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Topsil establishes strong growth platform and resolves to expand production capacity

Topsil expects to achieve better-than-expected profit for 2009, and the group is strengthening its future growth and earnings potential by signing new raw materials agreement and five new customer agreements. With a view to meeting growing demand for its products, the group has resolved to implement a new growth strategy and expand production capacity by building a new cleanroom factory in the Frederikssund area, Denmark (Greenfield). The investment will be partially financed by proceeds from a share issue to be completed in 2010.

Topsil today signed a new long-term raw materials agreement for polysilicon for Float Zone (FZ) products with one of the group's two existing suppliers. The new agreement will expire in 2015 and replaces the existing agreement with the supplier for the period from 2007 through 2012.

The new polysilicon agreement is a strategic milestone for Topsil and was made on commercial terms that are generally more favourable to the group than the previous agreement. The new agreement stipulates annual minimum and maximum purchases and allows for increasing volumes year on year, as opposed to the previous fixed maximum for the full term of the agreement. Topsil will also have access to more competitive and more stable prices for the period. Moreover, the new agreement introduces a new raw material product for use in the medium voltage market and supports the targeted development of an FZ product with a diameter larger than that supplied today.

Management believes that the new supplier agreement, combined with the existing agreement signed with the other supplier, running from 2010 through 2017, will strengthen Topsil's competitive position significantly. With these raw materials agreements, Topsil will be able to continue to expand capacity and support its customers' short-term and long-term growth plans to a higher degree than previously.

New long-term customer agreements form the basis of future growth

Furthermore, Topsil has entered into five new long-term customer agreements with the group's largest customers of FZ silicon. Three of the agreements were concluded with customers who had not previously signed long-term agreements, whereas the two other agreements were renewals of existing agreements.

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The five new agreements, covering deliveries of increasing FZ volumes up to and including 2015, also constitute an important milestone for Topsil. Together with an existing and unchanged customer agreement, which runs until 2012, Topsil's long-term customer agreements cover deliveries of FZ products for up to six years. This corresponds to approximately 40% of the group's budgeted revenue for 2010 – or more than three times the amounts under the previous agreements.

Topsil expects the fixed quantities specified under the agreements to be supplemented to a significant degree by additional sales to the six customers.

New growth strategy and need for capacity expansion

Based on its strengthened business platform and market position, Topsil will exploit the favourable market trends to realise its full growth potential by implementing its new ambitious growth strategy: 'Seizing the Opportunity'.

The overall theme of the strategy is to use the group's know-how, technology and business platform to optimise its niche position in relation to its growth scenario. This will be achieved by expanding production capacity, implementing process optimisation and efficiency improvements, increasing the targeted product offering within specialised applications and meeting customers' future needs, requests and requirements for products, research and development, delivery, growth and quality.

A key element of the strategy is to expand the group's FZ production capacity to meet customers' growing demand. The group considered expanding the existing facility at Frederikssund, Denmark. However, due to the new long-term customer agreements, the improved access to raw materials and the strategy to expand the group's position in FZ-based products, the Board of Directors has resolved to build a new factory (Greenfield) in the Frederikssund area, bringing FZ production and the corporate headquarters to a single location.

The Board of Directors believes that the establishment of a new cleanroom factory, making it possible to expand capacity in step with market trends, is a prerequisite for realising the growth potential of the coming years. In addition, the new factory will ensure stronger customer loyalty, partly due to lower cost prices, which will positively affect pricing, partly through enhanced optimisation of the production flows, in order to achieve improved quality, stronger yield and reduced delivery times.

Over the next three years, Topsil is expected to make investments in production, optimisation, development, etc. of approximately DKK 250-300 million, some two-thirds of which will relate to the Greenfield project. In addition to using the group's cash flows, the Board of Directors plans to secure financing of the investment programme by completing a share issue in 2010, expected to bring in proceeds of DKK 75-100 million, and to some extent by increasing borrowing.

Profit for FY 2009 better than expected

On 25 March 2010, Topsil will publish the group's annual report for 2009. However, based on the unaudited financial statements, the group can already now announce that consolidated revenue for 2009 is expected to be DKK 424 million, and operating profit before depreciation, amortisation and impairment (EBITDA) is expected to be DKK 100 million. The profit margin for 2009 is estimated at 20%, and profit for the year before tax at DKK 76 million.

Accordingly, revenue was in line with the expected DKK 410–430 million announced in company announcement no. 15/09, while earnings outperformed the expectations of a profit margin of 17% and profit before tax of approximately DKK 55–65 million.

The principal reason for the improvement was an extremely strong performance in Q4 2009; both within FZ, with its higher-than-ever activity level, and within CZ, where profitability was restored.

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Outlook

The favourable market trends characterising the principal markets and applications of the Topsil Group in 2009 are expected to persist in 2010. Topsil's order book for FZ products for delivery in 2010 is historically high, which confirms the strong increase in demand especially for externally irradiated FZ-NTD products. Despite the stabilisation of the underlying market and signs of an increase in orders, CZ is expected to continue to be challenged.

The signing of a new raw materials agreement with higher volumes and the new customer agreements effective as of 1 January 2010 significantly strengthens collaboration with the group's largest customers and paves the way for more stable price and earnings developments in the coming years. With prospects of a substantial growth potential for years ahead, Topsil wishes to exploit this opportunity by establishing closer relations with existing and new customers by offering primarily contract customers more favourable price and delivery conditions in 2010 than was possible based on the cost levels of previous years.

Thus, revenue growth for 2010 will be more moderate than in previous years, expectedly 5-10%, corresponding to revenue in the order of DKK 440–460 million. Due to lower purchasing prices and ongoing optimisation measures, however, the group as a whole is expected to generate an operating profit before depreciation, amortisation and impairment of goodwill (EBITDA) in the region of DKK 100–110 million, the EBITDA margin thus remaining at around 23%. Cemat Silicon S.A., including Cemat70 S.A., is expected to report positive EBITDA for 2010.

In connection with the publication of its annual report for 2009, Topsil will provide a detailed account of the expected market trends, the company's growth targets, strategy and financial guidance for the period up until 2012.

Topsil Semiconductor Materials A/S

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