

Copenhagen Stock Exchange  
Nikolaj Plads 6  
1067 Copenhagen K, Denmark

No. 03/06

## NOTIFICATION CONCERNING THE 2005 FINANCIAL STATEMENTS

On a meeting today, the Board of Directors of Topsil Semiconductor Materials A/S approved the 2005 financial statements.

### 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)
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	14,422	17,804	28,505	26,335	10,750
Short-term liabilities	47,720	34,325	40,227	58,663	110,609
<b>Financial ratios</b>					
Profit margin (%)	(2.6)	1.7	(13.2)	2.6	1.6
Acid test ratio	133	*221	*217	181	85
Equity, share (%)	44.7	54.0	47.8	47.6	16.8
Return on equity (%)	(20.0)	(1.3)	(23.7)	10.5	(17.0)
Earnings per share (EPS) DKK	(0.04)	0.00	(0.06)	0.02	(0.08)
Book value	0.19	0.23	0.24	0.30	0.43
Market price	0.29	0.28	0.62	**0.35	1.63
Dividend per share	0	0	0	0	0
Share price/book value (KI)	1.53	1.22	2.58	1.17	3.79
Average number of employees	76	84	93	88	92

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\* The acid test ratio includes buildings and machinery offered 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.

## **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 group 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 Announcement No. 15/05. The controlling interest in the raw materials supplier had been acquired by a company having its main activities in the solar cell industry, who wished to secure raw materials for its own solar cell production.

For several months, the group negotiated with the new controlling 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 fulfil customer demands in 2006 and part of 2007.

Negotiations with the controlling shareholder continued after this to secure a long-term contract for the delivery of raw materials. Referring to Stock Exchange Announcement No. 02/06 of 6 March 2006 the group did not succeed concluding such a contract.

The group has been in contact with 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 term. 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 sales prices to its customers.

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.

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## Uncertainty with regard to recognition and measurement

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

## 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, i.e. Doris Hsu, Chairman, Paul Decraemer, Deputy Chairman, and Jon Wulff Petersen resigned, while Eivind Dam Jensen and Per Jørgensen were elected.

Peder Mohr Jensen, CEO, resigned on 31 August 2005, and on 1 September 2005, Keld Lindegaard Andersen, was appointed CEO of the group. He has broad experience in international sales, e.g. as Business Development Director with Bang og Olufsen ICEpower A/S.

The results for the year are negatively affected by costs amounting to a total of DKK 2.8m relating to the change of CEO 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, Deputy Chairman of the group's Board of Directors<sup>1</sup>. This agreement affected the results for the year 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 stall its other development activities temporarily, until the raw materials situation is clarified, and to expense the accounting balance thereof of DKK 4.7m, and also make an extraordinary write-down of its tax asset of DKK 4.0m.

## The results 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.

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<sup>1</sup> The financial consequences of the transaction is described in a note to the annual report.

## **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 usable in the group's present processes. The limited number of manufacturers means that a strong negotiating position is required to ensure stable 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 now works to adapt its processes to raw materials of a standard quality. The group expects this 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 processing of silicon ingots. The largest of these subsuppliers is Sino-American Silicon Products Inc., which is one of the group's large shareholders. Also within this field, efforts are made to qualify alternative subsuppliers.

### **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.

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## **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. Topsil is the fourth largest supplier in the FZ market of 8-10 suppliers on the world market. Two of the largest competitors are Japanese and the third is German. Apart from this, there are a couple of 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 to high-voltage applications, or small niche enterprises in the semiconductor industry or as the second or third source 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, volumes, product characteristics and deliveries.

## **Technology**

Topsil is a technology enterprise. Research and development primarily take 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 intrinsic 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

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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 50.0m against approx. DKK 29.0m at the beginning of 2005.

In general, the order intake is large and is expected to remain large throughout 2006, provided that raw materials supplies can be ensured. 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. Consequently, Topsil expects to continue adjusting its sales prices.

Due to the uncertainty concerning supplies of raw materials for 2007 the group will take steps to optimise its consumption of the volumes of raw materials already ensured. This will be based on the present inventory, order intake at the beginning of 2006 and optimising of the product mix. In 2006 the group expects to realise considerably better results before tax for the first half than for the second half.

The group expects to realise revenue for the year below the 2005 level due to the uncertain delivery situation and results before tax of DKK 0.0m in 2006.

Limited amounts of raw materials on the global market are expected 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 materials consumption and acceptable profitability.

### **General meeting**

A general meeting will be held on Tuesday, 25 April at 10 am at Plesner's premises, Amerika Plads 37, 2100 Copenhagen Ø, Denmark. The annual report is expected to be available in PDF format on 12 April 2006 under Investor Relations at the company's website [www.topsil.com](http://www.topsil.com) or may be obtained by contacting the company in writing.

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## 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	<u>No. of shares</u>	<u>Capital DKK</u>	<u>Capital %</u>	<u>Votes %</u>
as at 31 December 2005				
EDJ-Gruppen. Bangs Gård, Torvet 21. 6701 Esbjerg, Denmark	36,023,812	9,005,953	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	<u>262,100,074</u>	<u>65,525,018,50</u>	<u>100.00</u>	<u>100.00</u>

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.

### Transition to reporting in accordance with the international financial reporting standards (IFRS)

The 2005 annual report has been presented in accordance with the international financial reporting standards (IFRS) adopted by the European Union. In this context, Topsil Semiconductor Materials A/S has voluntarily chosen to present the annual report of the parent in accordance with IFRS as of this financial year.

The transition to reporting in accordance with IFRS has necessitated a number of changes to the accounting policies applied by the group and the parent. The most important changes concern:

- The recognition of share-based payment (which has affected results for 2005 with an expense of DKK 0.5m)
- The recognition of investments in subsidiaries (no effect)

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## 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, CEO, tel. +45 47 36 56 10

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**Ownership**

Company	Country	% owned by Topsil Semiconductor Materials A/S
<b>Topsil Semiconductor Materials A/S</b>	<b>Denmark</b>	
Subsidiaries		
<b>Topsil International A/S</b>	<b>Denmark</b>	<b>100</b>
<b>Topsil Inc.</b>	<b>US</b>	<b>100</b>

Frederikssund, 14 March 2005

Kent Hansen  
Chairman  
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Keld Lindegaard Andersen  
CEO  
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Please note that this translation is provided for convenience only. The Danish version shall prevail in case of discrepancies.

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## **Auditor's report**

### **To the shareholders in 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 annual reports.

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 annual reports.

### **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 2 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 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 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  
State-authorized Public Accountant

Tim Kjær-Hansen  
State-authorized Public Accountant

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## Income statement for 2005

DKK '000	Group	
	2005	2004
Revenue	129,592	115,657
Change in manufactured goods and work in progress	(7,444)	(2,536)
Work performed on own account	3,394	4,763
Other operating income	2,470	97
Costs for raw materials and consumables	(74,702)	(66,459)
Other external expenses	(15,791)	(14,866)
Staff expenses	(30,986)	(30,190)
Depreciation, amortisation and impairment losses	(9,318)	(4,470)
Other operating expenses	(617)	0
<b>Operating profit/loss (EBIT)</b>	<b>(3,402)</b>	<b>1,996</b>
Financial income	646	497
Financial expenses	(2,117)	(3,284)
<b>Profit/loss before tax</b>	<b>(4,873)</b>	<b>(791)</b>
Tax on profit/loss for the year	(6,231)	10
<b>Profit/loss for the year</b>	<b>(11,104)</b>	<b>(781)</b>

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## Assets

### Balance sheet as at 31 December 2005

DKK '000	Group	
	2005	2004
Completed development projects	18,129	16,855
Patents and licences	34	45
Development projects in progress	0	6,507
<b>Intangible assets</b>	<b>18,163</b>	<b>23,407</b>
Plant and machinery	19,177	13,071
Other fixtures and fittings, tools and equipment	483	536
Property, plant and equipment in progress	983	169
<b>Property, plant and equipment</b>	<b>20,643</b>	<b>13,776</b>
Other investments	0	3
Deferred tax assets	8,185	13,822
Other receivables (prepayment – property, plant and equipment)	2,000	0
<b>Financial assets</b>	<b>10,185</b>	<b>13,825</b>
<b>Non-current assets</b>	<b>48,991</b>	<b>51,008</b>
<b>Inventories</b>	<b>24,699</b>	<b>32,143</b>
Trade receivables	8,768	6,499
Other receivables	5,496	6,183
Prepayments	453	276
<b>Receivables</b>	<b>14,717</b>	<b>12,958</b>
<b>Cash</b>	<b>23,988</b>	<b>2,876</b>
Non-current assets for sale	0	14,218
<b>Current assets</b>	<b>63,404</b>	<b>62,195</b>
<b>Assets</b>	<b>112,395</b>	<b>113,203</b>

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## Liabilities and equity

### Balance sheet as at 31 December 2005

DKK '000	Group	
	2005	2004
Share capital	65,525	65,525
Revaluation reserve	0	214
Share-based payment reserve	497	0
Retained earnings	(15,769)	(4,665)
<b>Equity</b>	<b>50,253</b>	<b>61,074</b>
Other credit institutions	8,294	17,804
Finance lease liabilities	6,128	0
<b>Long-term liabilities</b>	<b>14,422</b>	<b>17,804</b>
Other credit institutions	9,510	8,763
Bank debt	2,044	334
Trade payables	21,900	12,730
Other payables	13,187	12,498
Finance lease liabilities	1,079	0
<b>Short-term liabilities</b>	<b>47,720</b>	<b>34,325</b>
<b>Total liabilities</b>	<b>62,142</b>	<b>52,129</b>
<b>Liabilities and equity</b>	<b>112,395</b>	<b>113,203</b>

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## 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
<b>Adjusted equity as at 1 January 2004</b>	<b>64,837</b>	<b>9,500</b>	<b>0</b>	<b>(11,384)</b>	<b>62,953</b>
Conversion of bonds	2	0	0	0	2
Exercise of warrants	686	0	0	0	686
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
<b>Recognised directly in equity</b>	<b>688</b>	<b>(9,286)</b>	<b>0</b>	<b>7,500</b>	<b>(1,098)</b>
Profit/loss for the year	0	0	0	(781)	(781)
<b>Equity as at 31 December 2004</b>	<b>65,525</b>	<b>214</b>	<b>0</b>	<b>(4,665)</b>	<b>61,074</b>
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
<b>Adjusted equity as at 1 January 2005</b>	<b>65,525</b>	<b>214</b>	<b>0</b>	<b>(4,665)</b>	<b>61,074</b>
Granting of warrants	0	0	497	0	497
Revaluation reserve	0	(214)	0	0	(214)
<b>Recognised directly in equity</b>	<b>0</b>	<b>(214)</b>	<b>497</b>	<b>0</b>	<b>283</b>
Profit/loss for the year	0	0	0	(11,104)	(11,104)
<b>Equity as at 31 December 2005</b>	<b>65,525</b>	<b>0</b>	<b>497</b>	<b>(15,769)</b>	<b>50,253</b>

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## Cash flow statement for 2005

DKK '000	Group	
	2005	2004
Operating profit/loss (EBIT)	(3,402)	1,996
Adjustment for non-cash operating items and balance sheet items etc.:		
Depreciation, amortisation and impairment losses	9,318	4,470
Loss/gain on the disposal of assets	(1,007)	0
Other adjustments	93	(238)
Change in working capital	13,140	8,011
<b>Cash flows from operating activities</b>	<b>18,142</b>	<b>14,239</b>
Financial income received	646	497
Financial expenses paid	(2,117)	(3,284)
<b>Cash flows from operating activities</b>	<b>16,671</b>	<b>11,452</b>
Purchase etc. of intangible assets	(3,049)	(982)
Purchase etc. of property, plant and equipment	(8,772)	0
Sale of property, plant and equipment	35	0
Sale of financial assets	73	0
Sale of non-current assets for sale	16,000	0
<b>Cash flows from investing activities</b>	<b>4,287</b>	<b>(982)</b>
Other repayments to credit institutions	(8,763)	(7,203)
Repayment of mortgage debt	0	(1,652)
Repayment of lease liability	(93)	0
Proceeds from incurring financial liabilities	7,300	0
<b>Cash flows from financing activities</b>	<b>(1,556)</b>	<b>(8,855)</b>
<b>Cash flows for the year</b>	<b>19,402</b>	<b>1,615</b>
Cash and cash equivalents, beginning of year	2,542	927
Translation adjustment of cash and cash equivalents	0	0
<b>Cash and cash equivalents, end of year</b>	<b>21,944</b>	<b>2,542</b>

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