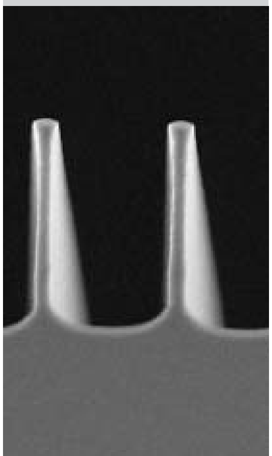
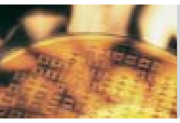
ANNUAL REPORT **2005**

TOPSIL

PURE SILICON

CVR-NO. 24932818





ANNUAL REPORT **2005**

Photos: MIC, Søren Wesseltoft, BP Solar, Nokia, Bendix, TeknoGrafik and SunPower.

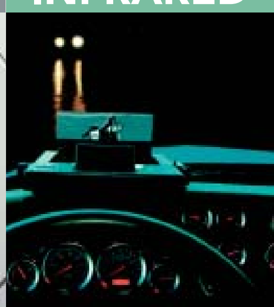
POWER

WIRELESS

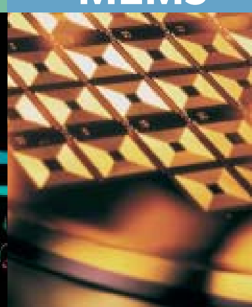
AUTOMOTIVE

DETECTOR

INFRARED



MEMS



Contents

Company details

Topsil Semiconductor Materials A/S
Linderupvej 4
DK-3600 Frederikssund
Denmark
CVR no. 24 93 28 18
Tel: +45 4736 5600
Fax: +45 4736 5601
E-mail: topsil@topsil.com
Web: www.topsil.com

Board of Directors:	**Other directorships and management positions held by the members of the Board of Directors and the Board of Executives:**
Kent Hansen	Managing Director of Danish Venture Management ApS Associate Partner of CAM Private Equity Consulting & Verwaltungs-GmbH Chairman of Topsil International A/S
Eivind Dam Jensen	Managing Director of Ejendomsaktieselskabet Bangs Gård Managing Director of A/S Eivind Dam Jensen Managing Director of Statsaut. Ejendomsmæglerfirma E. Dam Jensen Managing Director of Hotel Britannia
Per Jørgensen	Director of Agimix AB Director of Indutec Inc.

Staff representatives:

Trine Schønnemann, Key Account Manager

Theis Leth Larsen, Production Engineering Manager

Board of Executives:

Keld Lindegaard Andersen, Managing Director	Director and Managing Director of Topsil International A/S
Jørgen Bødker, Sales and Marketing Director	

Company auditors:

Deloitte
Statsautoriseret Revisionsaktieselskab

Anders O. Gjelstrup State-Authorised Public Accountant	Tim Kjær-Hansen State-Authorised Public Accountant

General meeting

The annual general meeting will be held on 25 April 2006 at 10 a.m. at Plesner's premises, Amerika Plads 37, 2100 Copenhagen Ø, Denmark.

Adopted at the group's general meeting on 25 April 2006

Chairman of the meeting

Statement by the management on the annual report

We have on this day presented the annual report of Topsil Semiconductor Materials A/S for 2005.

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

We consider the accounting policies applied expedient for the annual report to give a true and fair view of the group's and the parent's assets, liabilities and financial position as at 31 December 2005 and of the results of their activities and cash flows for the 2005 financial year.

The annual report is submitted for adoption by the general meeting.

Frederikssund, 14 March 2006

Board of Executives:

Keld Lindegaard Andersen
Managing Director

Jørgen Bødker
Sales and Marketing Director

Board of Directors:

Kent Hansen
Chairman

Eivind Dam Jensen

Per Jørgensen

Theis Leth Larsen

Trine Schønnemann

(Staff representatives)

Auditor's report

To the shareholders of Topsil Semiconductor Materials A/S

We have audited the annual report of Topsil Semiconductor Materials A/S for the 2005 financial year, which has been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for the annual reports of listed companies.

The annual report is the responsibility of the company's management. Our responsibility is to express an opinion on the annual report based on our audit.

Basis of opinion

We conducted our audit in accordance with Danish Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance, that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies applied and significant estimates made by the management, as well as evaluating the overall presentation of the annual report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any qualifications.

Opinion

In our opinion, the annual report gives a true and fair view of the group's and the parent's assets, liabilities and financial position as at 31 December 2005 and of the results of their activities and cash flows for the 2005 financial year in accordance with the International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for the annual reports of listed companies.

Additional information

As described in the company's stock exchange notification 02/06 of 6 March 2006, the company has not been able to conclude a long-term contract for the delivery of raw materials. We refer to page 11 of the management's review, where the management describes the consequences of the lacking raw material contract, including the significant uncertainty associated with the expectations for the future. If the expectations described are not fulfilled, we agree with the management that this will result in additional impairment losses on and write-downs of company assets, especially capitalised development costs and the tax asset. Based on the raw material inventory and a raw material contract already concluded, the management estimates that the company can continue its activities at a minimum up until the 2006 year-end. We therefore agree that the annual report can be prepared in accordance with the going-concern principle.

Copenhagen, 14 March 2006

DELOITTE
Statsautoriseret Revisionsaktieselskab

Anders O. Gjelstrup

Anders O. Gjelstrup
State-Authorised Public Accountant

Tim Kjær-Hansen
State-Authorised Public Accountant

Financial highlights (group)

Key figures for the past 5 years, DKK '000	2005	2004	2003	2002	2001
Revenue	129,592	115,657	117,651	111,883	132,102
Operating profit/loss (EBIT)	(3,402)	1,996	(15,482)	2,866	2,085
Net financials	(1,471)	(2,787)	(1,141)	2,472	(6,584)
Net profit/loss for the year	(11,104)	(781)	(16,625)	5,350	(4,499)
Non-current assets	48,991	51,008	44,321	56,020	53,343
Current assets	63,404	62,195	87,364	106,142	94,174
Total assets	112,395	113,203	131,685	162,162	147,517
Equity	50,253	61,074	62,953	77,164	24,845
Provisions	0	0	0	0	1,313
Long-term liabilities other than provisions	14,422	17,804	28,505	26,335	10,750
Short-term liabilities other than provisions	47,720	34,325	40,227	58,663	110,609
Financial ratios					
Profit margin (%)	(2.6)	1.7	(13.2)	2.6	1.6
Acid test ratio	133	*221	*217	181	85
Equity interest (%)	44.7	54.0	47.8	47.6	16.8
Return on equity (%)	(20.0)	(1.3)	(23.7)	10.5	(17.0)
Equity value	0.19	0.23	0.24	0.30	0.43
Quoted price	0.29	0.28	0.62	**0.35	1.63
Dividend per share	0	0	0	0	0
Price/equity value	1.53	1.22	2.58	1.17	3.79
Average number of employees	76	84	93	88	92

* The acid test ratio includes buildings and machinery held for sale.

** On the annual general meeting on 15 May 2002, the group changed the face value from a nominal value of DKK 1.00 to a nominal value of DKK 0.25.

Financial highlights for 2004 and 2005 have been prepared in accordance with IFRS, cf. the description under Accounting policies. In connection with the transition to IFRS, comparative figures for 2003, 2002 and 2001 have not been restated in accordance with the changes in accounting policies, but have been determined in accordance with the previous accounting policies based on the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) and Danish Accounting Standards.

Financial highlights (parent)

Key figures for the past 5 years, DKK '000	**2005**	**2004**	**2003**	**2002**	**2001**
Revenue	129,592	115,657	117,651	111,883	132,102
Operating profit/loss (EBIT)	(7,080)	3,899	(15,482)	2,866	2,085
Net financials	(68)	(2,780)	(1,141)	2,472	(6,584)
Net profit/loss for the year	(13,004)	1,119	(16,625)	5,350	(4,499)
Non-current assets	50,517	51,569	44,321	56,020	53,343
Current assets	61,767	64,103	87,364	106,142	94,174
Total assets	112,284	115,672	131,685	162,162	147,517
Equity	50,253	62,974	62,953	77,164	24,845
Provisions	0	0	0	0	1,313
Long-term liabilities	14,422	17,804	28,505	26,335	10,750
Short-term liabilities	47,609	34,894	40,227	58,663	110,609
Financial ratios					
Profit margin (%)	(5.5)	3.4	(13.2)	2.6	1.6
Acid test ratio	130	*221	*217	181	85
Equity interest (%)	44.8	54.4	47.8	47.6	16.8
Return on equity (%)	(23.3)	1.8	(23.7)	10.5	(17.0)
Equity value	0.19	0.24	0.24	0.30	0.43
Quoted price	0.29	0.28	0.62	**0.35	1.63
Dividend per share	0	0	0	0	0
Price/equity value	1.53	1.17	2.58	1.17	3.79
Average number of employees	76	84	93	88	92

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Calculation of ratios

Profit margin	$\dfrac{\text{Profit/loss before interest etc. x 100}}{\text{Revenue}}$
Acid test ratio	$\dfrac{\text{Current assets x 100}}{\text{Short-term liabilities other the provisions}}$
Equity interest	$\dfrac{\text{Equity, end of year x 100}}{\text{Total liabilities and equity, end of year}}$
Profit/loss for analytical purposes	Profit/loss from ordinary activities less tax
Return on equity	$\dfrac{\text{Profit/loss for analytical purposes x 100}}{\text{Average equity}}$
Equity value, end of year	$\dfrac{\text{Equity, end of year}}{\text{Number of shares, end of year}}$
Quoted price, end of year	Price of quoted shares, end of year
Dividend per share	$\dfrac{\text{Dividend rate x nominal value of the share}}{100}$
Price/equity value	$\dfrac{\text{Quoted price}}{\text{Equity value, end of year}}$

The ratios have been calculated in accordance with the above-mentioned definitions.

Management's review 2005

Main activity

The group is engaged in the production and sales of monocrystalline float-zone silicon for the electronics and solar cell markets. Production takes place through the conversion of polycrystalline raw silicon to monocrystalline silicon by melting and recrystallisation.

The production is based on self-developed machinery and processes.

Development in the group's activities and financial affairs

The consolidated revenue in 2005 was DKK 129.6m against DKK 115.7m in 2004, up 12 per cent. During the financial year, the group has focused on optimising the product and customer mix to obtain higher earnings and improve the utilisation of raw materials.

At the end of June 2005, the group's main supplier of raw silicon terminated its contracts for expiry on 31 December 2005 as announced in stock exchange notification 15/05. The controlling interest of the main supplier had been acquired by a company with main activities in the solar cell industry wanting to secure raw materials for its own solar cell production.

For several months, the group negotiated with the new principal shareholder for a new long-term contract, and at the end of October 2005, the group was able to secure the necessary raw material deliveries to be able to meet customer demands in 2006 and part of 2007.

Negotiations with the principal shareholder continued to secure a long-term contract for the delivery of raw materials, but the group did not succeed in concluding such a contract (see stock exchange notification 02/06 of 6 March 2006).

The group has contacted alternative raw silicon suppliers, but given the global shortage of silicon of all qualities, it is uncertain whether there is a sufficient amount of material available for the group in the short run. Due to this shortage of silicon, prices on raw silicon have increased in 2005. The group has been able to compensate for part of this increase in prices by increasing selling prices.

At the end of the financial year, the group decided to concentrate all its development efforts on the development of processes for alternative polytypes (raw materials) to be as flexible as possible in connection with the negotiations currently taking place with possible new suppliers.

Uncertainty with regard to recognition and measurement

At the end of the financial year, no uncertainties with regard to recognition have been identified, but the measurement of intangible assets and the tax asset is subject to uncertainty as a result of the raw material situation.

Exceptional conditions

During the year, changes have been made to the Board of Directors and the Board of Executives. Three members of the Board of Directors, Doris Hsu, Chairman, Paul Decraemer, Deputy Chairman, and Jon Wulff Petersen resigned, while Eivind Dam Jensen, Deputy Chairman, and Per Jørgensen were elected.

Peder Mohr Jensen, Managing Director, resigned on 31 August 2005, and on 1 September 2005, Keld Lindegaard Andersen, who has broad experience in international sales, for instance as Business Development Director with Bang og Olufsen ICEpower A/S, was appointed.

The results for the year are negatively affected by costs of DKK 2.8m relating to the change of Managing Director as well as provisions made for labour costs regarding terminated employees.

At the end of August 2005, the group concluded an agreement for the sale and leaseback of its property in Frederikssund, Denmark. The buyer was Ejendomsaktieselskabet Bangs Gård, a company of EDJ-Gruppen, owned by Eivind Dam Jensen[1], Manager and Deputy Chairman of the group's Board of Directors. This agreement affected results positively by DKK 2.4m before tax. The proceeds have been recognised in the income statement under other operating income.

Due to the critical situation concerning the availability of raw materials, the management has decided to suspend its other development activities temporarily until the raw material situation is solved, to expense the accounting balance thereof with DKK 4.7m and to make an extraordinary write-down of DKK 4.0m of the tax asset.

Net profit/loss for the year

The operating loss for the year totalled DKK 3.4m against a profit of DKK 2.0m in 2004.

In 2005, the group realised a loss after tax of DKK 11.1m against a loss of DKK 0.8m in 2004.

The results for 2005 are deemed unsatisfactory by the Board of Directors and the Board of Executives.

The Board of Directors recommends to the general meeting that no dividend be paid for the 2005 financial year and that the loss for the year be transferred to equity.

Special risks

Commercial risks

A significant part of the group's revenue is distributed on less than 25 customers, no customer, however, buying products corresponding to more than 20 per cent of the total revenue of the group. Revenue from the ten largest customers constitutes approx. 75 per cent of the total revenue.

The group is the fourth largest supplier of float-zone silicon in the world with a market share of approx. 8 per cent. This makes the group a small player among very large competitors, which, in the medium term, may involve a commercial risk.

The capital base of the group may turn out to be insufficient if the political uncertainty results in a development of the group's global markets which is markedly different than currently expected by analysts.

The availability of raw silicon is decisive for the group's existence. There are eight manufacturers of raw silicon in the world, of which two manufacture raw silicon of a quality that can be used in the group's current processes. The limited number of manufacturers means that a strong negotiating position is required to ensure reliable delivery of raw materials. The inventory and confirmed orders of the group make it possible to continue production beyond the 2006 year-end. As mentioned above, the group has not been able to conclude a long-term contract. Consequently, the group will now try to adapt its processes to standard-quality raw materials, which is expected to be technically possible. As previously mentioned in the group's quarterly report for the first quarter of 2005 (10/05), there is a global shortage of raw silicon, and prices are expected to increase.

The group works intensively to solve the delivery problem, but emphasises the seriousness of the situation.

The group uses two primary subsuppliers in connection with the cutting and finishing of the silicon ingots. The largest of these subsuppliers is Sino-American Silicon Products Inc., which is one of the group's major shareholders. Also within this field, active efforts are made to qualify alternative subsuppliers.

[1] The financial consequences of the transaction are described in note 35 concerning transactions with related parties.

Financial risks

Currency risks
The group does not use derivative financial instruments for hedging currency risks. Instead, commercial hedging is used through the balancing of the group's currency inflow and outflow. The group's most important currency flow is USD, constituting approx. 65 per cent of the total cash flow. A fluctuation in the USD/DKK exchange rate of +/- DKK 0.50 will result in a monthly currency risk for the group of approx. DKK 35,000.

Interest rate risks
Based on the net debt at the end of the 2005 financial year, an increase of 1 percentage point in the general interest rate level will result in an increase in the group's annual interest expenses before tax of approx. DKK 40,000. The group does not hedge the interest rate risk as this is not deemed financially profitable.

Credit risks
The credit risks of the group relating to financial activities correspond to the values recognised in the balance sheet. Credit insurance has been taken out for some of the factored claims.

Knowledge resources

The knowledge resources of the group can be divided into three categories: customers, technology and employees.

Customers
Topsil estimates to have a market share of approx. 8 per cent of the global market for FZ silicon, Europe being the largest individual market. The market for FZ silicon is considered a niche market as it constitutes approx. 3 per cent of the total silicon market. In the FZ market, Topsil is the fourth largest supplier of a total of 8-10 suppliers in the global market. Two of the largest competitors are Japanese, and one is German. Apart from this, there are some small players in China and Eastern Europe, which primarily manufacture and deliver FZ silicon to the local markets.

The group has a relatively strong niche position in the market. Topsil primarily acts as either the main supplier for enterprises manufacturing semiconductors for high-voltage components and small niche enterprises in the semiconductor industry or as the second or third supplier for corresponding niche or multinational enterprises in the semiconductor industry. The group has developed long-lasting and strong customer relations and has collaborated with most of its customers for more than 20 years.

As one of the industry's small players, Topsil has through its production apparatus specialised as a flexible manufacturer with regard to capabilities, quantities, product characteristics and deliveries.

Technology
Topsil is a technology enterprise. Research and development primarily takes place within three areas:
- Use of less expensive and less processed types of raw materials for the manufacturing of FZ silicon for the solar cell and electronics industry.
- Development of new products for the solar cell and electronics industry (diameters, characteristics etc.).
- Production and machine technology.

For a number of years, Topsil has developed a high-quality PV-FZ® product for the solar cell industry, which has a potential integrated cost price advantage as compared to solar cells based on the Czochralski production method or solar cells based on multicrystalline material.

Employees
The ability to develop new products and services is a material factor for the group's success. Therefore, the competences and commitment of the employees are the most important key to efficiency, customer satisfaction and innovation. As a small technology enterprise, Topsil sees the creation and maintenance of an innovative environment as an important challenge. The group expects to intensify and target its development in the coming years in collaboration with enterprises and institutions in the industry.

Events after the end of the financial year

Apart from the information contained in stock exchange notifications regarding the raw material supply, no events have occurred from the balance sheet date and until today, which significantly influence the assessment of the annual report.

Expected development

At the beginning of 2006, the order book of the group totalled approx. DKK 50m against approx. DKK 29m at the beginning of 2005.

In general, the order intake is large and is expected to remain large throughout 2006 if the raw material deliveries are secured. The global demand for the polysilicon raw material and for the processed float-zone crystals manufactured by Topsil is generally increasing. The solar cell industry is expanding heavily these years, resulting in the demand for silicon being larger than the supply in almost every step of the industrial value chain. At the same time, the increased demand results in increasing prices on the polysilicon raw material. Against this background, Topsil expects to continue adjusting its selling prices.

Due to the uncertain situation concerning the delivery of raw materials in 2007, the group will take measures to optimise the consumption of the already secured raw materials on the basis of the current inventory, the order intake at the beginning of 2006 and an optimisation of the product mix. In 2006, the company expects to realise considerably better results before tax for the first half than for the second half.

The group expects to realise net revenue for the year below the 2005 level due to the uncertain delivery situation and results before tax of DKK 0m in 2006.

The global shortage of raw materials is expected to continue until mid-2008. As regards Topsil, the raw material shortage means that, in 2006, the group will focus even more on the production of a product mix with low raw material consumption and acceptable profitability.

Shareholders

The nominal share capital of the group totals DKK 65.525m and consists of 262,100,074 shares of DKK 0.25 each. The shares are not divided into classes.

Share Structure as at 31 December 2005	**No. of shares**	**Capital DKK**	**Capital %**	**Votes %**
EDJ-Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark	36,023,812	9,005,953.00	13.74	13.74
Sustainable Energy Ventures, Hooikaai 55, 1000 Brussels, Belgium	27,644,519	6,911,129.75	10.55	10.55
Sino-American Silicon Products Inc., 8, Industrial East Road, Sec. 2, Science-Based Industrial Park, Hsin-Chu, Taiwan	19,997,108	4,999,277.00	7.63	7.63
Other registered shareholders	133,176,049	33,294,012.25	50.81	50.81
Non-registered shareholders	45,258,586	11,314,646.50	17.27	17.27
Total	262,100,074	65,525,018.50	100.00	100.00

After the end of the financial year, Sustainable Energy Ventures has reduced its shareholding to 4.81 per cent and is no longer a major shareholder.

The group owns no treasury shares.

Overview of stock exchange notifications in 2005 and 2006:

2005

21.01	2005 finance calendar
21.01	Adjustment of expected results
24.01	Change of management
14.03	Notification concerning the 2004 financial statements
18.03	New order from SunPower
23.03	Correction to the notification concerning the 2004 financial statements
29.03	Convening of the annual general meeting
15.04	Change of management
15.04	Summary of the general meeting and change of management
10.05	Quarterly report, first quarter of 2005
30.05	Reporting of insider transactions
15.06	Reporting of insider transactions (two notifications)
28.06	Change of management
01.07	Raw material deliveries
26.08	Interim report, first half of 2005
31.08	Sale of property
02.09	Reporting of insider transactions
12.09	Reporting of insider transactions
31.10	Raw material deliveries
07.11	Quarterly report, third quarter of 2005
14.11	Reporting of insider transactions
30.11	Reporting of insider transactions
30.11	Reporting of insider transactions
16.12	Reporting of insider transactions

2006

12.01	Finance calendar
06.03	Raw material deliveries and adjustment of expected results for 2005

For questions concerning stock exchange notifications, please contact:
Kent Hansen, Chairman, tel. +45 39 66 04 00
Keld Lindegaard Andersen, Managing Director, tel. +45 47 36 56 10

Ownership

Company	Country	% owned by Topsil Semiconductor Materials A/S
Topsil Semiconductor Materials A/S	Denmark	
Subsidiaries		
Topsil International A/S	Denmark	100
Topsil Inc.	USA	100

Accounting policies

The 2005 annual report of Topsil Semiconductor Materials A/S, comprising both the financial statements of the parent and the consolidated financial statements, has been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and additional Danish disclosure requirements for listed companies, cf. the IFRS order issued in compliance with the Danish Financial Statements Act (*Årsregnskabsloven*).

Furthermore, the annual report complies with the International Financial Reporting Standards (IFRS) issued by the IASB.

The annual report is presented in Danish kroner (DKK) which is deemed to be the primary currency of the group's activities and the functional currency of the parent.

The annual report has been prepared on the basis of historical costs except for the recognition of investments in subsidiaries and non-current assets held for sale, which are measured at fair value. Apart from this, the accounting policies are as described below.

Changes in accounting policies due to the transition to IFRS

The 2005 annual report is the first annual report to be presented in accordance with IFRS. Both the financial statements of the parent and the consolidated financial statements have been presented in accordance with IFRS.

In connection with the transition to IFRS, IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied. According to this, the opening balance sheet as at 1 January 2004 and the comparative figures for 2004 have been prepared in accordance with the standards and interpretations applicable at 31 December 2005. The opening balance sheet as at 1 January 2004 has been prepared as if these standards and interpretations have always been applied except for those cases where the special provisions of IFRS 1 concerning transition and introduction described below and in note 39 are applied.

The transition to reporting in accordance with IFRS has necessitated a number of changes in the accounting policies applied by the parent and the group with regard to recognition and measurement within the following areas:

- Subject to IFRS 2, costs incurred in connection with share option schemes are expensed in the income statement as the options are earned. The value of equity-based schemes is taken to equity. The value of the options is determined on the basis of the share price at the exercise date. IFRS 2 will be applied as of 1 January 2005 in accordance with the transition provisions.

- The measurement by the parent of investments in subsidiaries has been changed from equity value to fair value, cf. IAS 32 and 39.

The main rule for how changes in the accounting policies are treated in the financial statements is that in the year of change, the annual report must be prepared retroactively as if the company had always applied the new accounting principles, including the restating of comparative figures. In connection with the transition to reporting in accordance with IFRS, IFRS 1, however, comprises a number of mandatory and optional exceptions to this main rule.

As of the current financial year, the annual report of Topsil Semiconductor Materials A/S is presented in accordance with the international financial reporting standards. The transition to reporting in accordance with IFRS means that the IFRS standards applicable at the balance sheet date in the transition year must be applied retroactively as of the first financial year presented in the annual report for the transition year.

Reclassifications
Apart from the changes in accounting policies regarding share-based payment and recognition of investments in subsidiaries, the following reclassifications and changes in the format with restatement of comparative figures for 2004 have been made:

- Deferred tax assets are no longer presented under current assets, but are recognised as other receivables under non-current assets.

- Non-current assets held for sale and associated liabilities are presented as separate items under assets and liabilities, respectively.

The above-mentioned changes in the accounting policies due to the transition to IFRS have no financial effect on equity as at 1 January 2004 or on the 2004 cash flow statements of the group and the parent. Other financial effects of the changes in accounting policies have been described in further detail in note 39, including explanatory reconciliations between the previous accounting policies and IFRS.

Financial highlights overview
Comparative figures in the financial highlights overview for 2001-2003 have not been restated in accordance with the changes in accounting policies. The financial changes resulting from the transition to IFRS will only be of immaterial significance to the financial highlights for 2001-2003.

Standards and interpretations which have not yet become effective
At the date of the publication of this annual report, the following additional new or changed standards and interpretations have not yet become effective and have thus not been incorporated into this annual report:

- Revised IAS 21, *The Effects of Changes in Foreign Exchange Rates* (effective date 1 January 2006 – not yet adopted by the European Union)
- Revised IAS 39, *Financial instruments: Recognition and Measurement* (effective date 1 January 2006)
- Revised IFRS 4, *Insurance contracts* (effective date 1 January 2006)
- IFRS 6, *Exploration for and Evaluation of Mineral Assets* (effective date 1 January 2006)
- IFRS 7, *Financial instruments: Disclosures* (effective date 1 January 2007)
- IFRIC 4, *Determining whether an Arrangement Contains a Lease* (effective date 1 January 2006)
- IFRIC 5, *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds* (effective date 1 January 2006)
- IFRIC 6, *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (effective date 1 December 2005)
- IFRIC 7, *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies* (effective date 1 March 2006 – not yet adopted by the European Union)
- IFRIC 8, *Scope of IFRS 2, Share-based Payment* (effective date 1 May 2006 – not yet adopted by the European Union)

The management estimates that these standards and interpretations will not materially affect the annual report.

Consolidated financial statements

The consolidated financial statements comprise Topsil Semiconductor Materials A/S (parent) and the group enterprises (subsidiaries), which are controlled by the parent. Control is achieved by the parent, either directly or indirectly, holding more than 50 per cent of the voting rights or in any other possible or actual way exercising a controlling influence.

Basis of consolidation
The consolidated financial statements are prepared on the basis of the financial statements of Topsil Semiconductor Materials A/S and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation are prepared applying the group's accounting policies.

Items in the financial statements of subsidiaries are recognised in full in the consolidated financial statements.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' net assets at the acquisition date, determined at fair value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated using the average exchange rates that do not deviate materially from the exchange rates applicable at the transaction date. Receivables, liabilities and other monetary items denominated in foreign currencies which have not been settled at the balance sheet date are translated using the exchange rates applicable at the balance sheet date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment or the exchange rate at the balance sheet date, respectively, are recognised in the income statement as net financials. Intangible assets, property, plant and equipment as well as inventories which have been purchased using foreign currencies are translated using historical exchange rates.

Share-based incentive programmes

Share-based incentive programmes where the employees may choose to purchase shares in the parent (equity-based schemes) are measured at the fair value of the equity instruments at the time of granting and are recognised in the income statement under staff expenses over the period during which the employees have a right to purchase the shares. The amount is taken directly to equity.

The fair value of the equity instruments is determined using Cox, Ross & Rubinstein's binomial tree and the parameters stated in note 7.

Non-current assets held for sale

Non-current assets and groups of assets held for sale are presented as separate items under current assets in the balance sheet. Liabilities directly related to such assets are presented as short-term liabilities in the balance sheet.

Non-current assets held for sale are not depreciated, but are written down to the lower of fair value less expected selling costs and carrying amount.

Tax

Tax for the year comprising current tax and changes in deferred tax is recognised in the income statement with the portion attributable to the profit/loss for the year and directly in equity with the portion attributable to amounts recognised directly in equity.

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

Current tax for the year is calculated according to the tax rules and at the tax rates applicable at the balance sheet date.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in tax rates or tax rules are recognised in the income statement or in equity, depending on where the deferred tax was recognised initially.

Deferred tax is recognised and measured under the balance-sheet liability method on the basis of all temporary differences between the carrying amount and tax base of assets and liabilities. The tax base of the assets is determined on the basis of the planned use of the individual asset.

Deferred tax assets, including the tax base of tax losses to be carried forward, are recognised in the balance sheet at expected realisable value through a set-off against deferred tax liabilities or as net tax assets for set-off against future positive taxable income. Each year on the balance sheet date, it is considered whether an adequate taxable income is likely to be realised in the future for the deferred tax asset to be utilised.

The parent is taxed jointly with its wholly-owned Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed Danish enterprises in proportion to their taxable incomes.

Income statement

Revenue
Revenue is recognised in the income statement when the delivery and passing of risk to the buyer has taken place.

Revenue is measured at the fair value of the amount received or receivable. If an interest-free credit for the amount receivable beyond the normal credit period has been agreed, the fair value of the amount is calculated by discounting future payments to present value. The difference between the fair value and the nominal value of the payment is recognised as financial income in the income statement using the effective rate of interest.

Revenue is determined exclusive of VAT, taxes and discounts in relation to the sale.

Costs of raw materials and consumables
Costs of raw materials and consumables comprise direct expenses incurred to earn revenue. Costs of raw materials and consumables also include costs of development projects which do not meet the criteria for recognition in the balance sheet.

Other operating income and expenses
Other operating income and expenses include income and expenses of a secondary nature viewed in relation to the group's primary activity, including gains and losses on the disposal of intangible assets and property, plant and equipment as well as non-current assets held for sale etc.

Other external expenses
Other external expenses comprise expenses relating to distribution, sales, marketing, administration, premises, bad debts etc.

Other external expenses also include costs of development projects which do not meet the criteria for recognition in the balance sheet.

Public subsidies
Public subsidies are recognised when there is reasonable assurance that the conditions for granting the subsidies have been met and that the subsidies will be granted.

Subsidies to cover costs incurred are recognised on a pro-rata basis in the income statement over the periods during which the related costs are recognised. The subsidies are set off against the costs incurred.

Public subsidies relating to assets are deducted from the cost of the individual asset.

Staff expenses
Staff expenses comprise wages and salaries as well as social security costs, pension contributions etc. for the group's staff.

Net financials
Net financials comprise interest income and expenses, the interest portion of finance lease payments, realised and unrealised capital gains and losses on securities, liabilities and transactions in foreign currencies etc. as well as surplus tax and refunds under the Danish system of taxation on account.

Balance sheet

Intangible assets
Development projects comprise the development of products and production processes. Clearly defined and identifiable development projects for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised in the income statement as incurred.

On initial recognition, development projects are measured at cost. The cost of development projects comprises costs, including salaries and amortisations, which are directly attributable to the development projects and which are necessary for the completion of the project, as calculated from the time when the development project for the first time meets the criteria for recognition as an asset.

On completion of the development project, development costs are amortised according to the straight-line method over the expected useful lives of the assets. The amortisation period is normally 5 years, but may be up to 20 years if the longer amortisation period is considered to better reflect the group's benefit from the developed product etc.

Development projects are impaired to their recoverable amount, if lower (see below). At least once a year, development projects in progress are tested for impairment.

Acquired intangible assets in the form of patents are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period. If the actual useful life is shorter than the remaining patent term and term of agreement, respectively, the patent is amortised over the shorter useful life.

Acquired intangible rights are impaired to their recoverable amount, if lower (see below).

Property, plant and equipment
Land and buildings, plant and machinery and other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

The cost comprises the acquisition price, directly related costs and the costs of preparing the asset up until such time as the asset is ready for use. The cost of assets manufactured by the group comprises direct costs of materials, components, subsuppliers, wages and salaries. The cost of assets held under finance leases is the lower of the fair value of the asset and the present value of the future lease payments.

Interest expenses on loans for financing the production of property, plant and equipment are not included in the cost.

The basis of depreciation is cost less residual value following end of use. The residual value is the selling price at the balance sheet date if the age and state of the asset are as expected at the end of its useful life less selling costs.

The cost of a joint asset is divided into smaller components depreciated separately if their useful lives differ.

Depreciation is according to the straight-line method over the expected useful lives of the assets as follows:

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

Methods of depreciation, useful lives and residual values are considered annually.

Property, plant and equipment is impaired to the lower of recoverable amount and carrying amount.

Impairment losses on property, plant and equipment and intangible assets
The carrying amount of property, plant and equipment as well as intangible assets with determinable useful lives is reviewed at the balance sheet date with a view to establishing whether impairment exists. If this is the case, the recoverable amount of the asset is determined to establish the need for a possible impairment and the extent thereof. The recoverable amount of development projects is determined annually whether impairment exists or not.

If the asset does not generate cash flows independently of other assets, the recoverable amount of the smallest cash flow-generating unit in which the asset is included is determined.

The recoverable amount is determined as the higher of the fair value of the asset or the cash flow-generating unit less selling costs and the value in use. On determination of the value in use, estimated future cash flows are discounted to present value using a discount rate which reflects both current market assessments of the time value of such money and the special risks relating to the asset or the cash flow-generating unit and for which the estimated future cash flows have not been adjusted.

If the recoverable amount of the asset or the cash flow-generating unit is lower than the carrying amount, the carrying amount is impaired to the recoverable amount. Impairment of cash flow-generating units is distributed across the unit, the individual asset, however, not being impaired to a lower value than its fair value less expected selling costs.

Impairment losses are recognised in the income statement. On possible subsequent reversals of impairment losses made due to changes in the preconditions for the determined recoverable amount, the carrying amount of the asset or the cash flow-generating unit is increased to the corrected recoverable amount, the maximum amount, however, being the carrying amount of the asset or the cash flow-generating unit had the impairment not been made.

Investments in subsidiaries
On initial recognition, investments in subsidiaries are measured at cost.

Investments in subsidiaries are subsequently measured at fair value, representing the selling price of the subsidiary at the balance sheet date for an independent buyer. The subsidiary is considered annually on the basis of calculated values in use and future cash flows. Changes in the fair values are recognised in the income statement in the financial year during which the change has occurred.

The cost is adjusted if dividend exceeding the results of the subsidiary determined as from the acquisition date is subsequently distributed by the subsidiary.

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 acquisition price plus delivery costs. The cost of manufactured goods and work in progress comprises costs of raw materials and consumables, direct labour costs and production overheads.

Production overheads comprise indirect material and labour costs, maintenance, depreciation and impairment of machinery, buildings and equipment used in the production process as well as costs of factory administration and management. Fixed production overheads are distributed on the basis of the normal capacity of the plant.

The net realisable value of inventories is determined as the expected selling price less costs of completion and costs necessary to make the sale.

Machinery, land and buildings for sale are revaluated at market price less the expected selling costs.

Receivables
On initial recognition, receivables are measured at fair value and subsequently at amortised cost, which usually corresponds to nominal value, less write-downs for expected losses.

Prepayments
Prepayments recognised under assets comprise costs incurred in respect of coming financial years. Prepayments are measured at cost.

Pension obligations etc.
The group has concluded contribution-based pension agreements and similar agreements with a significant number of group employees.

In connection with contribution-based pension schemes, the group pays fixed contributions on a regular basis to independent pension companies etc. Such contributions are recognised in the income statement for the period during which the employees have performed the work entitling the pension contribution. Payables are recognised in the balance sheet as liabilities.

Lease commitments
Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities and are measured at the present value of future lease payments on conclusion of the lease. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between the present value and the nominal value of the lease commitment is recognised in the income statement as a financial expense over the term of the contracts.

Lease payments relating to operating leases are recognised according to the straight-line method in the income statement over the lease term.

Other financial liabilities
On initial recognition, other financial liabilities, including bank debt and trade payables, are measured at fair value. Such liabilities are subsequently remeasured at amortised cost using the effective rate of interest. Accordingly, 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.

Other financial liabilities are recognised at amortised cost, which usually corresponds to nominal value.

Cash flow statement

The cash flow statements of the group and the parent, respectively, are presented according to the indirect method and show the cash flows from operating, investing and financing activities as well as the group's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are determined as the operating profit/loss adjusted for non-cash operating items, changes in working capital and income tax paid.

Cash flows from investing activities comprise payments in connection with the purchase and sale of activities and investments as well as the purchase, development, improvement and sale etc. of intangible assets and property, plant and equipment. Furthermore, cash flows relating to assets held under finance leases in the form of lease payments are recognised.

Cash flows from financing activities comprise changes to the size and composition of parent's share capital and costs incidental thereto as well as the arrangement of loans, repayment of interest-bearing debt, purchase of treasury shares and payment of dividends.

Cash and cash equivalents comprise cash less short-term operating credit.

Segment information
The only segment of the group is "the production of silicon ingots and wafers for the electronics and solar cell markets". The revenue of the group has been stated as a secondary geographical segment. All group assets are located in Denmark. Such segment information is disclosed in accordance with the risks, accounting policies and management control of the group.

Income statement for 2005

Parent 2005	Parent 2004	DKK '000	Note	Group 2005	Group 2004
129,592	115,657	Revenue	3	129,592	115,657
(7,444)	(2,536)	Change in manufactured goods and work in progress		(7,444)	(2,536)
3,394	4,763	Work performed on own account		3,394	4,763
74	1,997	Other operating income	4	2,470	97
(74,703)	(66,459)	Costs of raw materials and consumables		(74,702)	(66,459)
(17,072)	(14,863)	Other external expenses		(15,791)	(14,866)
(30,986)	(30,190)	Staff expenses	5, 6, 7	(30,986)	(30,190)
(9,318)	(4,470)	Depreciation, amortisation and impairment losses	8	(9,318)	(4,470)
(617)	0	Other operating expenses		(617)	0
(7,080)	**3,899**	**Operating profit/loss (EBIT)**		**(3,402)**	**1,996**
965	30	Income from investments in subsidiaries	9	0	0
1,084	507	Financial income	10	646	497
(2,117)	(3,317)	Financial expenses	11	(2,117)	(3,284)
(7,148)	**1,119**	**Profit/loss before tax**		**(4,873)**	**(791)**
(5,856)	0	Tax on profit/loss for the year	12	(6,231)	10
(13,004)	**1,119**	**Net profit/loss for the year**		**(11,104)**	**(781)**
		Earnings per share (EPS)			
		Continuing operations (DKK)	13	(0.04)	(0.00)
		Continuing operations, diluted (DKK)	13	(0.04)	(0.00)
		Proposed appropriation account:			
965	30	Transferred to reserve for fair value of subsidiaries			
(13,969)	1,089	Retained earnings			
(13,004)	**1,119**				

Balance sheet as at 31 December 2005

Assets

Parent				Group	
2005	2004	DKK ’000	Note	2005	2004
18,129	16,855	Completed development projects		18,129	16,855
34	45	Patents and licences		34	45
0	6,507	Development projects in progress		0	6,507
18,163	**23,407**	**Intangible assets**	15	**18,163**	**23,407**
19,177	13,071	Plant and machinery		19,177	13,071
483	536	Other fixtures and fittings, tools and equipment		483	536
983	169	Property, plant and equipment in progress		983	169
20,643	**13,776**	**Property, plant and equipment**	17	**20,643**	**13,776**
1,526	561	Investments in subsidiaries	18	0	0
0	3	Other investments		0	3
8,185	13,822	Deferred tax assets	12	8,185	13,822
2,000	0	Other receivables (prepayment - property, plant and equipment)	19	2,000	0
11,711	**14,386**	**Financial assets**		**10,185**	**13,825**
50,517	**51,569**	**Non-current assets**		**48,991**	**51,008**
24,699	**32,143**	**Inventories**	20	**24,699**	**32,143**
8,768	6,499	Trade receivables	21	8,768	6,499
14,070	15,000	Receivables from subsidiaries		0	0
5,496	6,191	Other receivables		5,496	6,183
375	0	Receivable from joint taxation reimbursement		0	0
453	276	Prepayments	22	453	276
29,162	**27,966**	**Receivables**		**14,717**	**12,958**
7,906	**2,876**	**Cash**	23	**23,988**	**2,876**
0	**1,118**	**Non-current assets held for sale**	14	**0**	**14,218**
61,767	**64,103**	**Current assets**		**63,404**	**62,195**
112,284	**115,672**	**Assets**		**112,395**	**113,203**

Balance sheet as at 31 December 2005

Liabilities and equity

Parent				Group	
2005	**2004**	**DKK ’000**	**Note**	**2005**	**2004**
65,525	65,525	Share capital		65,525	65,525
0	214	Revaluation reserve		0	214
1,026	61	Reserve for fair value of subsidiaries			
497	0	Share-based payment reserve		497	0
(16,795)	(2,826)	Retained earnings		(15,769)	(4,665)
50,253	**62,974**	**Equity**		**50,253**	**61,074**
8,294	17,804	Other credit institutions	24	8,294	17,804
6,128	0	Finance lease commitments	25	6,128	0
14,422	**17,804**	**Long-term liabilities**		**14,422**	**17,804**
9,510	8,763	Other credit institutions	24	9,510	8,763
2,044	334	Bank debt	24	2,044	334
21,900	12,730	Trade payables	26	21,900	12,730
0	572	Payables to subsidiaries		0	0
13,076	12,495	Other payables	27	13,187	12,498
1,079	0	Finance lease commitments	25	1,079	0
47,609	**34,894**	**Short-term liabilities**		**47,720**	**34,325**
62,031	**52,698**	**Total liabilities**		**62,142**	**52,129**
112,284	**115,672**	**Liabilities and equity**		**112,395**	**113,203**
		Operating lease commitments	29		
		Charges, guarantee commitments and contingent liabilities	30-31		
		Notes whereto reference has not been made	32-39		

Statement of changes in equity for 2005

(Group)

DKK '000	Share capital	Revaluation reserve	Share-based payment reserve	Retained earnings	Total equity
Equity as at 1 January 2004	64,837	9,500	0	(11,384)	62,953
Effect of change in accounting principles	0	0	0	0	0
Adjusted equity as at 1 January 2004	**64,837**	**9,500**	**0**	**(11,384)**	**62,953**
Revaluation reserve	0	(2,186)	0	0	(2,186)
Deferred tax on revaluation	0	400	0	0	400
Sale of land and buildings	0	(7,500)	0	7,500	0
Recognised directly in equity	**0**	**(9,286)**	**0**	**7,500**	**(1,786)**
Net profit/loss for the year	0	0	0	(781)	(781)
Total net income	**0**	**0**	**0**	**(781)**	**(781)**
Conversion of bonds	2	0	0	0	2
Exercise of warrants	686	0	0	0	686
Other transactions	**688**	**0**	**0**	**0**	**688**
Equity as at 31 December 2004	**65,525**	**214**	**0**	**(4,665)**	**61,074**
Equity as at 1 January 2005	65,525	214	0	(4,665)	61,074
Effect of change in accounting principles	0	0	0	0	0
Adjusted equity as at 1 January 2005	**65,525**	**214**	**0**	**(4,665)**	**61,074**
Granting of warrants	0	0	497	0	497
Revaluation reserve	0	(214)	0	0	(214)
Recognised directly in equity	**0**	**(214)**	**497**	**0**	**283**
Net profit/loss for the year	0	0	0	(11,104)	(11,104)
Total net income	**0**	**0**	**0**	**(11,104)**	**(11,104)**
Equity as at 31 December 2005	**65,525**	**0**	**497**	**(15,769)**	**50,253**

Statement of changes in equity for 2005

(Parent)

DKK '000	Total share capital	Revaluation reserve	Reserve for fair value of investments	Share-based payment reserve	Retained earnings before tax	Total equity
Equity as at 1 January 2004	64,837	9,500	31	0	(11,415)	62,953
Effect of change in accounting principles	0	0	0	0	0	0
Adjusted equity as at 1 January 2004	**64,837**	**9,500**	**31**	**0**	**(11,415)**	**62,953**
Revaluation reserve	0	(2,186)	0	0	0	(2,186)
Deferred tax on revaluation	0	400	0	0	0	400
Sale of land and buildings	0	(7,500)	0	0	7,500	0
Recognised directly in equity	**0**	**(9,286)**	**0**	**0**	**7,500**	**(1,786)**
Net profit/loss for the year	0	0	30	0	1,089	1,119
Total net income	**0**	**0**	**30**	**0**	**1,089**	**1,119**
Conversion of bonds	2	0	0	0	0	2
Exercise of warrants	686	0	0	0	0	686
Other transactions	**688**	**0**	**0**	**0**	**0**	**688**
Equity as at 31 December 2004	**65,525**	**214**	**61**	**0**	**(2,826)**	**62,974**
Equity as at 1 January 2005	65,525	214	0	0	(2,826)	62,974
Effect of change in accounting principles	0	0	0	0	0	0
Adjusted equity as at 1 January 2005	**65,525**	**214**	**0**	**0**	**(2,826)**	**62,974**
Granting of warrants	0	0	0	497	0	497
Revaluation reserve	0	(214)	0	0	0	(214)
Recognised directly in equity	**0**	**(214)**	**0**	**497**	**0**	**283**
Net profit/loss for the year	0	0	965	0	(13,969)	(13,004)
Total net income	**0**	**0**	**965**	**0**	**(13,969)**	**(13,004)**
Equity as at 31 December 2005	**65,525**	**0**	**1,026**	**497**	**(16,795)**	**50,253**

Share capital
The share capital comprises 262,100,074 shares with a nominal value of DKK 0.25 each. The shares are not divided into classes.

Parent			Group	
2005	**2004**	**DKK '000**	**2005**	**2004**
65,525	64,837	Share capital as at 1 January 2005	65,525	64,837
0	686	Exercise of warrants	0	686
0	2	Conversion of bonds	0	2
65,525	**65,525**	**Share capital as at 31 December 2005**	**65,525**	**65,525**

Cash flow statement for 2005

Parent				Group	
2005	**2004**	**DKK ’000**	**Note**	**2005**	**2004**
(7,080)	3,899	Operating profit/loss (EBIT)		(3,402)	1,996
		Adjustment for non-cash operating items and balance sheet items etc.:			
9,318	4,470	Depreciation, amortisation and impairment losses		9,318	4,470
1,079	0	Loss/gain on the disposal of assets		(1,007)	0
0	(1,870)	Profit/loss before tax in subsidiaries		0	0
901	(271)	Other adjustments		93	(238)
13,404	8,011	Change in working capital	28	13,140	8,011
17,622	**14,239**	**Operating cash flows**		**18,142**	**14,239**
1,084	497	Financial income received		646	497
(2,117)	(3,284)	Financial expenses paid		(2,117)	(3,284)
0	0	Income tax paid		0	0
16,589	**11,452**	**Cash flows from operating activities**		**16,671**	**11,452**
(3,049)	(982)	Purchase etc. of intangible assets		(3,049)	(982)
(8,772)	0	Purchase etc. of property, plant and equipment		(8,772)	0
35	0	Sale of property, plant and equipment		35	0
73	0	Sale of financial assets		73	0
0	0	Sale of non-current assets held for sale		16,000	0
(11,713)	**(982)**	**Cash flows from investing activities**		**4,287**	**(982)**
(8,763)	(7,203)	Other repayments to credit institutions		(8,763)	(7,203)
0	(1,652)	Repayment of mortgage debt		0	(1,652)
(93)	0	Repayment of lease liability		(93)	0
7,300	0	Proceeds from incurring financial liabilities		7,300	0
(1,556)	**(8,855)**	**Cash flows from financing activities**		**(1,556)**	**(8,855)**
3,320	**1,615**	**Cash flows for the year**		**19,402**	**1,615**
2,542	927	Cash and cash equivalents, beginning of year		2,542	927
5,862	**2,542**	**Cash and cash equivalents, end of year**	23	**21,944**	**2,542**

Notes overview

Notes

1. Significant accounting estimates, preconditions and uncertainties

Many items in the financial statements cannot be measured reliably, but can only be estimated. Such estimates comprise assessments made on the basis of the latest information available at the time of preparing the financial statements. It may be necessary to revise previously made estimates due to changes in the preconditions for the estimates or due to additional information, experience or subsequent events.

In connection with the practical use of the accounting policies described, the management has made the following accounting estimates, which have had a significant influence on the financial statements:

The value of assets and liabilities often depends on future events, which are subject to some uncertainty. In this context, a sequence of events reflecting the sequence of events deemed most likely by the management must be assumed. In the financial statements for 2005, it is especially worth noting the preconditions and uncertainties described below as they have had a significant influence on the assets recognised in the financial statements and may require corrections in the coming financial years, should the assumed sequences of events not be as expected.

Recovery of intangible assets provided internally in the group

During the financial year, the management of the group has reviewed the possibility of recovering the carrying amount of the group's development projects in progress as at 31 December 2005, for which reason development projects in progress have been impaired by DKK 4.7m. See also the management's review.

Intangible assets and tax asset

At the end of the financial year, uncertainties with regard to the measurement of intangible assets and the tax asset as a result of the raw material situation have been identified, cf. below.

Raw materials

The group has not succeeded in securing a long-term contract for the delivery of raw materials with its main supplier of raw silicon as announced in stock exchange notification 02/06 of 6 March 2006.

The group has contacted alternative raw silicon suppliers, but given the global shortage of silicon of all qualities, it is uncertain whether there is a sufficient amount of material available for the group in the short run. Due to this shortage of silicon, prices on raw silicon have increased in 2005. The group has been able to compensate for part of this increase in prices by increasing selling prices.

2. Segment information

Primary segment

The only segment of the group is "the production of silicon ingots and wafers for the electronics and solar cell markets".

Secondary segment

The group's sale of goods by geographical markets.

Geographical segments	Group	
DKK '000	**2005**	**2004**
Europe	61,572	51,602
USA	26,578	27,894
Asia	41,442	36,161
Total	**129,592**	**115,657**

The assets of the group are located in Denmark.

3. Revenue

The entire revenue of the group stems from the sale of goods.

4. Other operating income

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
0	1,900	Proceeds from the sale of land and buildings	2,397	0
74	97	Other operating income	73	97
74	**1,997**		**2,470**	**97**

5. Staff expenses

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
449	450	Remuneration of the Board of Directors	449	450
27,865	27,958	Salaries and wages	27,865	27,958
497	0	Share-based payment, cf. note 7	497	0
1,867	1,587	Pension contributions, contribution-based	1,867	1,587
308	195	Other social security costs	308	195
30,986	**30,190**		**30,986**	**30,190**
76	**84**	Average number of employees	**76**	**84**

Remuneration of the Board of Directors and the Board of Executives	**Board of Directors**		**Board of Executives**		**Other senior employees**	
Group	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Remuneration of the Board of Directors	449	450	0	0	0	0
Salaries and wages	0	0	2,172	2,231	2,338	2,076
Pension contributions	0	0	165	125	168	115
Share-based payment	0	0	497	0	0	0
	449	**450**	**2,834**	**2,356**	**2,506**	**2,191**

5. Staff expenses (continued)

Remuneration of the Board of Directors and the Board of Executives	Board of Directors		Board of Executives		Other senior employees	
Parent	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Remuneration of the Board of Directors	449	450	0	0	0	0
Salaries and wages	0	0	2,172	2,231	2,338	2,076
Pension contributions	0	0	165	125	168	115
Share-based payment	0	0	497	0	0	0
	449	**450**	**2,834**	**2,356**	**2,506**	**2,191**

Special bonus schemes have been established for the Board of Executives, which are based on individually determined performance targets.

6. Pension schemes

Both the parent and the group have only established contribution-based schemes.

Parent			Group	
2005	**2004**	**DKK ’000**	**2005**	**2004**
1,867	1,587	Contributions to contribution-based pension schemes	1,867	1,587
1,867	**1,587**		**1,867**	**1,587**

7. Share-based payment

Equity-based schemes
On 24 June 2005, the Board of Executives of the parent was given the opportunity to subscribe for 3,931,500 new shares in the period 2005-2008. The exercise of the subscription right is subject to the subscription rights holder still being in employment at the time of exercise. No other conditions for the acquisition of rights apply.

At the time of granting, the fair value of the subscription rights was determined at DKK 0.497m. The fair value was determined using Cox, Ross & Rubinstein’s binomial tree on the basis of the following variables:

Subscription rights granted	
Fair value per share (DKK)	0.31
Exercise price of subscription rights (DKK)	0.26
Expected term of exercise of subscription rights (months)	27.6
Historic volatility	55.0
Risk-free interest rate (% per year)	2.6

The fair values of the subscription rights determined at the time of subscription are recognised in the income statement as staff expenses in the year of granting such rights. In the current financial year, DKK 0.497m have been recognised (2004: DKK 0).

8. Depreciation, amortisation and impairment losses

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
3,113	2,641	Amortisation of intangible assets	3,113	2,641
4,740	0	Impairment of intangible assets	4,740	0
1,465	1,829	Depreciation of property, plant and equipment	1,465	1,829
9,318	**4,470**		**9,318**	**4,470**

9. Income from investments in subsidiaries

Parent 2005	Parent 2004	DKK '000
965	30	Adjustment of fair value of investments in subsidiaries

10. Financial income

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
564	497	Interest on bank deposit etc.	646	497
520	10	Interest on receivable from group enterprises	0	0
1,084	**507**		**646**	**497**

11. Financial expenses

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
2,117	3,284	Interest on mortgage and bank debt	2,117	3,284
0	33	Interest payable to group enterprises	0	0
2,117	**3,317**		**2,117**	**3,284**

12. Tax on profit/loss for the year and deferred tax

The current income tax for the financial year has been calculated using a tax rate of 28% (2004: 30%).

Group DKK '000	**2005**		**2004**	
Change in deferred tax	(6,231)		0	
	(6,231)		**0**	
Profit/loss before tax	**(4,873)**		**(791)**	
Tax on the basis of a tax rate of 28% (2004: 30%)	1,364	28%	237	30%
Effect of change in tax rate	(921)	(19%)	0	0%
Tax base of non-deductible costs	28	1%	0	0%
Tax base of non-taxable income	0	0%	(237)	(30%)
Value adjustment of tax asset etc.	(6,702)	(138%)	0	0%
Effective tax rate for the year	**(6,231)**	**(128%)**	**0**	**0%**

Deferred tax	**Deferred tax asset**
Deferred tax, beginning of 2004	13,422
Change in deferred tax recognised in equity	400
Deferred tax, end of 2004	**13,822**
Deferred tax, beginning of 2005	13,822
Adjustment in respect of previous years	(6)
Change in deferred tax recognised in income statement	(6,231)
Change in deferred tax recognised in equity	600
Deferred tax, end of 2005	**8,185**

12. Tax on profit/loss for the year and deferred tax (continued)

The current income tax for the financial year has been calculated using a tax rate of 28% (2004: 30%).

Parent **DKK '000**	**2005**		**2004**	
Change in deferred tax	(5,856)		0	
	(5,856)		**0**	
Profit/loss before tax	**(7,148)**		**(1,119)**	
Tax on the basis of a tax rate of 28% (2004: 30%)	2,001	28%	(336)	30%
Effect of change in tax rate	(921)	(13%)	0	0%
Tax base of non-deductible costs	28	0%	336	(30%)
Value adjustment of tax asset etc.	(6,964)	(97%)	0	0%
Effective tax rate for the year	**(5,856)**	**(82%)**	**0**	**0%**

Deferred tax	**Deferred tax asset**
Deferred tax, beginning of 2004	13,422
Change in deferred tax recognised in equity	400
Deferred tax, end of 2004	**13,822**
Deferred tax, beginning of 2005	13,822
Adjustment in respect of previous years	(6)
Change in deferred tax in respect of joint taxation	(375)
Change in deferred tax recognised in income statement	(5,856)
Change in deferred tax recognised in equity	600
Deferred tax, end of 2005	**8,185**

Parent			**Group**	
2005	**2004**	**Deferred tax assets not recognised**	**2005**	**2004**
4,800	1,000	Tax loss to be carried forward	4,800	1,000

The tax base of the tax loss to be carried forward has not been fully recognised as it is not deemed sufficiently likely that the loss will be utilised within the measurable future.

13. Earnings per share

DKK '000	2005	2004
The calculation of earnings per share is based on the following:		
Profit/loss for the shareholders of the parent used for calculating earnings per share	(11,104)	(781)
Earnings impact after tax of changes in income and expenses if existing subscription rights etc. are converted.	0	0
Profit/loss used for calculating diluted earnings per share	**(11,104)**	**(781)**

Number ('000)	2005	2004
Number of shares used for calculating earnings per share	262,100	260,724
Average dilution effect of outstanding subscription rights	3,932	0
Profit/loss used for calculating diluted earnings per share	**266,032**	**260,724**

The changes in accounting policies due to the transition to IFRS are described in note 39. As such changes have not affected the income statement for 2004, they have not affected earnings per share.

14. Non-current assets held for sale

In 2004, the Board of Directors of Topsil Semiconductor Materials A/S decided to sell the land and buildings of the group as well as part of its production machinery. In the balance sheet as at 31 December 2004, assets have been classified as non-current assets held for sale. The land and buildings were sold in 2005. The proceeds from the sale of the land and buildings exceeded the carrying amounts of the related assets and liabilities by DKK 2.387m. The production machinery has been reversed to production in the 2005 financial year.

Parent			Group	
2005	2004	DKK '000	2005	2004
		Carrying amount of non-current assets held for sale and related liabilities		
0	1,118	Property, plant and equipment	0	14,218

15. Intangible assets

Group DKK '000	Patents and licences	Completed development projects	Development projects in progress	Total
Cost as at 1 January 2004	56	18,541	15,034	33,631
Additions	0	9,097	670	9,767
Disposals	0	0	(9,197)	(9,197)
Cost as at 31 December 2004	**56**	**27,638**	**6,507**	**34,201**
Amortisation and impairment losses as at 1 January 2004	0	(8,190)	0	(8,190)
Amortisation and impairment losses	(11)	(2,593)	0	(2,604)
Amortisation and impairment losses as at 31 December 2004	**(11)**	**(10,783)**	**0**	**(10,794)**
Carrying amount as at 31 December 2004	**45**	**16,855**	**6,507**	**23,407**
Cost as at 1 January 2005	56	27,638	6,507	34,201
Additions	0	4,443	3,049	7,492
Disposals	0	(67)	(4,816)	(4,883)
Cost as at 31 December 2005	**56**	**32,014**	**4,740**	**36,810**
Amortisation and impairment losses as at 1 January 2005	(11)	(10,783)	0	(10,794)
Amortisation and impairment losses	(11)	(3,111)	(4,740)	(7,862)
Reversal on disposals	0	9	0	9
Amortisation and impairment losses as at 31 December 2005	**(22)**	**(13,885)**	**(4,740)**	**(18,647)**
Carrying amount as at 31 December 2005	**34**	**18,129**	**0**	**18,163**

15. Intangible assets (continued)

Parent DKK '000	Patents and licences	Completed development projects	Development projects in progress	Total
Cost as at 1 January 2004	56	18,541	15,034	33,631
Additions	0	9,097	670	9,767
Disposals	0	0	(9,197)	(9,197)
Cost as at 31 December 2004	**56**	**27,638**	**6,507**	**34,201**
Amortisation and impairment losses as at 1 January 2004	0	(8,190)	0	(8,190)
Amortisation and impairment losses	(11)	(2,593)	0	(2,604)
Amortisation and impairment losses as at 31 December 2004	**(11)**	**(10,783)**	**0**	**(10,794)**
Carrying amount as at 31 December 2004	**45**	**16,855**	**6,507**	**23,407**
Cost as at 1 January 2005	56	27,638	6,507	34,201
Additions	0	4,443	3,049	7,492
Disposals	0	(67)	(4,816)	(4,883)
Cost as at 31 December 2005	**56**	**32,014**	**4,740**	**36,810**
Amortisation and impairment losses as at 1 January 2005	(11)	(10,783)	0	(10,794)
Amortisation and impairment losses	(11)	(3,111)	(4,740)	(7,862)
Reversal on disposals	0	9	0	9
Amortisation and impairment losses as at 31 December 2005	**(22)**	**(13,885)**	**(4,740)**	**(18,647)**
Carrying amount as at 31 December 2005	**34**	**18,129**	**0**	**18,163**

Completed development projects and development projects in progress

Development projects are tested for impairment at least once a year or more frequent if there are indications of impairment.

The recoverable amount of the individual cash flow-generating units on which the development costs have been distributed is determined on the basis of calculations of the value in use of the units. In this context, the most important uncertainties relate to the establishment of discount factors and growth rates as well as expected changes in the selling prices and production costs in the budget and terminal periods.

The established discount factors reflect the market assessments of the time value of money, expressed as a risk-free interest rate, and the specific risks relating to the individual cash flow-generating unit. The discount factors are established on an after-tax basis.

The established growth rates are based on industry forecasts.

Estimated changes in the selling prices and production costs are based on historical experience and expected future market changes.

The calculation of the value in use of the cash flow-generating units is based on the cash flows stated in the latest budgets for the coming financial years approved by the management.

16. Research and development costs

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
5,810	3,790	Research and development costs incurred	5,810	3,790
0	(670)	Development costs recognised as intangible assets	0	(670)
(2,761)	(3,120)	Public subsidies received to partly cover research costs incurred	(2,761)	(3,120)
3,049	**0**	**Research and development costs incurred and recognised in the income statement**	**3,049**	**0**

17. Property, plant and equipment

Group DKK '000	Land and buildings	Plant and machinery	Other fixtures and fittings etc.	Other plant in progress	Total
Cost as at 1 January 2004	10,812	55,473	5,328	10,127	81,740
Additions	15	10,318	0	169	10,502
Disposals	(10,827)	(8,299)	0	(10,127)	(29,253)
Cost as at 31 December 2004	**0**	**57,492**	**5,328**	**169**	**62,989**
Revaluations as at 1 January 2004	2,946	0	0	0	2,946
Disposals in respect of sale of buildings as at 31 December 2004	(2,946)	0	0	0	(2,946)
Revaluations as at 31 December 2004	**0**	**0**	**0**	**0**	**0**
Depreciation and impairment losses as at 1 January 2004	(9,712)	(51,582)	(4,515)	0	(65,809)
Depreciation	(411)	(1,138)	(277)	0	(1,826)
Depreciation in respect of disposals in the year	10,123	8,299	0	0	18,422
Depreciation and impairment losses as at 31 December 2004	**0**	**(44,421)**	**(4,792)**	**0**	**(49,213)**
Carrying amount as at 31 December 2004	**0**	**13,071**	**536**	**169**	**13,776**

17. Property, plant and equipment (continued)

Group DKK '000	Land and buildings	Plant and machinery	Other fixtures and fittings etc.	Other plant in progress	Total
Cost as at 1 January 2005	0	57,492	5,328	169	62,989
Additions	0	7,586	203	983	8,772
Disposals	0	(60)	(211)	(169)	(440)
Cost as at 31 December 2005	**0**	**65,018**	**5,320**	**983**	**71,321**
Depreciation and impairment losses as at 1 January 2005	0	(44,421)	(4,792)	0	(49,213)
Depreciation	0	(1,444)	(245)	0	(1,689)
Disposals	0	24	200	0	224
Depreciation and impairment losses as at 31 December 2005	**0**	**(45,841)**	**(4,837)**	**0**	**(50,678)**
Carrying amount as at 31 December 2005	**0**	**19,177**	**483**	**983**	**20,643**

The carrying amount of plant and machinery etc. comprises assets held under finance leases totalling DKK 6.799m (2004: DKK 0m).

Parent DKK '000	Land and buildings	Plant and machinery	Other fixtures and fittings etc.	Other plant in progress	Total
Cost as at 1 January 2004	10,812	55,473	5,328	10,127	81,740
Additions	15	10,318	0	169	10,502
Disposals	(10,827)	(8,299)	0	(10,127)	(29,253)
Cost as at 31 December 2004	**0**	**57,492**	**5,328**	**169**	**62,989**
Revaluations as at 1 January 2004	2,946	0	0	0	2,946
Disposals in respect of sale of buildings as at 31 December 2004	(2,946)	0	0	0	(2,946)
Revaluations as at 31 December 2004	**0**	**0**	**0**	**0**	**0**
Depreciation and impairment losses as at 1 January 2004	(9,712)	(51,582)	(4,515)	0	(65,809)
Depreciation	(411)	(1,138)	(277)	0	(1,826)
Depreciation in respect of disposals in the year	10,123	8,299	0	0	18,422
Depreciation and impairment losses as at 31 December 2004	**0**	**(44,421)**	**(4,792)**	**0**	**(49,213)**
Carrying amount as at 31 December 2004	**0**	**13,071**	**536**	**169**	**13,776**

17. Property, plant and equipment (continued)

Parent DKK ’000	Land and buildings	Plant and machinery	Other fixtures and fittings etc.	Other plant in progress	Total
Cost as at 1 January 2005	0	57,492	5,328	169	62,989
Additions	0	7,586	203	983	8,772
Disposals	0	(60)	(211)	(169)	(440)
Cost as at 31 December 2005	**0**	**65,018**	**5,320**	**983**	**71,321**
Depreciation and impairment losses as at 1 January 2005	0	(44,421)	(4,792)	0	(49,213)
Depreciation	0	(1,444)	(245)	0	(1,689)
Disposals	0	24	200	0	224
Depreciation and impairment losses as at 31 December 2005	**0**	**(45,841)**	**(4,837)**	**0**	**(50,678)**
Carrying amount as at 31 December 2005	**0**	**19,177**	**483**	**983**	**20,643**

The carrying amount of plant and machinery etc. comprises assets held under finance leases totalling DKK 6.799m (2004: DKK 0m).

18. Investments in subsidiaries

Parent 2005	Parent 2004	DKK ’000
561	531	Fair value as at 1 January
965	30	Net adjustment of fair value for the year
1.526	**561**	**Fair value as at 31 December**

The subsidiaries of Topsil Semiconductor Materials A/S are:

	Registered office	Share-holding %	Share of voting rights %	Activity
Topsil International A/S	Denmark	100	100	Real estate company
Topsil Inc.	USA	100	100	None

19. Other receivables

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
2,000	0	Prepayments in respect of property, plant and equipment	2,000	0
2,000	**0**		**2,000**	**0**

In connection with the conclusion of a finance lease in respect of production apparatus totalling DKK 7.3m, DKK 2.0m has been deposited as security for the lease.

20. Inventories

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
11,965	8,527	Raw materials and consumables	11,965	8,527
6,941	6,139	Work in progress	6,941	6,139
5,793	17,477	Manufactured goods and goods for resale	5,793	17,477
24,699	**32,143**		**24,699**	**32,143**

21. Trade receivables

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
8,768	6,499	Trade receivables	8,768	6,499
8,768	**6,499**		**8,768**	**6,499**
378	500	Write-downs included in the above-mentioned receivables are recognised under other external expenses	378	500
378	**500**		**378**	**500**

Trade receivables have, to some extent, been provided as security pursuant to a factoring agreement. Trade receivables as at 31 December 2005 include custody account deposits of DKK 2.711m (DKK 1.296m as at 31 December 2004) in the factoring company used. The financing rate of receivables is 85 per cent. The agreement has been renegotiated for 2006.

Write-down is made at net realisable value, corresponding to the sum of the future net payments which the receivables are expected to generate. The write-down has been determined on the basis of losses realised in previous financial years.

The carrying amounts of the receivables correspond to the fair values thereof.

The receivables do not bear interest until approx. 30-60 days after the time of invoicing. Following this, interest of 1 per cent per month on the outstanding amount will accrue.

22. Prepayments

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
192	79	Insurance premiums	192	79
261	197	Other	261	197
453	**276**		**453**	**276**

23. Cash

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
7,906	2,876	Cash and bank deposit	23,988	2,876
(2,044)	(334)	Short-term bank debt (credit facility)	(2,044)	(334)
5,862	**2,542**		**21,944**	**2,542**

The cash of the group primarily consists of deposits in esteemed banks. Consequently, the cash and cash equivalents are not considered to involve any special credit risks.

Bank deposits and bank debt carry a variable rate of interest. The carrying amounts correspond to the fair values of the assets.

In connection with the sale of the property, DKK 16.0m has been provided as security for the transaction on 31 December 2005. The amount is included in the cash of the group as at 31 December 2005.

24. Other credit institutions and bank debt

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
19,848	26,901	Payables to credit institutions	19,848	26,901
19,848	**26,901**		**19,848**	**26,901**
		Falling due as follows:		
11,554	9,097	Within one year	11,554	9,097
1,508	9,510	Between two and three years from the balance sheet date	1,508	9,510
1,508	1,508	Between three and four years from the balance sheet date	1,508	1,508
1,508	1,508	Between four and five years from the balance sheet date	1,508	1,508
3,770	5,278	After five years from the balance sheet date	3,770	5,278
19,848	**26,901**		**19,848**	**26,901**

Due to the sale of property in 2005, an agreement has been concluded with credit institutions in respect of extraordinary repayments of DKK 8.0m on debt relating thereto. The extraordinary repayments fall due in 2006.

24. Other credit institutions and bank debt (continued)

Payables to other credit institutions and bank debt have been recognised in the balance sheet as follows:

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
11,554	9,097	Short-term liabilities	11,554	9,097
8,294	17,804	Long-term liabilities	8,294	17,804
19,848	**26,901**		**19,848**	**26,901**

25. Finance lease commitments

Group

DKK '000	Minimum lease payments 2005	Minimum lease payments 2004
The finance lease commitments fall due as follows:		
Within one year of the balance sheet date	1,079	0
Between one and five years from the balance sheet date	5,398	0
As at 31 December	**6,477**	**0**

Parent

DKK '000	Minimum lease payments 2005	Minimum lease payments 2004
The finance lease commitments fall due as follows:		
Within one year of the balance sheet date	1,079	0
Between one and five years from the balance sheet date	5,398	0
As at 31 December	**6,477**	**0**

In 2005, a finance lease was concluded in respect of a float-zone puller for production. The lease term is five years, and the repayment profile of the lease is variable. The group guarantees the residual value, DKK 0.730m, of the puller at the end of the lease term.

26. Trade payables

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
21,900	12,730	Trade payables	21,900	12,730
21,900	**12,730**		**21,900**	**12,730**

The carrying amount corresponds to the fair value of the liabilities.

27. Other payables

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
2,156	3,984	Wages and salaries payable, income tax deducted at source payable, social contributions payable etc.	2,156	3,984
2,805	3,488	Holiday allowance payable	2,805	3,488
7,226	4,948	VAT and taxes payable	7,226	4,948
889	75	Other payables	1,000	78
13,076	**12,495**		**13,187**	**12,498**

28. Change in working capital

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
7,162	5,265	Change in inventories	7,162	5,265
(2,938)	8,265	Change in receivables	(3,881)	8,265
9,180	(5,519)	Change in trade payables and other payables	9,859	(5,519)
13,404	**8,011**		**13,140**	**8,011**

29. Operating lease commitments

Operating leases have been concluded for the period 2005-2009 concerning the lease of cars and the lease of a copying machine. Leases with a term of at least 2-4 years and fixed lease payments have been concluded in respect of cars. The leases are non-cancellable in the above-mentioned period.

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
		Non-cancellable operating leases comprise:		
700	510	0-1 years	700	510
1,141	308	1-5 years	1,141	308
0	0	> 5 years	0	0
1,841	**818**		**1,841**	**818**

DKK 0.510m in respect of operating leases has been recognised in the income statements of the parent and the group for 2005 (2004: DKK 0.660m).

30. Charges

The charges of the group are being restructured due to the sale of the property during the financial year. In connection with the sale of the property, DKK 16.0m has been provided as security for the transaction on 31 December 2005. The amount is included in the cash of the group as at 31 December 2005.

Non-cancelled charges as at 31 December 2005 comprise deposited mortgages registered to the mortgagor on property with a nominal value of DKK 75.0m and a mortgage registered to the mortgagor on plant with a nominal value of DKK 10.0m.

Parent			Group	
2005	**2004**	**DKK ’000**	**2005**	**2004**
0	0	Carrying amount of property charged	0	13,100
19,177	13,071	Carrying amount of plant charged	19,177	13,071
2,711	1,296	Custody account deposits in factoring company	2,711	1,296

31. Guarantee commitments and contingent liabilities

The group has not provided any guarantees.

32. Currency, interest rate and credit risks

As a result of its operations and financing, the group is exposed to changes in exchange rates and interest rates. The parent controls the financial risks of the group centrally and coordinates the group’s cash management, including the raising of funds and investment of surplus cash. The group operates with a low risk profile which means that currency, interest rate and credit risks only exist on a commercial basis.

Currency risks

The currency risks of the group are primarily hedged through the matching of in- and outgoing payments denominated in the same currency. The group’s most important currency flow is USD, constituting approx. 65 per cent of the total cash flow. A fluctuation in the USD/DKK exchange rate of +/- DKK 0.50 will result in a monthly currency risk for the group of approx. DKK 35,000.

Interest rate risks

The group does not hedge the interest rate risk as this is not deemed to be financially profitable. Based on the net debt at the end of the 2005 financial year, an increase of 1 percentage point in the general interest rate level will result in an increase in the group’s annual interest expenses before tax of approx. DKK 40,000.

Credit risks

The group’s policy in terms of assumption of credit risks involves the ongoing credit rating of all major customers and collaboration partners. The group’s credit risk primarily relates to trade receivables. The group’s customers are primarily large companies in Europe, USA and Asia. The group has no material risks relating to individual customers or collaboration partners. Credit insurance has been taken out with Midt Factoring for a major part of the group’s factored claims.

33. Fee for auditors appointed by the general meeting

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
310	600	Deloitte, audit	332	600
123	273	Deloitte, non-audit services	123	273
433	**873**		**455**	**873**

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
0	70	KPMG C. Jespersen, audit	0	70
0	0	KPMG C. Jespersen, non-audit services	0	0
0	**70**		**0**	**70**

34. Related parties

Topsil Semiconductor Materials A/S has no related parties with a controlling influence.

Refer to page 14 for an overview of subsidiaries.

Topsil Semiconductor Materials A/S has engaged in transactions with the following related parties in 2005:

- Topsil International A/S
- Ejendomsaktieselskabet Bangs Gård

35. Transactions between related parties and Topsil Semiconductor Materials A/S in 2005

Parent 2005	Parent 2004	DKK '000	Group 2005	Group 2004
16,000	0	Sale of property, Ejendomsaktieselskabet Bangs Gård	16,000	0
290	0	Rent, Ejendomsaktieselskabet Bangs Gård	290	0
1,700	0	Rent, Topsil International A/S	1,700	0
520	10	Interest on receivables from group enterprises	520	10

Other management's remuneration etc. has been stated separately in note 5 concerning staff expenses.
All transactions with related parties have been conducted on an arm's length basis.

Parent 2005	Parent 2004	Intercompany balances DKK '000	Group 2005	Group 2004
0	572	Payables to subsidiaries	-	-
14,070	15,000	Receivables from subsidiaries	-	-

Both receivables and debt will be settled through cash payment. During the financial year, no losses on receivables from related parties have been realised and no write-downs have been made for expected losses.

36. Shareholders

Topsil Semiconductor Materials A/S has registered the following shareholders as holding more than 5 per cent of the voting rights or nominal value of the share capital:

Share structure as at 31 December 2005	No. of shares	Capital DKK	Capital %	Votes %
EDJ-Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark	36,023,812	9,005,953.00	13.74	13.74
Sustainable Energy Ventures, Hooikaai 55, 1000 Brussels, Belgien	27,644,519	6,911,129.75	10.55	10.55
Sino-American Silicon Products Inc., 8, Industrial East Road, Sec. 2, Science-Based Industrial Park, Hsin-Chu, Taiwan	19,997,108	4,999,277.00	7.63	7.63

After the end of the financial year, Sustainable Energy Ventures has reduced its shareholding to 4.81 per cent and is no longer a major shareholder.

37. Events after the balance sheet date

The management of the group refers to the section of the management's review concerning the special risks relating to the availability of raw materials.

38. Adoption of annual report for publication

On its board meeting on 14 March 2006, the Board of Directors adopted this annual report for publication.
The annual report is presented to the shareholders of the group for adoption on the annual general meeting on 25 April 2006.

39. Effect of the change in accounting policies due to the transition to IFRS

As mentioned in note 1, the annual report of Topsil Semiconductor Materials A/S is presented in accordance with the international financial reporting standards (IFRS) as of the current financial year. The transition to IFRS means that the IFRS standards applicable at the balance sheet date in the transition year must be applied retroactively as of the first financial year presented in the annual report for the transition year.

The latest annual report of Topsil Semiconductor Materials A/S, i.e. the 2004 annual report, was presented in accordance with the Danish Financial Statements Act (Årsregnskabsloven) and Danish Accounting Standards. In connection with the transition to IFRS for the current financial year, an opening balance sheet as at 1 January 2004 has been prepared in accordance with IFRS 1 and determined in accordance with the IFRSs applicable for financial years beginning on 1 January 2005 or later, cf. the description of accounting policies except for the special provisions concerning transition and introduction described below:

Share-based payment

Subject to the transition provisions of IFRS 1 and IFRS 2, the provisions of IFRS 2, Share-based Payment, have not been applied for equity-settled share options granted prior to 7 November 2002 or for equity-settled share options granted subsequent to 7 November 2002 and fully vested as at 1 January 2005. Comparative figures for 2004 and previous years have been restated only for the schemes covered by IFRS 2 as of 1 January 2005, i.e. equity-settled share options granted subsequent to 7 November 2002 and fully vested as at 1 January 2005.

Financial instruments

The provisions of IAS 32 and IAS 39 concerning the disclosure and presentation and the recognition and measurement of financial instruments, respectively, have only been applied as from 1 January 2005 in accordance with the commencement provisions of these standards. Comparative figures for 2004 and previous years have not been restated in accordance with the changes in accounting policies.

Non-current assets held for sale

Non-current assets meeting the IFRS 5 criteria of being held for sale before 1 January 2005 are not covered by IFRS 5. In compliance with the transition rules stipulated in IFRS 5, the group has, however, decided to treat non-current assets held for sale after 1 January 2004 in accordance with the standard if the criteria for classification as non-current assets held for sale have been met.

Apart from the changes in accounting policies regarding share-based payment and recognition of investments in subsidiaries, the following reclassifications and changes in the format with restatement of comparative figures for 2004 have been made:

- Deferred tax liabilities, pension obligations and other provisions are no longer presented as a separate main group called ”Provisions”, but are included under long-term or short-term liabilities, depending on the expected settlement date.

- Non-current assets held for sale and associated liabilities are presented as separate items under assets and liabilities, respectively.

Apart from the balance sheet as at 31 December 2004, the changes in accounting policies in connection with the transition to IFRS have had no financial effect on the group’s balance sheet as at 1 January 2004 or the balance sheet as at 31 December 2004.

39. Effect of the change in accounting policies due to the transition to IFRS (continued)

Reconciliation of balance sheet as at 31 December 2004:

Parent DKK '000	Note	Previous accounting policies 31.12.2004	Effect of transition to IFRS 31.12.2004	IFRS 31.12.2004
Intangible assets		23,407	0	23,407
Property, plant and equipment		13,776	0	13,776
Financial assets	A	13,825	561	14,386
Non-current assets		**51,008**	**561**	**51,569**
Inventories		32,143	0	32,143
Receivables	B	26,627	1,339	27,966
Cash		2,876	0	2,876
Non-current assets held for sale		1,118	0	1,118
Current assets		**62,764**	**1,339**	**64,103**
Assets		**113,772**	**1,900**	**115,672**
Share capital		65,525	0	65,525
Revaluation reserve		214	0	214
Reserve for fair value of investments	C	0	61	61
Share-based payment reserve		0	0	0
Retained earnings	D	(4,665)	1,839	(2,826)
Equity		**61,074**	**1,900**	**62,974**
Long-term liabilities		17,804	0	17,804
Short-term liabilities		34,894	0	34,894
Liabilities		**52,698**	**0**	**52,698**
Liabilities and equity		**113,772**	**1,900**	**115,672**

39. Effect of the change in accounting policies due to the transition to IFRS (continued)

A. Financial assets

The following adjustments of financial assets have been made:

Adjustment of fair value of investment in subsidiary	561
	561

B. Receivables

The following adjustments of receivables have been made:

Reversal of negative equity value set-off against receivables	1,339
	1,339

C. Reserve for fair value of investments

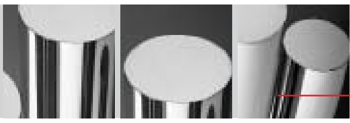
The following adjustments of reserve for fair value of investments have been made:

Adjustment of fair value of investments in subsidiary	(61)
	(61)

D. Retained earnings

The following adjustments of retained earnings have been made:

Reversal of intra-group profit eliminated in 2004	(1,900)
Adjustment of fair value of investments in subsidiary	61
	(1,839)



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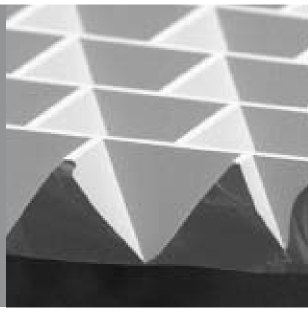
It is Topsil's mission to meet the electronics industry's need for FZ silicon. Our customers demand constant improvements in terms of quality, reliability and co-operation. Consequently, our top priorities are R&D, process improvements and education.



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Semiconductor Materials A/S
Linderupvej 4
DK-3600 Frederikssund
Denmark

Telephone: +45 4736 5600
Telefax: +45 4736 5601
E-mail: topsil@topsil.com

www.topsil.com
CVR-NR. 24932818

www.teknografik.dk