|---|---|
| IFRS 9, Financial Instruments: Classification and measurement (Financial liabilities) (October 2010) | The amendment of IFRS 9 adds provisions concerning the classification and measurement of financial liabilities and derecognition.<br><br>The majority of the provisions of IAS 39 concerning the measurement and recognition of financial liabilities have been transferred in their entirety to IFRS 9. However, IFRS 9 comprises the following amendments of the provisions of IAS 39:<br>• The exemption in IAS 39, according to which derivative financial instruments related to unlisted shares could under certain circumstances be measured at cost, is repealed. According to IFRS 9, all derivative financial instruments must be measured at fair value.<br>• According to IFRS 9, entities choosing to measure financial liabilities at fair value (the fair value option) must present the part of the change in the fair value during the period which is attributable to changes in the entity's own credit risk in Other Comprehensive Income (OCI).<br><br>The provisions on derecognition have been transferred in their entirety from IAS 39 to IFRS 9.<br><br>IFRS 9 comes into force for financial years starting on or after 1 January 2013. The standard has not yet been adopted for use in the EU. |
| Minor amendments of various standards as a result of the IASB's annual improvement process (May 2010) | The amendments are the result of a number of proposals in IASB's annual improvement process, which rectifies inconsistencies in standards or clarifies existing provisions in the standards. The Group has decided in favour of early adoption of the amendments to IAS 1 (see above), which form part of the amendments presented in the improvement process from May 2010. Other amendments in the improvement process from May 2010 have not been implemented in the annual report for 2010.<br><br>Most amendments come into force for financial years starting on or after 1 January 2011. |
| Amended IFRIC 14, The Limit on a Defined Benefit Asset, the Minimum Funding Requirements and Their Interaction (November 2009) | The amendments imply that entities may recognise prepayments of minimum contributions as an asset.<br><br>The amendment comes into force for financial years starting on or after 1 January 2011. |
| IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (November 2009) | IFRIC 19 concerns an entity's accounting treatment when it agrees with its creditor to convert a financial liability in full or in part into shares or other equity instruments in the entity.<br><br>The interpretation comes into force for financial years starting on or after 1 July 2010. |

Management believes that application of the remaining amended standards and interpretations will not have a material impact on the annual reports for the coming financial years. Otherwise, the accounting policies are consistent with last year's, as described in the following.

### Consolidated financial statements

The consolidated financial statements consolidate the financial statements of the parent company, Topsil Semiconductor Materials A/S, and subsidiaries in which the parent company directly or indirectly holds more than 50% of the shares.

### Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the parent company and those of the subsidiaries, which are all prepared in accordance with the Group's accounting policies.

On consolidation, items of the same nature are aggregated and intra-group income and expenses, intra-group balances and shareholdings are eliminated. Unrealised gains and losses on transactions between consolidated companies are also eliminated.

The items of the financial statements of subsidiaries are fully consolidated in the consolidated financial statements. The minority interests' proportionate share of the profit is included in the consolidated profit for the year and the comprehensive income for the Group and as a separate item under the consolidated equity.

### Foreign currency translation

On initial recognition, transactions denominated in currencies other than the individual company's functional currency are translated at the exchange rate ruling at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange differences between the exchange rate at the transaction date and the exchange rate at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial items.

Property, plant and equipment and intangible assets, inventories and other non-monetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than Danish kroner (DKK), the income statements are translated at average exchange rates for the respective months, unless these deviate materially from the actual exchange rates at the transaction dates. In that case, the actual exchange rates are used. Balance sheet items are translated at the exchange rates at the balance sheet date. Goodwill is considered to be attributable to the acquired company in question and is translated at the exchange rate at the balance sheet date.

Exchange rate differences arising on the translation of foreign subsidiaries' opening balance sheet items at the exchange rates ruling on the balance sheet date and on the translation of income statements from average exchange rates to the exchange rates at the balance sheet are recognised in other comprehensive income. Exchange rate differences arising as a result of changes made directly in the equity of the foreign enterprise are also recognised in other comprehensive income.

Foreign exchange adjustment of receivables from or paybles to subsidiaries which are considered part of the parent company's overall investment in the subsidiary in question are also taken directly to equity in the consolidated financial statements, whereas they are recognised in the income statement of the parent company.

### Derivative financial instruments

On initial recognition, derivative financial instruments are measured at fair value at the settlement date. Directly attributable costs related to the purchase or issuance of the individual financial instruments (transaction costs) are added to the fair value on initial recognition unless the financial asset or the financial liability is measured at fair value through profit or loss.

Subsequently, the derivative financial instruments are measured at fair value at the balance sheet date. Positive and negative fair value of derivative financial instruments is recognised under other receivables and other payables, respectively.

Changes in the fair value of derivative financial instruments classified as and qualifying for recognition as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the value of the hedged asset or hedged liability.

Changes in the fair value of derivative financial instruments classified as and qualifying for recognition as effective hedges of future transactions are recognised directly in equity. The ineffective part is recognised immediately in the income statement. When the hedged transactions are realised, cumulative changes are recognised as part of the cost of the transactions in question.

Derivative financial instruments that do not qualify for hedge accounting are considered trading portfolios and are measured at fair value. Any fair value changes are recognised in the income statement under financial items as they occur.

Certain contracts contain terms and conditions similar to those of derivative financial instruments. To the extent that the embedded derivative financial instruments differ significantly from the overall contract, they are recognised and measured as separate instruments at fair value, unless the contract in question in its entirety is recognised and measured at fair value.

### Share-based incentive schemes

Share-based incentive schemes in which employees can only opt to buy shares in the parent company (equity-based schemes) are measured at the equity instruments' fair value at the grant date and recognised in the income statement under staff costs over the vesting period. The balancing item is recognised directly in equity.

The fair value of the equity instruments is determined using Black&Scholes' model with the parameters indicated in note 6.

Employee shares granted and exercised during the financial year are recognised as an expense at an amount calculated as the difference between the market price and the exercise price at the grant date.

### Tax

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit/loss for the year and classified directly as equity by the portion attributable to entries directly on equity.

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid on account.

The calculation of the year's current tax is based on the tax rates and tax rules applicable at the balance sheet date.

Deferred tax is measured using the tax rates and tax rules that, based on legislation in force or in reality in force at the balance sheet date, are expected to apply in the respective countries when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changed tax rates or rules are recognised in the income statement, unless the deferred tax can be attributed to items previously recognised directly in equity. In the latter case, the change is also recognised directly in equity.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to the initial recognition of goodwill or the initial recognition of a transaction, apart from business combinations, and where the temporary difference existing at the date of initial recognition affects neither profit/loss for the year nor taxable income.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, unless the parent company is able to control when the deferred tax is to be realised and it is likely that the deferred tax will not crystallise as current tax within the foreseeable future.

Deferred tax is calculated based on the planned use of the individual asset and the settlement of the individual liability, respectively.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognised in the balance sheet at the value at which the asset is expected to be realised, either through a set-off against deferred tax liabilities or as net tax assets to be offset against future positive taxable income. At each balance sheet date, it is assessed whether it is likely that there will be sufficient future taxable income for the deferred tax asset to be utilised.

## INCOME STATEMENT

### Revenue

Revenue, comprising the sale of silicon ingots, wafers and rent, is recognised in the income statement once delivery and transfer of risk to the buyer has taken place.

Revenue is measured as the fair value of the consideration received or receivable. If interest-free credit has been granted for payment of the outstanding consideration extending beyond the usual credit period, the fair value of the payment is calculated by discounting future payments. The difference between the fair value and the nominal value of the consideration is recognised as financial income in the income statement over the extended credit period by using the effective interest method.

Revenue is stated exclusive of VAT, duties and discounts etc., levied on behalf of a third party.

### Costs of raw materials and consumables

Costs of raw materials and consumables comprise direct costs incurred in generating the revenue. Costs concerning development projects in the production environment that do not qualify for recognition in the balance sheet are also recognised in costs of raw materials and consumables.

### Other operating income and operating costs

Other operating income and costs include items of a secondary nature relative to the main activity of the Group, including gains and losses on sales of intangible assets and property, plant and equipment, if the selling price of the assets exceeds the original cost.

### Other external expenses

Other external expenses include distribution, selling, and advertising costs, administrative expenses, expenses for office premises, bad debts, etc. Other external expenses also comprise costs of development projects that do not qualify for recognition in the balance sheet.

### Government grants

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

Grants to cover expenses incurred are recognised in the income statement proportionally over the periods in which the associated expenses are recognised. The grants are set of against the expenses incurred. Government grants associated with an asset are deducted from the cost of the asset.

### Staff costs

Staff costs comprise wages and salaries and social security costs, pensions, share-based payment, etc. to the employees of the Group. Staff costs also comprise costs for development projects that do not qualify for recognition in the balance sheet.

### Financial income and expenses

Financial items comprise interest income and expenses, the interest element 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

### Goodwill

On initial recognition, goodwill is measured and recognised as the excess of the cost of the acquired company over the fair value of the acquired assets, liabilities and contingent liabilities, as described under the consolidated financial statements.

On recognition of goodwill, the goodwill amount is allocated to those of the Group's activities that generate separate cash flows (cash-generating units). Goodwill is not amortised, but is tested for impairment at least once a year, as described below.

### Other intangible assets

Development projects concerning products and processes which are clearly defined and identifiable are recognised as intangible assets if it is probable that the product or the process will generate future economic benefits for the Group and the development costs of the individual asset can be measured reliably.

The Group recognises borrowing costs in the cost of qualifying assets with longer manufacturing periods.

The depreciation base is cost less the residual value. The residual value is the amount expected to be obtainable in a sale of the asset, less costs to sell, if the asset already had the age and were in such condition as the asset is expected to be at the end of its useful life. The cost of a total asset is split into smaller parts that are depreciated separately if such components have different useful lives.

Other development costs are recognised as costs in the income statement when incurred.

On initial recognition, development projects are measured at cost. The cost of development projects includes costs such as salaries and amortisation that are directly attributable to the development projects and are necessary to complete the project calculated from the date when the development project first qualifies for recognition as an asset.

Completed development projects are amortised on a straight-line basis over their expected useful lives. The amortisation period is usually five years, but may in certain cases be as long as 20 years if this longer amortisation period is deemed to be more representative of the Group's use of the developed product, etc. Amortisation for the year is recognised in the income statement under "Depreciation and amortisation".

Development projects are written down to their recoverable amount where this is lower than the carrying amount, as described below. Development projects in progress are tested for impairment at least once a year.

Other intellectual property rights in the form of rights of use, patents and customer lists are measured at cost less accumulated amortisation and impairment losses. Other intellectual property rights are amortised on a straight-line basis over the remaining life of the patent. If the actual life of the patent is shorter than either the remaining term or the contract period, amortisation is provided over the shorter life of the patent.

Other intellectual property rights are written down to their recoverable amount where this is lower than the carrying amount, as described below.

### Property, plant and equipment

Plant and machinery, operating equipment, fixtures and fittings are measured at cost less accumulated depreciation and impairment.

Cost comprises the purchase price and any costs directly attributable to the acquisition and any preparation costs incurred until the date when the asset is available for use. In the case of assets produced by the Group itself, cost comprises 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 is the lower of the fair value of the asset and the present value of the future minimum lease payments.

The Group recognises borrowing costs in the cost of qualifying assets with longer manufacturing periods.
The depreciation base is cost less the residual value. The residual value is the amount expected to be obtainable in a sale of the asset, less costs to sell, if the asset already had the age and were in such condition as the asset is expected to be at the end of its useful life. The cost of a total asset is split into smaller parts that are depreciated separately if such components have different useful lives.

Straight-line depreciation is provided based on the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings | 20 years |
| Technical plant and machinery | 10-20 years |
| Other fixtures and fittings, tools and equipment | 3-6 years |

Depreciation methods, useful lives and residual values are reassessed annually.

Property, plant and equipment are written down to their recoverable amount if this is lower than the carrying amount, see below.

### Impairment of property, plant and equipment, intangible assets and investments in subsidiaries

The carrying amounts of property, plant and equipment, intangible assets with determinable useful lives and investments in subsidiaries are tested at the balance sheet date to determine whether there are any indications of impairment. If this is the case, the recoverable amount of the asset is determined to establish if there is a need to recognise an impairment loss and the extent of such impairment loss. The recoverable amount of development projects in progress and goodwill is tested annually regardless of whether any indication of impairment has been established.

If the asset does not generate any cash flows independently of other assets, the recoverable amount is calculated for the smallest cash-generating unit of which the asset forms part.

The recoverable amount is calculated as the higher of the fair value less costs to sell and the value in use of the asset or the cash-generating unit, respectively. In determining the value in use, the estimated future cash flows are discounted to their present value, using a discount rate reflecting current market assessments of the time value of money as well as risks that are specific to the asset or the cash-generating unit and which have not been taken into account in the estimated future cash flows.

If the recoverable amount of the asset or the cash-generating unit is lower than the carrying amount, the carrying amount is written down to the recoverable amount. For cash-generating units, the write-down is allocated in such a way that goodwill amounts are written down first, and any remaining need for write-down is allocated to other assets in the unit, although no individual assets are written down to a value lower than their fair value less expected costs to sell.

Impairment losses are recognised in the income statement. If write-downs are subsequently reversed as a result of changes in the assumptions on which the calculation of recoverable amount is based, the carrying amount of the asset or the cash-generating unit is increased to the adjusted recoverable amount, not exceeding the carrying amount that the asset or cash-generating unit would have had, had the write-down not been made. Impairment of goodwill is not reversed.

### Investments in subsidiaries

On initial recognition, investments in subsidiaries are measured at cost plus transaction costs. Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value. Cost is also written down if the dividend distributed exceeds the accumulated earnings in the company since the parent company's acquisition of the investments.

### Inventories

Inventories are measured at the lower of cost according to the FIFO method and net realisable value.

The cost of raw materials and consumables comprises the purchase price plus delivery costs. The cost of manufactured goods and work in progress comprises the cost of raw materials, consumables and direct labour as well as allocated fixed and variable indirect production costs.

Variable indirect production costs comprise indirect materials and wages and are allocated based on preliminary calculations of the goods actually produced. Fixed indirect production costs comprise maintenance costs and depreciation and impairment of the machinery and equipment used in the production process as well as general factory administration and management expenses. Fixed production costs are allocated on the basis of the normal capacity of the production plant.

The net realisable value of inventories is calculated as the expected selling price less completion costs and costs incurred in making the sale.

### Receivables

Receivables comprise non-current deposits in connection with the purchase and sales of goods, receivables from sales of goods and services. Receivables are classified as loans and receivables, which are financial assets with fixed or determinable payments that are not quoted in an active market and are not derivative financial instruments.

On initial recognition, receivables are measured at fair value and subsequently at amortised cost, which usually corresponds to the nominal value less provision for bad debts. Impairment loses are assessed individually.

### Assets held for sale and related liabilities

Assets held for sale comprises assets and liabilities in Cemat70 S.A., the most significant asset of which is land and buildings let on market conditions and which are expected to be sold within 12 months after the balance sheet date. The largest individual tenant is Cemat Silicon S.A.

Assets held for sale are not depreciated or amortised, but are written down to net realisable value less expected costs to sell where this is lower than the carrying amount. Assets held for sale are recognised under current assets.

Assets and directly related liabilities are recognised in separate line items in the balance sheet. The items are specified in the notes.

### Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

### Pension liabilities etc.

The Group has entered into defined contribution plans and similar plans with a substantial part of the Group's employees. In case of defined contribution plans, fixed contributions are paid regularly to independent pension companies and the like. The contributions are recognised in the income statement over the vesting period. Payments due are recognised as a liability in the balance sheet. Other pension liabilities are statutory in foreign subsidiaries.

### Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a consequence of past events during the financial year or prior years, and when it is likely that settlement of the obligation will require an outflow of the Group's financial resources. Warranty commitments cover commitments to repair faulty or defective products sold within the warranty period.

Provisions are measured as the best estimate of the costs required to settle the liabilities at the balance sheet date. Provisions with an expected term of more than a year after the balance sheet date are measured at present value.

### Lease liabilities

Lease liabilities concerning assets held under finance leases are recognised in the balance sheet as liabilities and measured at the inception of the lease at the lower of the fair value of the leased asset and the present value of future lease payments.

On subsequent recognition, lease liabilities are measured at amortised cost. The difference between the present value and the nominal value of the lease payments is recognised in the income statement over the term of the lease as a financial expense.

Operating lease payments are recognised in the income statement on a straight-line basis over the lease term.

### Other financial liabilities

Other financial liabilities comprise bank debt, trade payables and other payables to public authorities. On initial recognition, other financial liabilities are measured at fair value less transaction costs. In subsequent periods, financial liabilities are measured at amortised cost, applying the effective interest method, to the effect that the difference between the proceeds and the nominal value is recognised in the income statement as a financial expense over the term of the loan.

## STATEMENT OF CASH FLOWS

The consolidated cash flow statement is presented according to the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the year.

The cash effect of acquisitions and divestments of entities is shown separately under cash flows from investing activities. Cash flows from the acquisition of enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from the disposal of enterprises are recognised up to the date of disposal.

Cash flows from operating activities are stated as operating profit, adjusted for non-cash operating items and changes in working capital and financial income and expenses, less the income tax paid during the year attributable to operating activities.

Cash flows from investing activities comprise payments related to the purchase and sale of financial assets, including non-current prepayments for goods, subsidiaries as well as the purchase, development, improvement, sale, etc. of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the size or the composition of the parent company's share capital and related costs as well as the raising and repayment of loans, cash deposits, instalments on interest-bearing debt, acquisition of treasury shares and payment of dividends. Furthermore, cash flows regarding assets held under finance leases in the form of lease payments made are recognised.

Cash and cash equivalents comprise cash less bank overdrafts that are an integral part of the cash management.

### Segment information

The Group's sole segment is the "production and sale of silicon ingots and wafers."

## 1. ACCOUNTING POLICIES (CONTINUED)

### Financial highlights and key ratios

The financial ratios have been defined and calculated in accordance with "Recommendations and Financial Ratios 2010" issued by the Danish Association of Financial Analysts, except "return on invested capital" which is calculated in accordance with the formula below.

Calculations of earnings per share and diluted earnings per share are specified in note 11.

EBITA (Earnings Before Interest, Tax and Amortisation) is defined as EBIT plus intangible impairment for the year.

Net working capital (NWC) is defined as the value of inventories, receivables and other operating assets less trade payables and other current operating liabilities. Cash and cash equivalents and deferred tax assets are not included in the net working capital.

Net interest-bearing debt is defined as interest-bearing liabilities less interest-bearing assets, such as cash and cash equivalents.

Invested capital is defined as net working capital plus the carrying amount of property, plant and equipment and non-current intangible assets, less other provisions and non-current operating liabilities.

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) is defined as EBIT plus depreciation and amortisation impairment of the year.

| Financial ratios | Formula |
|---|---|
| EBITDA-margin (%) | $\frac{\text{EBITDA*100}}{\text{Revenue}}$ |
| EBIT-margin (%) (profit margin) | $\frac{\text{EBIT}}{\text{Revenue}}$ |
| Return on invested capital (%) including goodwill | $\frac{\text{EBIT}}{\text{Average invested capital}}$ |
| Return on equity (%) | $\frac{\text{Profit for the year after tax}}{\text{Average equity}}$ |

## 2. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND UNCERTAINTIES

Many account items cannot be measured with certainty, but only estimated. Such estimates consist of assessments based on the most recent information available at the time of presenting the financial statements. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to supplementary information, additional experience or subsequent events.

In applying the accounting policies described, Management has exercised the following critical accounting judgements that significantly affect the annual report:

- Recognition and measurement of development projects, goodwill, tax assets, inventories, receivables from sales and provisions involve accounting estimates. The value of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to assume e.g. a course of events that reflects Management's assessment of the most probable course of events.
- Assets held for sale are recognised at net realisable value (fair value) less costs to sell which is estimated to equal the historical cost of the net assets. A number of offers have been received for the shares in Cemat70 S.A. but none of them were considered to be attractive. Management believes that it will still be possible to divest the shares and works with various scenarios for the divestment of the shareholding. These efforts are ongoing and Management believes that one of the potential scenarios will result in a divestment during 2011.
- Although the Group trades extensively with customers and suppliers in foreign currencies, the parent company's functional currency is still deemed to be Danish kroner based on IAS 21.9-12.

## 3. SEGMENT INFORMATION

Based on IFRS 8, Operating segments, the Group has considered whether it has reporting segments.

The Group's internal reporting to the Board of Directors and Management Board of the parent company is focused on the Group as a whole, except for sub-specification for the legal entities in Denmark and Poland, respectively. Management believes that the legal entities meet the aggregation criteria, see IFRS 8.12, and the Topsil Group therefore has only one segment: "production and sale of silicon ingots and wafers".

**Other segment information:**

Specification of sales of products is stated below:

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| 339,874 | 330,550 | Sale of silicon ingots and wafers | 435,064 | 397,532 |
| 0 | 0 | Rent | 8,389 | 9,371 |
| 5,850 | 11,608 | Remelt | 11,608 | 5,850 |
| 0 | 240 | Other | 1,644 | 10,730 |
| **345,724** | **342,398** | **Total** | **456,705** | **423,483** |

| | 2010 | 2009 |
|---|---|---|
| The distribution of sale of silicon ingots and wafers on Group level is stated below: | | |
| **Annual distribution in %** | | |
| FZ-NTD | 61 | 67 |
| CZ | 13 | 6 |
| CZ-EPI | 10 | 10 |
| FZ-HPS | 8 | 10 |
| FZ-PFZ | 8 | 7 |
| **Total** | **100** | **100** |

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| | | **Revenue by geographical market:** | | |
| 239,299 | 249,144 | Europe | 285,826 | 258,739 |
| 17,583 | 15,107 | USA | 30,977 | 32,357 |
| 88,842 | 78,147 | Asia | 139,902 | 132,387 |
| **345,724** | **342,398** | **Total** | **456,705** | **423,483** |

*Information on significant customers:*
*Of the total consolidated revenue, DKK 222,119,000 comprises sale to three customers, with whom long-term contracts have been concluded for the delivery of silicon wafers (2009: DKK 224,654,000).*

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| | | **Non-current assets by physical location:** | | |
| 133,614 | 109,838 | Denmark | 109,838 | 133,614 |
| 159,687 | 159,987 | Poland | 91,617 | 72,066 |
| **293,301** | **269,825** | **Total** | **201,455** | **205,680** |

## 4. STAFF COSTS

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 1,000 | 1,241 | Directors' fees | 1,273 | 1,000 |
| 44,585 | 47,679 | Salaries and wages | 60,739 | 53,707 |
| 1,427 | 1,521 | Bonuses for managerial employees | 1,857 | 2,149 |
| 2,223 | 1,804 | Bonuses for Management Board | 1,804 | 2,223 |
| 4,036 | 3,880 | Share-based payment | 4,229 | 4,036 |
| 3,551 | 4,148 | Pension contributions, defined contribution plan | 4,547 | 3,740 |
| 524 | 725 | Other social security costs | 8,572 | 6,657 |
| **57,346** | **60,998** | **Total** | **83,021** | **73,512** |
| **91** | **100** | **Average number of employees, FTE** | **384** | **377** |

*The calculation of the average number of employees (FTE) is based on pension contributions for employees in the parent company, while the calculation of the average for subsidiaries is based on the number of employees at the end of each month.*

*At the end of 2010, the parent company had 110 employees (2009: 92), while the Group had 396 (2009: 370).*

| DKK '000 | Board of Directors 2010 | Board of Directors 2009 | Management Board 2010 | Management Board 2009 | Other employees 2010 | Other employees 2009 |
|---|---|---|---|---|---|---|
| Directors' fees | 1,273 | 1,000 | 0 | 0 | 0 | 0 |
| Salaries and wages | 0 | 0 | 3,456 | 2,989 | 10,051 | 8,402 |
| Bonuses for managerial employees | 0 | 0 | 0 | 0 | 1,857 | 2,149 |
| Bonuses for Management Board | 0 | 0 | 1,804 | 2,223 | 0 | 0 |
| Pension contributions | 0 | 0 | 534 | 412 | 544 | 654 |
| Share-based payment | 0 | 0 | 1,431 | 1,383 | 2,798 | 2,653 |
| **Total** | **1,273** | **1,000** | **7,225** | **7,007** | **15,250** | **13,858** |

*The fee to the Chairman of the Board for the current term amounts to DKK 332,000 (2009: DKK 300,000), Deputy Chairman DKK 225,000 (2009: DKK 225,000) and ordinary members DKK 150,000. (2009: DKK 150,000). Furthermore, the chairman of the Audit Committee receives DKK 75,000 (2009: DKK 0) and the remaining member of the Audit Committee receives half this amount.*

*The Management Board and other managerial employees are covered by special bonus schemes. The Management Board's bonus scheme is related to developments in sales and financial performance. Other managerial employees' bonuses are subject to individual targets.*

*For the 2009 and 2010 financial years, the Chief Executive Officer is entitled to a bonus at the rate of 1.0% of the pre-tax profit according to the consolidated financial statements for the year and at the rate of 4.0% of the growth in the group's pre-tax profit, calculated relative to the pre-tax profit according to the consolidated financial statements for the prior financial year.*

*For the 2009 and 2010 financial years, the EVP, Logistics, Sales and Marketing, is entitled to a bonus at the rate of 0.7% of the pre-tax profit according to the consolidated financial statements for the year and at the rate of 2.8% of the growth in the Group's pre-tax profit, calculated relative to the pre-tax profit according to the consolidated financial statements for the prior financial year.*

## 5. PENSION SCHEMES

The parent company has entered into defined contribution plans only.
The foreign subsidiaries have entered into statutory defined benefit plans.

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| 3,551 | 4,148 | Pension contributions | 4,547 | 3,740 |
| **3,551** | **4,148** | **Total** | **4,547** | **3,740** |

*Under defined contribution plans, the employer pays regular contributions to an independent pension company, pension fund or the like, but has no risk in relation to the future development of interest rates, inflation, mortality, disability, etc. in so far as the amount that will eventually be paid to the employee is concerned. The Danish pension commitments are funded.*

*The foreign subsidiaries have statutory defined pensioning serverance pay.*

## 6. SHARE-BASED PAYMENT

In 2009, the Management Board and a number of managerial employees were granted warrants to subscribe for shares in the Group at a fixed strike price. In 2010, warrants were granted to two new managerial employees under the same scheme. The warrant plan is an equity-based share-based payment scheme. The value of the warrants is recognised in the income statement under staff costs on a straight-line basis from the grant date up to the vesting date, which means that at the exercise date no further recognition is made in the income statement.

| | Number of warrants '000 | Weighted average strike prices DKK |
|---|---|---|
| Warrants granted at 01.01.2009 | 5,431 | 0.53 |
| Granted during the financial year | 28,697 | 0.81 |
| Forfeited due to termination of employment | 0 | 0 |
| Exercised during the financial year | (4,569) | 0.28 |
| Lapsed during the financial year | (862) | 1.89 |
| **Warrants granted at 31.12.2009** | **28,697** | **0.81** |
| | | |
| Warrants granted at 01.01.2010 | 28,697 | 0.81 |
| Granted during the financial year | 1,968 | 1.47 |
| Granted during the financial year, adjustment of existing warrants scheme due to dilution at capital increase in 2010 | 2,255 | i.a. |
| Forfeited due to termination of employment | 0 | 0 |
| Exercised during the financial year | (7,600) | 0.81 |
| Lapsed during the financial year | 0 | 0 |
| **Warrants granted at 31.12.2010** | **25,320** | **0.79** |

*weighted average maturity is 249 days (2009: 447 days)*

## 6. SHARE-BASED PAYMENT (CONTINUED)

| | 2010 | 2009 |
|---|---|---|
| Number of exercisable warrants at year end | 0 | 0 |
| Number of exercisable warrants at the release of the full-year profit announcement ('000) | 13,748 | 9,566 |
| | | |
| **Total fair value at 31 December for outstanding warrants (DKK '000 )** | **17,442** | **13,642** |
| | | |
| Fair value per warrant | 0.69 | 0.48 |
| Weighted average strike price per warrant | 0.79 | 0.81 |

*In 2010, the fair value of warrants was recognised at DKK 4,229,000, against DKK 4,036,000 in 2009.*

**The grant year, strike price and exercise period for the individual grants are as follows:**

| Year of grant | Strike price | Strike period* | Granted | Adjusted no.** | Lapsed | Exercised | Yet to be exercised |
|---|---|---|---|---|---|---|---|
| 2009 | 0.81 | 2010 | 9,565,620 | 0 | 0 | 7,599,870 | 1,965,750 |
| 2009 | 0.81 | 2011 | 9,565,620 | 1,232,359 | 0 | 0 | 10,797,979 |
| 2009 | 0.81 | 2012 | 9,565,620 | 1,022,279 | 0 | 0 | 10,587,899 |
| 2010 | 1.47 | 2011 | 984,222 | 0 | 0 | 0 | 984,222 |
| 2010 | 1.47 | 2012 | 984,222 | 0 | 0 | 0 | 984,222 |
| **Total** | | | **30,665,304** | **2,254,638** | **0** | **7,599,870** | **25,320,072** |

** The warrants may be exercised during a six-week period after publication of the full year profit announcement.*
*** Adjustment of existing warrants scheme due to dilution at capital increase in 2010.*

*The fair value calculated at the grant is based on Black&Scholes' model for valuation of warrants including dilution.*

The assumption applied in determining the fair value at the grant date of warrants granted during the year are as follows:

| | Granted in | |
|---|---|---|
| DKK '000 | 2010 | 2009 |
| Share price at grant | 1.34 | 0.92 |
| Strike price | 1.47 | 0.81 |
| Volatility | 42.2% | 68.3% |
| Expected duration | 1-2 years | 1-3 years |
| Expected dividend per share | 0 | 0 |
| Risk-free interest rate | 2.8% | 1.7%-2.0% |
| | | |
| Warrants granted ('000) | 1,968 | 28,697 |
| Fair value per warrant | 0.19 | 0.36 |
| **Total fair value (DKK '000) )** | **376** | **10,252** |

*The expected volatility is based on the historical volatility (calculated over the past year) adjusted for expected changes as a result of publicly available information. The fair value is based on the exercise of the warrants at the earliest opportunity.*

*Warrants that have not been exercised are forfeited if the owner terminates his/her employment. In the event of changes in the Group's capital structure resulting in a dilution of the value of the warrants, the employees are entitled to subscribe for a further number of warrants corresponding to the ratio between the Group's share capital before and after the change in its capital structure. In the event of changes in the control of the Group, the employee will be entitled to exercise all his/her warrants, which exercise is to take place during the first coming exercise period. If the warrants are not exercised during the first coming exercise period, the unexercised warrants will lapse. Under the warrant scheme, the employees are entitled to postpone the exercise of the warrants by one or two years. However, all warrants which have not been exercised in 2012 shall lapse.*

**In 2010 , the following changes occurred in management's holding of warrants:**

| No. of warrants | Holding 01.01.10 | Exercised 2010 | Lapsed 2010 | Granted 2010 | Adjusted number | Holding 31.12.10 |
|---|---|---|---|---|---|---|
| Keld Lindegaard Andersen, CEO | 5,897,250 | 0 | 0 | 0 | 630,240 | 6,527,490 |
| Jørgen Bødker, EVP, Director of Logistics, Sales & Marketing | 4,128,075 | 1,376,025 | 0 | 0 | 294,112 | 3,046,162 |
| Hans P. Mikkelsen, Supply Chain Manager | 1,896,058 | 632,019 | 0 | 0 | 135,088 | 1,399,127 |
| Theis Leth Sveigaard, Expansion Projects Manager | 1,847,927 | 615,976 | 0 | 0 | 131,658 | 1,363,609 |
| Thomas Clausen, former head of development | 1,641,812 | 547,270 | 0 | 0 | 116,974 | 1,211,516 |
| Jens Christian Nielsen, CFO | 2,610,978 | 870,326 | 0 | 0 | 186,024 | 1,926,676 |
| Per Kringhøj, Technical Manager | 2,489,015 | 829,672 | 0 | 0 | 177,334 | 1,836,677 |
| Pia Prag Hansen, Production Manager | 1,756,952 | 585,651 | 0 | 0 | 125,178 | 1,296,479 |
| Jens Hildestad, QA Manager | 0 | 0 | 0 | 1,149,456 | 0 | 1,149,456 |
| Martin O. Hansen, CEO (CS) | 3,177,012 | 1,059,004 | 0 | 0 | 226,352 | 2,344,360 |
| Ole Andersen, Head of Production (CS) | 1,567,326 | 522,442 | 0 | 0 | 111,666 | 1,156,550 |
| Roman Nowak, Vice President (CS) | 673,782 | 224,594 | 0 | 0 | 48,004 | 497,192 |
| Maciek Lichowski, Sales Manager (CS) | 561,485 | 187,162 | 0 | 0 | 40,004 | 414,327 |
| Waldemar Kot, QA Manager (CS) | 449,188 | 149,729 | 0 | 0 | 32,004 | 331,463 |
| Robert Walasek, Finance Manager (CS) | 0 | 0 | 0 | 818,988 | 0 | 818,988 |
| **Total** | **28,696,860** | **7,599,870** | **0** | **1,968,444** | **2,254,638** | **25,320,072** |

*Employees marked with CS are members of the management of Cemat Silicon S.A. Poland*

*The remaining warrants can be exercised during a six-week period after the publication of the full-year profit announcement for the years 2011-2012, for the first time on 22 March 2011.*

## 7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| 2,237 | 2,325 | Amortisation, intangible assets | 2,690 | 2,406 |
| 4,179 | 5,429 | Depreciation, property, plant and equipment | 10,303 | 13,174 |
| **6,416** | **7,754** | **Total** | **12,993** | **15,580** |

## 8. FINANCIAL INCOME

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 310 | 980 | Interest from Group undertakings | 0 | 0 |
| 771 | 331 | Interest on bank deposits, etc. | 1,746 | 4,101 |
| 0 | 2,301 | Foreign exchange adjustments | 0 | 2,476 |
| **1,081** | **3,612** | **Total** | **1,746** | **6,577** |

## 9. FINANCIAL EXPENSES

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 11,500 | 5,087 | Interest on mortgages and bank loans | 5,901 | 12,347 |
| 807 | 95 | Other interest | 95 | 807 |
| **12,307** | **5,182** | **Interest expenses** | **5,996** | **13,154** |
| 653 | 1,619 | Fees, warranties, etc. | 1,682 | 653 |
| 1,244 | 0 | Foreign exchange adjustments | 1,279 | 1,244 |
| **14,204** | **6,801** | **Total** | **8,957** | **15,051** |

## 10. TAX ON THE PROFIT FOR THE YEAR AND DEFERRED TAX

The current tax for the financial year was calculated at a tax rate of 25% for the years 2010 and 2009.

| DKK '000 | GROUP 2010 | | GROUP 2009 | |
|---|---|---|---|---|
| Current tax | (21,413) | | (23,610) | |
| Change in deferred tax | 2,583 | | (346) | |
| Adjustment related to prior years | 7 | | (21) | |
| **Total** | **(18,823)** | | **(23,977)** | |
| Specification of the tax on the profit for the year: | | | | |
| **Profit before tax** | **81,836** | | **75,759** | |
| **Tax at a rate of 25%** | **(20,459)** | **(25.0%)** | **(18,940)** | **(25.0%)** |
| Effect of other tax rate in foreign undertakings | (608) | (0.7%) | (748) | (1.0%) |
| Tax base of non-deductible expenses | (1,093) | (1.3%) | (1,297) | (1.7%) |
| Adjustment of deferred tax relating to prior years | 3,323 | 4.1% | 0 | 0.0% |
| Value adjustment in respect of tax asset, etc. | 0 | 0.0% | (2,969) | (3.9%) |
| Adjustment related to prior years | 14 | 0.0% | (21) | 0.0% |
| **Effective tax rate for the year** | **(18,823)** | **(22.9%)** | **(23,977)** | **(31.6%)** |

| DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|
| Breakdown of deferred tax for the Group stated in the balance sheet: | | |
| Temporary differences in tax assets and liabilities | (15,272) | (17,453) |
| Deferred tax relating to assets held for sale | 11,604 | 10,875 |
| **Deferred tax, net** | **(3,668)** | **(6,578)** |
| **- distributed on:** | | |
| Tax asset cf. balance sheet | 3,706 | 0 |
| Deferred tax, cf. balance sheet | (7,374) | (6,578) |

| GROUP<br>DKK '000 | Deferred tax 01.01.10 | Recognised in income statement 2010 | Exchange rate adjustment 2010 | Deferred tax 31.12.10 |
|---|---|---|---|---|
| Intangible assets | (5,692) | (410) | (113) | (6,215) |
| Property, plant and equipment | (12,927) | (2,710) | (513) | (16,150) |
| Inventories | (643) | (806) | 17 | (1,432) |
| Trade receivables | 77 | (358) | 1 | (280) |
| Other payables | 1,732 | (364) | 45 | 1,413 |
| **Temporary differences** | **(17,453)** | **(4,648)** | **(563)** | **(22,664)** |
| Tax loss carry-forwards | 2,969 | 4,362 | 61 | 7,392 |
| **Unused tax losses** | **2,969** | **4,362** | **61** | **7,392** |
| Value adjustment | (2,969) | 2,969 | 0 | 0 |
| **Total** | **(17,453)** | **2,683** | **(502)** | **(15,272)** |

| DKK '000 | Deferred tax 01.01.09 | Recognised in income statement 2009 | Exchange rate adjustment 2009 | Deferred tax 31.12.09 |
|---|---|---|---|---|
| Intangible assets | (6,473) | 775 | 6 | (5,692) |
| Property, plant and equipment | (10,926) | (1,923) | (78) | (12,927) |
| Inventories | (2,055) | 1,364 | 48 | (643) |
| Trade receivables | (82) | 152 | 7 | 77 |
| Other payables | 2,563 | (809) | (22) | 1,732 |
| **Temporary differences** | **(16,973)** | **(441)** | **(39)** | **(17,453)** |
| Tax loss carry-forwards | 0 | 2,969 | 0 | 2,969 |
| **Unused tax losses** | **0** | **2,969** | **0** | **2,969** |
| Value adjustment | 0 | (2,969) | 0 | (2,969) |
| **Total** | **(16,973)** | **(441)** | **(39)** | **(17,453)** |

*The Group believes that the tax loss can be used within a few years as taxable profits are expected. Therefore, the tax loss has been capitalised.*

## 10. TAX ON THE PROFIT FOR THE YEAR AND DEFERRED TAX (CONTINUED)

The current tax for the financial year was calculated at a tax rate of 25% for the years 2010 and 2009.

| DKK '000 | PARENT COMPANY 2010 | | 2009 | |
|---|---|---|---|---|
| Current tax | (21,126) | | (22,430) | |
| Change in deferred tax | (2,971) | | (658) | |
| Adjustment related to prior years | 7 | | (21) | |
| **Total** | **(24,090)** | | **(23,109)** | |
| Specification of the tax on the profit for the year: | | | | |
| **Profit before tax** | **91,966** | | **88,220** | |
| **Tax at a rate of 25%** | **(22,991)** | **(25.0%)** | **(22,055)** | **(25.0%)** |
| Tax base of non-deductible expenses | (1,105) | (1.2%) | (1,032) | (1.2%) |
| Adjustment of deferred tax relating to prior years | 0 | 0.0% | 0 | 0.0% |
| Adjustment related to prior years | 6 | 0.0% | (21) | 0.0% |
| **Effective tax rate for the year** | **(24,090)** | **(26.2%)** | **(23,108)** | **(26.2%)** |

PARENT COMPANY

| DKK '000 | **Deferred tax 01.01.10** | **Recognised in income statement 2010** | **Deferred tax 31.12.10** |
|---|---|---|---|
| Intangible assets | (2,974) | (621) | (3,595) |
| Property, plant and equipment | (1,016) | (1,550) | (2,566) |
| Inventories | (1,062) | (646) | (1,708) |
| Trade receivables | 0 | 24 | 24 |
| Other payables | 649 | (178) | 471 |
| **Temporary differences** | **(4,403)** | **(2,971)** | **(7,374)** |

| DKK '000 | **Deferred tax 01.01.09** | **Recognised in income statement 2009** | **Deferred tax 31.12.09** |
|---|---|---|---|
| Intangible assets | (3,306) | 332 | (2,974) |
| Property, plant and equipment | 105 | (1,121) | (1,016) |
| Inventories | (1,177) | 115 | (1,062) |
| Trade receivables | 0 | 0 | 0 |
| Other payables | 633 | 16 | 649 |
| **Temporary differences** | **(3,745)** | **(658)** | **(4,403)** |

## 11. EARNINGS PER SHARE

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 0.16 | 0.14 | Earnings per share | 0.13 | 0.12 |
| 0.15 | 0.13 | Diluted earnings per share | 0.12 | 0.12 |

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| | | The calculation of earnings per share is based on the following: | | |
| 65,112 | 67,876 | Earnings used in the calculation of earnings per share | 62,501 | 50,520 |
| **65,112** | **67,876** | **Earnings used in the calculation of diluted earnings per share** | **62,501** | **50,520** |
| 406,818 | 477,825 | Average number of shares issued | 477,825 | 406,818 |
| **406,818** | **477,825** | **Average number of shares used to calculate earnings per share** | **477,825** | **406,818** |
| 28,697 | 25,320 | Dilutive effect of outstanding subscription rights | 25,320 | 28,697 |
| **435,515** | **503,145** | **Average number of shares used to calculate diluted earnings per share** | **503,145** | **435,515** |

*Average number of shares issued calculated as:*
*No. of days prior to a capital increase multiplied by the no. of shares in circulation. If more capital increases are made, the no. of days between the capital increases is added, multiplied by the no. of shares in circulation during the relevant period. The sum is divided by 365.*

## 12. INTANGIBLE ASSETS

GROUP

| DKK '000 | Rights of use, etc. | Goodwill | Other intangible assets | Completed development projects | Development projects in progress | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2010 | 0 | 17,830 | 1,187 | 35,092 | 2,413 | 56,522 |
| Foreign exchange adjustments | 658 | 752 | 49 | 41 | 0 | 1,500 |
| Addition of assets developed in-house | 0 | 0 | 0 | 881 | 3,928 | 4,809 |
| Disposals, assets held for sale | (658) | 0 | 0 | 0 | 0 | (658) |
| Transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| **Cost at 31 December 2010** | **0** | **18,582** | **1,236** | **36,014** | **6,341** | **62,173** |
| | | | | | | |
| Amortisation and impairment at 1 January 2010 | 0 | 0 | (186) | (24,813) | 0 | (24,999) |
| Exchange rate adjustment | 0 | 0 | (7) | (7) | 0 | (14) |
| Amortisation | 0 | 0 | (118) | (2,572) | 0 | (2,690) |
| Disposal of assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 |
| **Amortisation and impairment 31 December 2010** | **0** | **0** | **(311)** | **(27,392)** | **0** | **(27,703)** |
| | | | | | | |
| **Carrying amount 31 December 2010** | **0** | **18,582** | **925** | **8,622** | **6,341** | **34,470** |

| DKK '000 | Rights of use, etc. | Goodwill | Other intangible assets | Completed development projects | Development projects in progress | Total |
|---|---|---|---|---|---|---|
| Cost at 1 January 2009 | 15,542 | 17,758 | 1,396 | 34,099 | 638 | 69,433 |
| Foreign exchange adjustments | 67 | 72 | (209) | 210 | 0 | 140 |
| Addition of assets developed in-house | 0 | 0 | 783 | 0 | 1,775 | 2,558 |
| Disposal of assets held for sale | (15,609) | 0 | 0 | 0 | 0 | (15,609) |
| Transfers | 0 | 0 | (783) | 783 | 0 | 0 |
| **Cost at 31 December 2009** | **0** | **17,830** | **1,187** | **35,092** | **2,413** | **56,522** |
| | | | | | | |
| Amortisation and impairment at 1 January 2009 | (32) | 0 | (79) | (22,379) | 0 | (22,490) |
| Exchange rate adjustment | (306) | 0 | (22) | 1 | 0 | (327) |
| Amortisation | (180) | 0 | (85) | (2,435) | 0 | (2,700) |
| Disposal of assets held for sale | 518 | 0 | 0 | 0 | 0 | 518 |
| **Amortisation and impairment 31 December 2009** | **0** | **0** | **(186)** | **(24,813)** | **0** | **(24,999)** |
| | | | | | | |
| **Carrying amount 31 December 2009** | **0** | **17,830** | **1,001** | **10,279** | **2,413** | **31,523** |

| PARENT COMOPANY<br>DKK '000 | **Patents and licences** | **Completed develop-ment projects** | **Develop-ment projects in progress** | **Total** |
|---|---|---|---|---|
| Cost at 1 January 2010 | 56 | 34,099 | 2,413 | 36,568 |
| Addition of assets developed in-house | 0 | 881 | 3,928 | 4,809 |
| **Cost at 31 December 2010** | **56** | **34,980** | **6,341** | **41,377** |
| | | | | |
| Amortisation and impairment at 1 January 2010 | (56) | (24,616) | 0 | (24,672) |
| Amortisation | 0 | (2,325) | 0 | (2,325) |
| **Amortisation and impairment 31 December 2010** | **(56)** | **(26,941)** | **0** | **(26,997)** |
| | | | | |
| **Carrying amount 31 December 2010** | **0** | **8,039** | **6,341** | **14,380** |

| DKK '000 | **Patents and licences** | **Completed develop-ment projects** | **Develop-ment projects in progress** | **Total** |
|---|---|---|---|---|
| Cost at 1 January 2009 | 56 | 34,099 | 638 | 34,793 |
| Addition of assets developed in-house | 0 | 0 | 1,775 | 1,775 |
| **Cost at 31 December 2009** | **56** | **34,099** | **2,413** | **36,568** |
| | | | | |
| Amortisation and impairment at 1 January 2009 | (56) | (22,379) | 0 | (22,435) |
| Amortisation | 0 | (2,237) | 0 | (2,237) |
| **Amortisation and impairment 31 December 2009** | **(56)** | **(24,616)** | **0** | **(24,672)** |
| | | | | |
| **Carrying amount 31 December 2009** | **0** | **9,483** | **2,413** | **11,896** |

*Management considers all intangible assets apart from goodwill to have limited economic lives. The Group holds a patent, which is capitalised under patents and licences. This patent has a remaining term of 15 years. The most significant activities in 2010 related to own development of processes for the manufacturing of silicon crystals in new variants.*

***Goodwill***

*Goodwill has arisen in connection with the acquisition of Cemat Silicon S.A. and its subsidiary. The goodwill is based on the economic benefits obtained by Cemat Silicon S.A. and the parent company Topsil Semiconductor Materials A/S in the form of increased access to wafering and polishing based on the employees and know-how taken over. Furthermore, Topsil obtains the possibility of increased sales of CZ-products to present customers and Cemat's customers gain access to FZ- products. However, the recoverable amount has been calculated for Cemat Silicon S.A. as the cash-generating unit in compliance with IAS 36, according to which the smallest cash-generating unit must be an operating segment, cf. IFRS 8.*

*The greatest uncertainties in that respect are associated with determining discount factors and growth rates as well as expected changes in selling prices and production costs during the budget and terminal periods. Growth rates are based on analyses prepared by a recognised research institute with industry knowledge. Growth and inflation during the terminal period are not taken into account.*

*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-generating unit. The discount factors are determined on a pre-tax basis. The calculation of the present value is based on a discount factor of 11.9% (2009: 12.5%) The discount factor is based on a risk-free rate of 3.0% (2009: 3.27%), corresponding to the yield on a 10-year Danish government bond, and an expected risk premium relating to the risk profile of the Company and the industry.*

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

*The calculation of the value in use of the cash-generating unit is based on the cash flows included in the most recent management-approved budget for the coming financial year and the strategy plan. The calculation includes a five-year period (2011-2015) and a terminal period. The average annual growth in revenue during the period is 15% and 0% during the terminal period.*

*At the balance sheet date, the present value of the cash-flow-generating unit exceeded the carrying amount, implying that goodwill is not impaired.*

## 13. RESEARCH & DEVELOPMENT COSTS

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 1,774 | 3,928 | Research and development costs incurred | 3,928 | 1,774 |
| (1,774) | (3,928) | Development costs recognised as intangible assets | (3,928) | (1,774) |
| **0** | **0** | **Total** | **0** | **0** |

## 14. PROPERTY, PLANT AND EQUIPMENT

GROUP

| DKK '000 | Buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Plant in progress | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2010 | 0 | 113,914 | 15,824 | 16,013 | 145,751 |
| Foreign exchange adjustments | 0 | 2,521 | 61 | 235 | 2,817 |
| Additions | 0 | 7,870 | 2,605 | 42,166 | 52,641 |
| Transfers | 0 | 23,045 | 0 | (25,453) | (2,408) |
| Disposals | 0 | (11,743) | (167) | (3,048) | (14,958) |
| Disposal of assets held for sale | 0 | (2,716) | (96) | 432 | (2,380) |
| **Cost at 31 December 2010** | **0** | **132,891** | **18,227** | **30,345** | **181,463** |
| | | | | | |
| Depreciation and impairment at 1 January 2010 | 0 | (44,114) | (7,579) | 0 | (51,693) |
| Exchange rate adjustment | 0 | (245) | (15) | 0 | (260) |
| Amortisation | 0 | (7,423) | (2,880) | 0 | (10,303) |
| Disposals | 0 | 11,620 | 0 | 0 | 11,620 |
| Disposal of assets held for sale | 0 | 0 | 0 | 0 | 0 |
| **Depreciation and impairment 31 December 2010** | **0** | **(40,162)** | **(10,474)** | **0** | **(50,636)** |
| | | | | | |
| **Carrying amount 31 December 2010** | **0** | **92,729** | **7,753** | **30,345** | **130,827** |
| Of which assets held under finance leases | 0 | 19,818 | 581 | 0 | 20,399 |

| DKK '000 | Buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Plant in progress | Total |
|---|---|---|---|---|---|
| Cost at 1 January 2009 | 59,573 | 122,574 | 9,257 | 6,769 | 198,173 |
| Foreign exchange adjustments | 238 | 843 | 4 | 2 | 1,087 |
| Additions | 855 | 1,125 | 458 | 19,742 | 22,180 |
| Transfers | 0 | 2,856 | 6,984 | (9,840) | 0 |
| Disposals | 0 | (3,873) | (12) | 0 | (3,885) |
| Disposal of assets held for sale | (60,666) | (9,611) | (867) | (660) | (71,804) |
| **Cost at 31 December 2009** | **0** | **113,914** | **15,824** | **16,013** | **145,751** |
| | | | | | |
| Depreciation and impairment at 1 January 2009 | (535) | (40,976) | (5,660) | 0 | (47,171) |
| Exchange rate adjustment | (122) | (215) | (15) | 0 | (352) |
| Depreciation | (2,900) | (7,920) | (2,060) | 0 | (12,880) |
| Disposals | 0 | 3,265 | 0 | 0 | 3,265 |
| Disposal of assets held for sale | 3,557 | 1,732 | 156 | 0 | 5,445 |
| **Depreciation and impairment 31 December 2009** | **0** | **(44,114)** | **(7,579)** | **0** | **(51,693)** |
| | | | | | |
| **Carrying amount 31 December 2009** | **0** | **69,800** | **8,245** | **16,013** | **94,058** |
| Of which assets held under finance leases | 0 | 0 | 445 | 0 | 445 |

PARENT COMPANY

| DKK '000 | Plant and machinery | Other fixtures and fittings, tools and equipment | Plant in progress | Total |
|---|---|---|---|---|
| Cost at 1 January 2010 | 63,679 | 15,143 | 11,101 | 89,923 |
| Additions | 0 | 0 | 26,940 | 26,940 |
| Transfers | 23,045 | 2,408 | (25,453) | 0 |
| Disposals | (11,743) | (1,981) | 0 | (13,724) |
| **Cost at 31 December 2010** | **74,981** | **15,570** | **12,588** | **103,139** |
| | | | | |
| Depreciation and impairment at 01 January 2010 | (41,012) | (7,292) | 0 | (48,304) |
| Depreciation | (2,768) | (2,661) | 0 | (5,429) |
| Disposals | 11,620 | 1,980 | 0 | 13,600 |
| **Depreciation and impairment 31 December 2010** | **(32,160)** | **(7,973)** | **0** | **(40,133)** |
| | | | | |
| **Carrying amount 31 December 2010** | **42,821** | **7,597** | **12,588** | **63,006** |

| DKK '000 | Plant and machinery | Other fixtures and fittings, tools and equipment | Plant in progress | Total |
|---|---|---|---|---|
| Cost at 1 January 2009 | 62,052 | 8,127 | 6,569 | 76,748 |
| Additions | 177 | 46 | 14,372 | 14,595 |
| Transfers | 2,856 | 6,984 | (9,840) | 0 |
| Disposals | (1,406) | (14) | 0 | (1,420) |
| **Cost at 31 December 2009** | **63,679** | **15,143** | **11,101** | **89,923** |
| | | | | |
| Depreciation and impairment at 1 January 2009 | (39,618) | (5,595) | 0 | (45,213) |
| Amortisation | (2,479) | (1,700) | 0 | (4,179) |
| Disposals | 1,085 | 3 | 0 | 1,088 |
| **Depreciation and impairment 31 December 2009** | **(41,012)** | **(7,292)** | **0** | **(48,304)** |
| | | | | |
| **Carrying amount 31 December 2009** | **22,667** | **7,851** | **11,101** | **41,619** |

## 15. INVESTMENTS IN SUBSIDIARIES

PARENT COMPANY

| 2009 | 2010 | DKK '000 |
|---|---|---|
| 153,725 | 159,687 | Cost at 1 January |
| 0 | 300 | Addition warrants in subsidiaries |
| 5,962 | 0 | Addition on company acquisitions |
| **159,687** | **159,987** | **Cost at 31 December** |

*No impairment losses were recognised on investments in subsidiaries during the year.*

| | Domicile | Ownership interests 2010 | No.of voting rights 2010 | Activity |
|---|---|---|---|---|
| Cemat Silicon S.A. | Poland | 100.00% | 100.00% | Production and sale of silicon wafers to the semiconductor industry |
| Cemat70 S.A. | Poland | 52.92% | 52.92% | Letting of commercial properties |

*Cemat Silicon S.A. owns the stake in Cemat70 S.A.*
*In 2009, the ownership interests and voting rights were as stated for 2010.*

## 16. OTHER RECEIVABLES, NON-CURRENT ETC.

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| | | Held in escrow accounts as guarantee to: | | |
| 38,926 | 0 | supplier | 0 | 38,926 |
| 31,615 | 28,459 | Prepayment of goods | 28,459 | 31,615 |
| 7,266 | 0 | Prepayments from customers held in escrow accounts | 0 | 7,266 |
| 2,250 | 2,250 | Deposit, rent | 2,250 | 2,250 |
| 0 | 1,718 | Deposit, finance leases | 1,718 | 0 |
| 42 | 25 | Other | 25 | 42 |
| **80,099** | **32,452** | **Total** | **32,452** | **80,099** |

*In 2010, guarantees made to suppliers and prepayments from customers were made through the Group's new banker (Jyske Bank) without deposits. Hence, the deposits were released in 2010. Prepayments of goods are regulated on a current basis as the Group buys the volumes agreed on for the period 2010-2017.*

## 17. INVENTORIES

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| 35,437 | 22,123 | Raw materials and consumables | 37,094 | 46,419 |
| 34,617 | 50,500 | Work in progress | 58,316 | 51,810 |
| 894 | 750 | Manufactured goods and goods for resale | 17,563 | 9,742 |
| **70,948** | **73,373** | **Total** | **112,973** | **107,971** |

*There were no inventory writedowns in the parent company in 2010, against a writedown of DKK 481,000 in 2009. Inventory writedowns in the Group totalled DKK 4,831,000 in 2010, against a writedown of DKK 4,954,000 in 2009.*

## 18. TRADE RECEIVABLES

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 76,247 | 48,651 | Trade receivables | 68,618 | 94,407 |
| (384) | (480) | Impairment losses included in the above receivables and recognised in Other external expenses | (480) | (384) |
| **75,863** | **48,171** | **Total** | **68,138** | **94,023** |
| | | **Overdue receivables:** | | |
| 10,751 | 3,142 | Overdue by up to 1 month | 7,931 | 12,872 |
| 241 | 623 | Overdue by 1 to 3 months | 2,320 | 2,154 |
| 363 | 80 | Overdue by more than 3 months | 1,515 | 889 |
| **11,355** | **3,845** | **Total** | **11,766** | **15,915** |
| | | **Overdue receivables distributed by receivables not written down:** | | |
| 1,217 | 2,361 | Europe | 8,626 | 4,455 |
| 787 | 604 | USA | 2,260 | 833 |
| 9,351 | 880 | Asia | 880 | 10,627 |
| **11,355** | **3,845** | **Total** | **11,766** | **15,915** |
| | | **Provision account for receivables:** | | |
| 0 | 384 | Provision account, 1 January | 384 | 110 |
| 0 | 0 | Losses during the year | 0 | 0 |
| 0 | 0 | Reversed provisions | 0 | -110 |
| 384 | 96 | Provisions for the year to cover losses | 96 | 384 |
| **384** | **480** | **Provision account, 31 December** | **480** | **384** |

*A provision account is used to reduce the carrying amount of receivables, if the value is found to be impaired based on an individual assessment of each debtor's ability to pay, for example in case of suspension of payment, bankruptcy, etc. Receivables are written down to net realisable value, corresponding to the sum of expected future net payments received on the receivables.*

*The carrying amount of receivables equals their fair value. Receivables are not interest-bearing until approximately 30–60 days after the invoice date. After this date, interest accrues on the receivables at a monthly rate of 1% of the outstanding amount.*

## 19. OTHER RECEIVABLES

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 18,483 | 1,101 | VAT on exports and prepaid VAT | 1,101 | 18,483 |
| 988 | 543 | Other | 5,954 | 5,979 |
| **19,471** | **1,644** | **Total** | **7,055** | **24,462** |

## 20. CASH AND CASH EQUIVALENTS, CF. THE CASH FLOW STATEMENT

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| 10,377 | 99,913 | Cash holdings and bank deposits | 100,194 | 11,840 |
| 0 | 0 | Cash in assets held for sale | 7,474 | 61,904 |
| (14,393) | 0 | Current bank debt (overdraft facility) | (17,281) | (14,393) |
| **(4,016)** | **99,913** | **Total** | **90,387** | **59,351** |

*The Group's cash and cash equivalents primarily consist of deposits in banks. No significant credit risk is deemed to be associated with the cash and cash equivalents. Bank deposits and bank debts carry floating rates of interest. The carrying amount equals the fair value of the assets.*

## 21. SHARE CAPITAL

The share capital consists of 520,089,650 shares at a nominal value of DKK 0.25 per share.
The shares are not divided into share classes and there are no special rights related to the shares.

| | GROUP | |
|---|---|---|
| No. of shares | 2010 | 2009 |
| Number of shares at 1 January | 407,960,734 | 403,391,670 |
| Capital increase through cash payment | 112,128,916 | 4,569,064 |
| **Number of shares at 31 December** | **520,089,650** | **407,960,734** |
| DKK '000 | | |
| Denomination, nom. value DKK 0.25 | 101,990 | 100,848 |
| Capital increase through cash payment | 28,032 | 1,142 |
| **Total** | **130,022** | **101,990** |

*Of the capital increase of 112,128,916 shares, 103,890,151 new shares concerned the rights issue completed in the spring of 2010. The remaining capital increase concerned the issuance of employee shares and exercise of warrants for the Management Board and managerial employees. The capital increase in 2009 exclusively concerned the exercise of warrants for the Management Board and managerial employees.*

## 22. OTHER RESERVES

The translation reserve comprises all exchange rate adjustments as a result of translation of the financial statements for entities with other functional currencies than Danish kroner.

The reserve for share-based payment comprises the accumulated value of vested warrant plans (equity-based plans) measured at the fair value of the equity instruments at the grant date and recognised over the vesting period. The reserve is dissolved as the employees exercise their vested rights or the rights expire without being exercised.

## 23. OTHER CREDIT INSTITUTIONS AND BANK DEBT

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 138,593 | 0 | Debt to credit institutions | 17,281 | 152,949 |
| **138,593** | **0** | | **17,281** | **152,949** |
| | | The debt falls due as follows: | | |
| 38,726 | 0 | One year or less | 17,281 | 47,654 |
| 24,334 | 0 | Between 1 and 2 years from the balance sheet date | 0 | 29,761 |
| 24,333 | 0 | Between 2 and 3 years from the balance sheet date | 0 | 24,334 |
| 24,334 | 0 | Between 3 and 4 years from the balance sheet date | 0 | 24,333 |
| 24,333 | 0 | Between 4 and 5 years from the balance sheet date | 0 | 24,334 |
| 2,533 | 0 | More than 5 years after the balance sheet date | 0 | 2,533 |
| **138,593** | **0** | | **17,281** | **152,949** |
| | | Other debt to credit institutions and bank debt is recognised in the balance sheet as follows: | | |
| 38,726 | 0 | Current liabilities | 17,281 | 47,654 |
| 99,867 | 0 | Non-current liabilities | 0 | 105,295 |
| **138,593** | **0** | **Total** | **17,281** | **152,949** |

*In September 2010, the debt to credit institutions was significantly reduced as the parent company repaid the acquisition loan raised in 2008. Interest is not included in debt to credit institutions.*

| Name | Company | Currency | Maturity | Fixed or floating interest rate | Interest % p.a. | Fair value DKK '000 |
|---|---|---|---|---|---|---|
| Overdraft facility | Cemat - Poland | PLN | 2011 | Floating | Wibor+2.0% | 11,260 |
| Loans | Cemat - Poland | JPY | 2011 | Floating | Libor+2.5% | 6,021 |
| Overdraft facility, parent company | | DKK | 2014 | Floating | Jybor+1.65% | 0 |
| **31.12.2010** | | | | | | **17,281** |

| Name | Company | Currency | Maturity | Fixed or floating interest rate | Interest % p.a. | Fair value DKK '000 |
|---|---|---|---|---|---|---|
| Overdraft facility | Cemat - Poland | PLN | 2010 | Floating | Wibor+3.9% | 3,044 |
| Loans | Cemat - Poland | JPY | 2010 | Floating | Libor+5.0% | 6,384 |
| Loans | Cemat - Poland | JPY | 2011 | Floating | Libor+5.0% | 4,928 |
| Overdraft facility, parent company | | DKK | 2010 | Floating | Cibor3+ 4.75/6.5% | 14,393 |
| Acquisition loan, parent company | | DKK | 2015 | Floating | 4.75/6.5% | 124,200 |
| **31.12.2009** | | | | | | **152,949** |

*The differentiation of the interest margin on the parent company's acquisition loan was that when the principal was greater than DKK 65.0 million, the loan carried interest at Cibor3 +6.5%. When the principal was reduced to less than DKK 65 million, the loan carried interest at Cibor3+3.5% p.a. Financial covenants were associated with the loan, which related to Group revenue and equity ratio.*

## 24. FINANCE LEASE LIABILITIES

The Group leases production equipment in the form of machinery and facilities on finance leases if the terms are favourable and ensure financial flexibility in the Group. The average lease period is four years. All lease contracts have a fixed instalment profile and none of the contracts comprise conditional lease clauses. The lease contracts are terminable during the lease period against financial compensation. The Group has guaranteed the assets' residual values at the end of the lease and must assign a buyer to the assets.

| GROUP | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| DKK '000 | **2010** | 2009 | **2010** | 2009 |
| Finance lease liabilities fall due as follows: | | | | |
| Within 1 year of the balance sheet date | 2,802 | 141 | 2,802 | 141 |
| Between 1 and 5 years from the balance sheet date | 10,937 | 304 | 10,937 | 304 |
| More than 5 years after the balance sheet date | 0 | 0 | 0 | 0 |
| **At 31 December** | **13,739** | **445** | **13,739** | **445** |
| Amortisation premium for future recognition | 1,445 | 0 | 1,445 | 0 |
| **At 31 December** | **0** | **0** | **0** | **0** |

*The carrying amount equals the fair value of the liabilities.*
*The financial lease liabilities comprise machinery.*

| | **Expiry** | **Fixed or floating interest rate** | **Present value of minimum lease payments DKK '000** | **Fair value DKK '000** |
|---|---|---|---|---|
| Lease liability | 2011 | Floating | 2,802 | 2,802 |
| Lease liability | 2012 | Floating | 2,934 | 2,934 |
| **31 December 2010** | | | **0** | **0** |

## 25. OTHER NON-CURRENT LIABILITIES

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | **2010** | DKK '000 | **2010** | 2009 |
| 0 | 0 | Pensions | 931 | 652 |
| 0 | 0 | Other liabilities | 154 | 163 |
| **0** | **0** | **Total** | **1,085** | **815** |

## 26. TRADE CREDITORS

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 19,567 | 21,208 | Amounts owed to suppliers for goods and services delivered | 48,455 | 49,176 |
| **19,567** | **21,208** | **Total** | **48,455** | **49,176** |

*The carrying amount equals the fair value of the liabilities. Amounts owed to suppliers falling due within one year*

## 27. PROVISIONS

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 962 | 4,175 | Warranty commitments, 1 January | 4,175 | 962 |
| (962) | (2.692) | Used during the year | (2,692) | (962) |
| 4,175 | 535 | Provisions made during the year | 535 | 4,175 |
| **4,175** | **2,018** | **Warranty commitments, 31 December** | **2,018** | **4,175** |

*During the year, the Company made a further provision for warranty commitments of DKK 535,000, corresponding to the production price of various customer orders and the expected loss on wafers produced. The supplies of selected silicon wafers were not compliant with the specifications. Consequently, new wafers will be delivered in the first half of 2011 free of charge.*

## 28. OTHER PAYABLES

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 1,558 | 291 | Payroll liabilities, tax liabilities, accrued social security contributions, etc. | 741 | 4,926 |
| 5,065 | 5,887 | Holiday pay liabilities etc. | 6,551 | 5,893 |
| 21,925 | 5,614 | VAT and other tax liabilities | 5,614 | 21,925 |
| 9,583 | 8,529 | Other accrued expenses | 6,732 | 10,728 |
| **38,131** | **20,321** | **Total** | **19,638** | **43,472** |

*The carrying amount of payables in respect of payroll, income tax, social security contributions, holiday pay, etc., VAT and other taxes, income tax payable and other accrued expenses payable correspond to the fair value of these liabilities. Holiday pay liabilities, etc. represents the Group's obligation to pay wages and salaries during holidays in the next financial year, to which the employees have earned entitlement as at the balance sheet date.*

## 29. CHANGE IN NET WORKING CAPITAL

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| (12,123) | (2,425) | Change in inventories | (3,435) | (22,944) |
| (48,009) | 93,298 | Change in receivables | 44,791 | (49,684) |
| 9,960 | 13,356 | Change in trade creditors and other payables | (12,222) | 29,700 |
| (23,180) | (6,144) | Change in receivables at subsidiary | 0 | 0 |
| **(74,221)** | **98,085** | **Total** | **29,134** | **(42,928)** |

*Changes in net working capital are stated inclusive of asset and liabilities held for sale.*

## 30. ASSETS HELD FOR SALE

In 2009, the management of Topsil Semiconductor Materials A/S decided to intensify the divestment of its ownership interest in the property company Cemat70 S.A., in which the Company has a controlling interest through its fully owned subsidiary Cemat Silicon S.A. Cemat70 S.A.'s most important asset is land and buildings which are let on marked terms, i.a. to Cemat Silicon S.A., its largest single tenant.

Negotiations have been conducted with various prospective buyers of the shareholding. The negotiations were adversely impacted by the general economic conditions and the Company has therefore considered alternative solutions. The shareholding is expected to be divested within 12 months from the balance sheet date. Assets and liabilities related to the shareholding are still classified in the balance sheet as assets held for sale. See below. In late 2010, the right of use and the buildings in Cemat70 S.A. were evaluated by an independent appraiser and the valuation supports the values stated in the balance sheet.

Proceeds from the divestment of the shareholding in Cemat70 S.A. are expected to exceed the carrying amounts of the related assets and liabilities.

| DKK '000 | 2010 | 2009 |
|---|---|---|
| Right of use (land) | 16,029 | 15,380 |
| Buildings | 60,490 | 57,107 |
| Plant and machinery | 10,595 | 7,879 |
| Other fixtures and fittings, tools and equipment | 807 | 710 |
| Property, plant and equipment under construction | 228 | 659 |
| Inventories | 343 | 388 |
| Trade receivables | 3,646 | 2,829 |
| Prepayments | 411 | 546 |
| Cash and cash equivalents | 7,474 | 61,904 |
| **Assets held for sale** | **100,023** | **147,402** |
| | | |
| Debt to credit institutions | 0 | 473 |
| Deferred tax | 11,604 | 10,875 |
| Trade creditors | 2,715 | 1,474 |
| Provisions | 366 | 105 |
| **Liabilities related to assets held for sale** | **14,685** | **12,927** |
| | | |
| **Net assets held for sale** | **85,338** | **134,475** |

*The reduction of net assets held for sale was due to less cash in the Company as  a result of distribution of dividends in 2010.*

## 31. OPERATING LEASE LIABILITIES

The parent company leases cars and some operating equipment on operating leases. The average lease period is 36 months. All lease contracts have a fixed instalment profile and none of the contracts comprise conditional lease clauses apart from price regulation clauses based on public indices. Lease contracts are non-terminable during the lease period agreed on but may be prolonged on new terms.

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| | | Non-cancellable operating leases are specified as follows: | | |
| 563 | 465 | 0-1 years | 835 | 563 |
| 416 | 386 | 1-5 years | 622 | 416 |
| 0 | 0 | More than 5 years | 0 | 0 |
| **979** | **851** | **Total** | **1,457** | **979** |

*Operating leases amounting to DKK 820,000 for 2010 are recognised in the income statement (2009: DKK 825,000).*

## 32. CHARGES

**2010**

In connection with the conclusion of a new banking agreement in 2010, all significant charges were cancelled. Hence, the floating charge of DKK 75.0 million was cancelled together with the charge of the acquired shares in Cemat Silicon S.A. Mortgage deeds of a nominal value of DKK 10,000,000 and DKK 5,250,000 registered to the mortgager concerning production plant and chattels, respectively, are in the Company's possession.

**2009**

In security of acquisition loans and increased operating credits with the Group's banker, the parent company has provided a charge on the acquired shares in Cemat Silicon S.A. and issued a floating charge of DKK 75,0 million. On unsecured claims, inventories and operating equipment, charges of DKK 25,000,000 have been provided for each of the mentioned categories. In addition, two mortgage deeds of a nominal value of DKK 10,000,000 and DKK 5,250,000 registered to the mortgager concerning production plant and chattels, respectively are placed as security for the loan.

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| 46,192 | 0 | Carrying amount of escrow accounts | 0 | 46,192 |
| **46,192** | **0** | **Total** | **0** | **46,192** |

*In Cemat Silicon S.A. and Cemat70 S.A., a charge has been provided on assets with a carrying amount of DKK 43.3 million as security for loans and operating credits.*

## 33. WARRANTY COMMITMENTS AND CONTINGENT LIABILITIES

The parent company has issued a payment guarantee for JPY 402 million and PLN 6 million vis-à-vis Raiffeisen Bank, Warsaw as security for the credit facilities in Cemat Silicon S.A.

## 34. OTHER CONTRACTUAL OBLIGATIONS

### Raw material suppliers

In early 2010, the Group concluded a new long-term contract for polysilicon. This contract covers the period from 2010 to 2015 and replaces the previous contract with the same supplier which would expire in 2012. On an overall basis, the new contract was concluded on more attractive commercial terms as it fixes annual minimum and maximum volumes and the possibility of increasing volumes year after year instead of a uniform maximum for the entire period. Also, the new contract introduces a new raw material product for use in the FZ-PFZ market and collaboration on the development of a polysilicon raw material for FZ-products with a diameter larger than that supplied today.

The Group concluded a long-term contract in 2008 to ensure supplies of polysilicon for the period 2009–2017. Management believes that the contract was entered into on an arm's length basis. Under the terms of the contract, the parent company is required to make a prepayment. The prepayment will be used in payment of raw materials as delivery takes place over the period 2010 to 2017.

The contracts made can be terminated in case of a takeover of control over the parent company. If a takeover is completed, the supplier may terminate the contract.

### Customers

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

In the first quarter of 2010, the Group concluded five new long-term customer contracts; two contracts replacing previous contracts which will now run from 2010 until the end of 2015, and three new contracts with existing customers with whom contractual obligations have not existed previously. These contracts cover the period until 2015. Another existing contract, which expires in 2012, has also been prolonged. Overall, the new customer contracts have been concluded on more attractive commercial terms than previously. The six long-term contracts with the Group's six largest FZ-customers ensure minimum revenue corresponding to approximately 40% of Group revenue in 2010 until the end of 2015.

### Other

A lease for buildings is terminable by giving 6 months' notice and the liability amounts to DKK 1.0 million.

## 35. FINANCIAL RISKS AND FINANCIAL INSTRUMENTS

| PARENT COMPANY | | | GROUP | |
|---|---|---|---|---|
| 2009 | 2010 | DKK '000 | 2010 | 2009 |
| | | | | |
| 75,863 | 48,171 | Trade receivables | 68,138 | 94,023 |
| 23,180 | 29,324 | Group receivables | 0 | 0 |
| 19,471 | 1,644 | Other receivables, current | 7,055 | 24,462 |
| 48,484 | 3,992 | Other receivables, non-current | 3,993 | 48,484 |
| 10,377 | 99,913 | Cash and cash equivalents | 100,194 | 11,840 |
| 0 | 0 | Cash in assets held for sale | 7,474 | 61,904 |
| **177,375** | **183,044** | **Loans, advances and receivables** | **186,854** | **240,713** |
| | | | | |
| 38,726 | 0 | Debt to credit institutions, current | 17,281 | 47,654 |
| 99,867 | 0 | Debt to credit institutions, non-current | 0 | 105,295 |
| 0 | 2,802 | Finance lease liabilities, current | 2,802 | 141 |
| 0 | 10,937 | Finance lease liabilities, non-current | 10,937 | 304 |
| 19,567 | 21,208 | Trade creditors | 65,822 | 49,176 |
| 38,131 | 20,321 | Other payables | 19,638 | 43,472 |
| 0 | 0 | Other payables in assets held for sale | 3,081 | 2,052 |
| **196,291** | **55,268** | **Financial liabilities, measured at amortised cost** | **119,561** | **248,094** |

*The Group has no financial instruments measured at fair value at subsequent recognition*

### The Group's risk management policy

Risk management is an integral part of the day-to-day business management and is subject to continuous review by the Management. Management believes that all material risks, apart from financial risks, concern supplier and customer relations. Due to the nature of its operations and financing, the Group is exposed to fluctuations in exchange rates and interest rates. The Group manages the financial risks centrally and co-ordinates cash management, capital procurement and investment of surplus cash. Following the acquisition of Cemat Silicon S.A., the in-house business procedures are being updated. The Group operates with a low-risk profile so that currency, interest rate and credit risks arise only in connection with commercial relations. It is the Group's policy not to actively speculate in financial risks.

The Group manages its financial risks by means of a model to manage its cash forecasting covering a period of one year.

### Currency risk

Currency risks comprise the risk of loss (or the possibility of a gain) when exchange rates change. Currency risks arise when income and expense items in foreign currency are recognised in the income statement or from value adjustment of balance sheet items denominated in other currencies.

A substantial part of the Group's sales takes place in USD and EUR. Raw materials etc. are also typically purchased in USD and EUR, whereas other cost items are typically purchased in DKK or PLN. The Group does not use derivative financial instruments to hedge currency risks regarding cash flows or balance sheet items. Instead, the Group uses foreign currency to settle same currency debt items, which generally reduces the currency risk.

A currency fluctuation in USD/DKK of ± DKK 0.50 would subject the Group to a currency risk of about ± DKK 2.7 million based on the balance sheet items in USD at the balance sheet date. A currency fluctuation in PLN/DKK of ± DKK 0.20 would subject the Group to a currency risk of about ± DKK 0.5 million based on the balance sheet items in PLN at the balance sheet date.

The Group's currency risk in connection with fluctuations in EUR/DKK is considered immaterial.

Unhedged net position at balance sheet date

GROUP

DKK '000

| Currency | Cash deposits and securities | Receivables | Liabilities | Net position | Of which hedged | Unhedged net position |
|---|---|---|---|---|---|---|
| USD | 37,475 | 43,100 | (53,373) | 27,202 | 0 | 27,202 |
| PLN | 5,979 | 9,954 | (21,066) | (5,133) | 0 | (5,133) |
| EUR | 59,092 | 37,370 | (39,777) | 56,685 | 0 | 56,685 |
| GBP | 0 | 0 | (12) | (12) | 0 | (12) |
| NOK | 0 | 0 | (607) | (607) | 0 | (607) |
| JPY | 658 | 4,692 | (7,482) | (2,132) | 0 | (2,132) |
| DKK | 8,457 | 3,467 | (28,730) | (16,808) | 0 | (16,808) |
| Other currencies | 0 | 0 | (1,207) | (1,207) | 0 | (1,207) |
| **31.12.2010** | **111,661** | **98,583** | **(152,254)** | **57,988** | **0** | **57,988** |

DKK '000

| Currency | Cash deposits and securities | Receivables | Liabilities | Net position | Of which hedged | Unhedged net position |
|---|---|---|---|---|---|---|
| USD | 49,499 | 20,957 | (25,667) | 44,789 | 0 | 44,789 |
| PLN | 61,933 | 8,450 | (22,840) | 47,543 | 0 | 47,543 |
| EUR | 7,928 | 63,637 | (397) | 71,168 | 0 | 71,168 |
| GBP | 0 | 61 | (11) | 50 | 0 | 50 |
| NOK | 0 | 16 | (601) | (585) | 0 | (585) |
| JPY | 534 | 5,308 | (11,312) | (5,470) | 0 | (5,470) |
| DKK | 2,292 | 20,056 | (186,609) | (164,261) | 0 | (164,261) |
| Other currencies | 42 | 0 | (657) | (615) | 0 | (615) |
| **31.12.2009** | **122,228** | **118,485** | **(248,094)** | **(7,381)** | **0** | **(7,381)** |

| | 2010 | 2009 |
|---|---|---|
| **Equity sensitivity to exchange rate fluctuations (DKK '000)** | | |
| Impact if the USD exchange rate were DKK 0.50 lower than the actual rate | (2,700) | (4,300) |
| Impact if the PLN exchange rate were DKK 0.20 lower than the actual rate | (500) | (5,300) |
| **Profit sensitivity to exchange rate fluctuations (DKK '000)** | | |
| Impact if the USD exchange rate were DKK 0.50 lower than the actual rate | (2,700) | (4,300) |
| Impact if the PLN exchange rate were DKK 0.20 lower than the actual rate | (500) | (5,300) |

PARENT COMPANY

DKK '000

| Currency | Cash deposits and securities | Receivables | Liabilities | Net position | Of which hedged | Unhedged net position |
|---|---|---|---|---|---|---|
| USD | 37,324 | 17,463 | (8,145) | 46,642 | 0 | 46,642 |
| EUR | 58,125 | 59,796 | (16,567) | 101,354 | 0 | 101,354 |
| GBP | 0 | 0 | (12) | (12) | 0 | (12) |
| NOK | 0 | 0 | (607) | (607) | 0 | (607) |
| JPY | 0 | 304 | 0 | 304 | 0 | 304 |
| DKK | 8,456 | 3,467 | (28,730) | (16,807) | 0 | (16,807) |
| Other currencies | 0 | 0 | (1,207) | (1,207) | 0 | (1,207) |
| **31.12.2010** | **103,905** | **81,030** | **(55,268)** | **129,667** | **0** | **129,667** |

DKK '000

| Currency | Cash deposits and securities | Receivables | Liabilities | Net position | Of which hedged | Unhedged net position |
|---|---|---|---|---|---|---|
| USD | 49,487 | 14,463 | (8,016) | 55,934 | 0 | 55,934 |
| EUR | 7,040 | 83,654 | (397) | 90,297 | 0 | 90,297 |
| GBP | 0 | 61 | (11) | 50 | 0 | 50 |
| NOK | 0 | 16 | (601) | (585) | 0 | (585) |
| JPY | 0 | 264 | 0 | 264 | 0 | 264 |
| DKK | 2,292 | 20,056 | (186,609) | (164,261) | 0 | (164,261) |
| Other currencies | 42 | 0 | (657) | (615) | 0 | (615) |
| **31.12.2009** | **58,861** | **118,514** | **(196,291)** | **(18,916)** | **0** | **(18,916)** |

| | 2010 | 2009 |
|---|---|---|
| **Equity sensitivity to exchange rate fluctuations (DKK '000)** | | |
| Impact if the USD exchange rate were DKK 0.50 lower than the actual rate | (3,900) | (5,400) |
| **Profit sensitivity to exchange rate fluctuations (DKK '000)** | | |
| Impact if the USD exchange rate were DKK 0.50 lower than the actual rate | (3,900) | (5,400) |

### Interest rate risk

As a result of repayment of the acquisition loan in the parent company, the Group's interest rate exposure is mainly attributable to interest-bearing assets. A 1% change in the Group's effective interest would impact the parent company's earnings before tax by some DKK 1.0 million p.a.

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| | | Interest rate risks : | | |
| | | **Profit sensitivity to interest rate change** | | |
| +/- 800 | +/- 1,000 | Impact of an effective interest rate of +/- 1% | +/-1,200 | +/- 300 |

*A 1% change in the Group's effective interest would impact the Group's earnings before tax by some DKK 1.2 million p.a.*

### Credit risks

The Group's credit risks associated with financial activities correspond to the amounts recognised in the balance sheet. The Group assesses the need for insurance on individual debtors on an ongoing basis. The assessment is based on the individual debtor's present and future expected commitments to the Group.

The primary credit risk of the Group is associated with trade receivables. It is believed that there are no special credit risks related to trade receivables as the Group took out debtor insurance on selected debtors in 2009. The Group's cash and cash equivalents and deposits are placed with its bankers, and the vast majority with its principal banker.

### Capital management

The Group evaluates the need to adapt its capital structure on an ongoing basis. Management believes that the financing of the Group's future expansion plans can be obtained on the basis of the capital increase in 2010, the new bank agreement with Jyske Bank and cash flows from operating activities.

The priority of the free cash flow generated by the Group is first to repay interest-bearing debt as it falls due and secondly to spend free cash flows on the Group's continued expansion and shareholder dividends.

At the end of 2010, equity as a percentage of the total liabilities was 82.7% in the parent company (2009: 54.3%). The realised return on equity for 2010 was 19.6% (2009: 24.3%). Management believes that the Group remains well-consolidated which is deemed necessary.

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

**The company's gearing at the balance sheet date is calculated as follows:**

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 138,593 | 0 | Credit institutions/bank debt | 17,281 | 152,949 |
| (10,377) | (99,913) | Cash and cash equivalents | (100,194) | (11,840) |
| 0 | 0 | Cash in assets held for sale | (7,474) | (61,904) |
| (48,484) | (2,250) | Other receivables, non-current | (2,250) | (48,484) |
| **79,732** | **(102,163)** | **Net interest-bearing debt** | **(92,637)** | **30,721** |
| **268,047** | **433,837** | **Equity** | **442,093** | **300,617** |
| **0.3** | **(0.2)** | **Financial gearing** | **(0.2)** | **0.1** |

*During 2010, the Group repaid the acquisition loan raised in 2008. In August 2010, the Group concluded a new bank agreement with Jyske Bank, which provides increased flexibility in the form of a 3-year committed corporate loan of up to DKK 205 million distributed on operating, guarantee and plant facilities. The loan involves covenants relating to the Group's future NRG/EBITDA and equity ratio.*

### Cash flow

Cash flows from operating activities were positive and cash flows from investing and financing activities were negative. All in all, the cash flows for the Group were positive. On a Group level, there were free cash flows of DKK 107.7 million. Of the Group's free cash flows, DKK 7.5 million was attributable to Cemat70 S.A. Management believes that its cash holdings and the present operating credits provide sufficient capital resources. On the balance sheet date in 2009, the parent company's net outflow was DKK 4.0 million and DKK 73.7 million on Group level. DKK 61 million of the Group's free cash flows was attributable to Cemat70 S.A.

## 36. FEE FOR AUDITORS APPOINTED BY THE GENERAL MEETING

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 520 | 520 | Deloitte, audit of annual report | 762 | 1,045 |
| 26 | 85 | Deloitte, tax advice | 85 | 26 |
| 3 | 0 | Deloitte, assurance engagements other than audits | 90 | 0 |
| 1,226 | 1,159 | Deloitte, non-audit services | 1,439 | 1,714 |
| **1,775** | **1,764** | **Total** | **2,376** | **2,785** |

## 37. RELATED PARTIES

The Group has no related parties exercising control.

The Group has the following related parties:

- Cemat Silicon S.A., subsidiary in Poland
- Cemat70 S.A., subsidiary in Poland
- Ejendomsaktieselskabet Bangs Gård, owned by shareholder and Deputy Chairman
- Frost Invest A/S, owned by a member of the Board of Directors
- CCMA Holding ApS, owned by a member of the Board of Directors

The Group had transactions with the following related parties in 2010:

- Ejendomsaktieselskabet Bangs Gård
- Cemat Silicon S.A., Poland
- Cemat70 S.A., Poland

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

## 38. RELATED PARTY TRANSACTIONS

| PARENT COMPANY 2009 | PARENT COMPANY 2010 | DKK '000 | GROUP 2010 | GROUP 2009 |
|---|---|---|---|---|
| 1,438 | 1,910 | Rent, Ejendomsaktieselskabet Bangs Gård | 1,910 | 1,438 |
| 70,904 | 73,580 | Subsidiaries, sale of goods | 0 | 0 |
| 93,389 | 113,523 | Subsidiaries, purchase of goods | 0 | 0 |
| 310 | 980 | Subsidiaries, interest income | 980 | 0 |
| **166,041** | **189,993** | **Total** | **2,890** | **1,438** |
| | | | | |
| 2,250 | 2,250 | Deposit, Ejendomsaktieselskabet Bangs Gård | 2,250 | 2,250 |
| (393) | (245) | Rent, etc., Ejendomsaktieselskabet Bangs Gård | (245) | (393) |
| 24,547 | 36,695 | Subsidiaries, lending | 0 | 0 |
| 34,777 | 0 | Subsidiaries, receivables | 0 | 0 |
| (36,144) | (7,371) | Subsidiaries, payables | 0 | 0 |
| **25,037** | **31,329** | **Total balance** | **2,005** | **1,857** |

*Other management remuneration, etc. is stated separately in connection with note 4, staff costs.*
*All related party transactions have been carried out on an arm's length basis.*

## 39. SHAREHOLDER INFORMATION

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

| Composition of shareholders at 31 December 2010 | Number of shares | Capital kr. | Capital % | Votes % |
|---|---|---|---|---|
| EDJ-Gruppen<br>Bangs Gård, Torvet 21,<br>DK-6701 Esbjerg, Denmark | 63,439,811 | 15,859,952.75 | 12.2 | 12.2 |

## 40. BOARD OF DIRECTORS AND MANAGEMENT BOARD

The Board of Directors and Management Board of Topsil Semiconductor Materials A/S hold shares in Topsil Semiconductor Materials.

| DKK '000 | Shareholdings, nominal value 2010 | 2009 |
|---|---|---|
| **Shares (own and related parties*)** | | |
| Jens Borelli-Kjær, Chairman | 272 | 218 |
| Eivind Dam Jensen (EDJ-Gruppen), Deputy Chairman | 15,860 | 15,766 |
| Jørgen Frost, member of the Board of Directors | 41 | 33 |
| Ole Christian Andersen**, member of the Board of Directors | 0 | 54 |
| Trine Schønnemann, member of the Board of Directors | 31 | 21 |
| Leif Jensen, member of the Board of Directors | 157 | 192 |
| Keld Lindegaard Andersen, CEO | 711 | 819 |
| Jørgen Bødker, EVP, Director of Logistics, Sales & Marketing | 729 | 527 |
| **Total** | **17,801** | **17. 630** |

** Related parties are management's close family and companies, in which they hold managerial positions and directorships.*
*** Retired from the Board of Directors on 28 April 2010.*

## 41. POST BALANCE SHEET EVENTS

On 26 January 2011, Topsil signed a purchase agreement with the municipality of Frederikssund for a building site for a new plant for the production of ultra-pure silicon (FZ-silicon) around seven kilometres south of the present location.

In 2011, Topsil will be concentrating on the start-up phase of the construction and on executing some of the plans and processes which are to ensure the current optimisation of operations as well as an efficient transition to the new production flow, as the plant is put into operation in mid 2012. This entails the installment of various production equipment and employment of new operators during 2011, partly to support growth, partly to handle the production of ultra-pure silicon on two locations during the transition period.

No further significant events have occurred after the balance sheet date.

## 42. APPROVAL OF THE ANNUAL REPORT FOR PUBLICATION

The Board of Directors has adopted this annual report for publication at a board meeting held on 22 March 2011. The annual report will be presented to the shareholders of the parent company for approval at the annual general meeting to be held on 14 April 2011.

# GLOSSARY

| | |
|---|---|
| **Detector** | A detector is a technical devise that recovers objects or facts. |
| **Semiconductor** | *(semiconductor)*<br>The element silicon is a semiconductor. Semiconductor materials may be both electrical conductors  and electrical isolators, which is the property that makes the material suitable for electronic components. |
| **IGBT** | *(Insulated Gate Bipolar Transistor)*<br>Electronic component for connecting and disconnecting power. |
| **Infrared** | Long wavelength light/thermal radiation. |
| **IPD** | Integrated passive devices are used in digital and RF applications, including cell phones, radar systems and wireless networks. |
| **Lean** | Lean is based on mechanical and regular production processes, i.e. assembly lines, automatisation and internal structure. The lean philosophy derived from Toyota in the 1960s, centered on preserving value with less work. |
| **Smart grid** | The grid that transmits power from the point of generation to the point of use, rethinking the energy supply and consumption. |
| **MEMS** | Micro Electro-Mechanical Systems, MEMS, is the technology of very small mechanical devices driven by electricity and is manufactured by means of silicon technology. One example of a MEMS sensor is a car airbag, supervising acceleration and signaling airbag launch. If further optical properties are included, MEMS is translated into MOEMS. |
| **Monocrystalline** | Monocrystalline atoms joined in a symmetrical crystal lattice, e.g. a diamond. |
| **Optoelectronics** | Optoelectronics comprises electronic devices that detect and control optical phenomenoms and light. |
| **Polysilicon** | Raw material for the production of monocrystalline silicon. |
| **Puller** | Machine for processing of CZ or FZ silicon. |
| **RF Electronics** | Radio Frequency Electronics is an integrated part of almost any device transmitting radio waves, including cell phones, radios, WiFi and walkie talkies. |
| **SEMI** | Semiconductor Equipment and Materials International – industry organisation;<br>link: www.semi.org. |
| **Smart power** | A term covering the ongoing organisation, efficiency enhancement and rethinking of energy supply and consumption. |
| **Thyristor** | Electronic component switching on power. The component is associated with<br>low energy loss. |
| **Yole Developpement** | Independent semiconductor industry research company, link: www.yole.fr. |

**TOPSIL SEMICONDUCTOR MATERIALS A/S**
Linderupvej 4
DK-3600 Frederikssund
Denmark
Tel. +45 47 36 56 00
Fax +45 47 36 56 01
E-mail: topsil@topsil.com
**www.topsil.com**

CVR no.: 24 93 28 18