

**Topsil Semiconductor Materials A/S**  
CVR. No. 24 93 28 18

# Rights Issue

September 2006



**Arranger: GUDME RAASCHOU BANK**

**Offering of 131,050,037 New Shares of a nominal value of DKK 0.25 at a share price of DKK 0.2625 per share with pre-emption right for existing shareholders of Topsil Semiconductors Materials A/S**

This Prospectus has been prepared in connection with the offering ('the Offering' or 'the Rights Issue') of 131,050,037 New Shares ('New Shares') of a nominal value of DKK 0.25 per share in Topsil Semiconductor Materials A/S ('Topsil or 'the Group').

The Prospectus has been prepared in accordance with Danish legislation and regulations, including the Danish Securities Trading Act, the rules issued by the Copenhagen Stock Exchange and the Executive Order No. 306 of 28 April 2005 issued by the Danish Financial Supervisory Authority.

Two Existing Shares gives the right to the subscription of one new share (such right to subscription is referred to as the 'Subscription Right'). The offer period for subscription of New Shares is from 2 October 2006 to 13 October 2006, both days inclusive. Trading in Subscription Rights takes place in the period from 27 September 2006 to 10 October 2006, both days inclusive. Application has been made for the New Shares to be admitted and listed for trading on the Copenhagen Stock Exchange A/S ('the Copenhagen Stock Exchange') with expected first trading day on 27 September 2006.

The Rights Issue has been underwritten by Gudme Raaschou Bank A/S.

Topsil has entered into a long-term agreement of six years with one of the world's largest producers of polysilicon and thereby secured the supply of raw material for further processing up until 2012. A precondition for the supply agreement is a guarantee provided by Topsil to the supplier of polysilicon over the term of the agreement. This is the background for the Rights Issue. The Rights Issue of approx. DKK 33m should be viewed as an essential source of providing this liquidity. For a detailed description of the Rights Issue, reference is made to the section 'Terms and conditions for the offering'.

The New Shares shall carry the same rights as the Existing Shares in Topsil ('the Existing Shares') from the time of registration at the Danish Commerce and Companies Agency, and shall carry the right to full dividend from and including the financial year 2006.

The registration of the New Shares in the investor's account at the Danish Securities Centre shall take place against cash payment of the New Shares.

*Potential investors are advised to consider all relevant risks and legal aspects, including tax implications and any currency restrictions, which may be relevant in connection with an investment in shares in Topsil. Investors should be aware that an investment in New Shares and in Subscription Rights implies a risk, and should consider carefully the factors described in the section 'Risk elements' in this Prospectus.*

**Arranger: GUDME RAASCHOU BANK**

**General information**

This Prospectus has been prepared in Danish and has been translated into English. The translation is for informative purposes only. In case of doubt the original Danish text shall apply.

An approval of the translation of the Prospectus has not been requested from the Copenhagen Stock Exchange and the Danish Financial Supervisory Authority.

This Prospectus is not an offer or an invitation by the Group or Gudme Raaschou Bank A/S to purchase or subscribe to shares in the Group. The delivery of this Prospectus and the Offering or the sale of the New Shares, the Existing Shares and the subscription Rights may, in certain jurisdictions outside Denmark, be restricted by current legislation. Persons into whose possession this Prospectus may come are required by the Group and Gudme Raaschou Bank A/S to inform themselves about such restrictions and to ensure that they are observed.

The New Shares, the Existing Shares and the Subscription Rights are not and shall not be registered in accordance with the United States Securities Act of 1933 with later amendments ('the Securities Act') and must not be offered for sale or sold in the USA, except in accordance with, or pursuant to an exemption from the U.S. securities laws, or a transaction exempt from the registration requirement of the Securities Act.

No person has been authorised to give any information in connection with the Offering, other than as contained in this Prospectus. The Company, the Board of Directors, the Corporate Management Gudme Raaschou Bank A/S shall not be liable for any information or representation made in connection with this Rights Issue, other than as contained in this Prospectus.

Neither the delivery of this Prospectus nor any sale of the New Shares offered through this Prospectus shall, in any circumstances, create any implication that the information contained in this Prospectus is correct as of any time subsequent to the date of this Prospectus or that there have been no changes in the affairs of the group since the drawing up of this Prospectus. Any amendment of material importance to the contents of the Prospectus will be made public as an addendum hereto pursuant to current legislation.

This Prospectus has been prepared for the purpose of the Rights Issue of the Group. In the ordinary course of business of the Gudme Raaschou Bank A/S group, Gudme Raaschou Bank A/S has provided, and may in the future provide investment banking advice and carry on normal banking business with the Group.

**Presentation of information**

Certain accounting and statistical figures in this Prospectus have been subject to rounding adjustments. The sum of these figures is therefore not necessarily equivalent to the total amounts stated, and the percentage figures are not necessarily exactly equivalent to the absolute figures.

**Forward-looking statements**

This Prospectus contains forward-looking statements regarding, inter alia, the Group's financial position, business strategy and market expectations. These statements can be identified by the use of words such as 'expects', 'estimates', 'will', 'may', 'anticipates', 'would', or similar expressions or their

negative. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the Group's actual results and performance to be materially different from any future results and performance expressed or implied by such forward-looking statements. The forward-looking statements in relation to the Group are based on a number of assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Additional factors that could cause the Group's actual results or performance to differ materially from the expectations include, but are not limited to, those discussed under 'Risk factors'.

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## 2 Responsibility statement

### The Group

The Issuer, Topsil Semiconductor Materials A/S, Linderupvej 4, 3600 Frederikssund is responsible for the information disclosed in this Prospectus.

### Statement by the Board and the Management of Topsil Semiconductor Materials A/S

We hereby declare that we have taken all reasonable care to ensure that the information contained in this Prospectus is, to the best of our knowledge, in accordance with the facts and contain no omission likely to affect its import, and that all relevant information in minutes of board meetings, auditors' records and other internal documents has been included in the Prospectus.

Frederikssund, 18 September 2006

### Board:

Jens Borelli-Kjær  
Chairman, CEO

Eivind Dam Jensen  
Deputy Chairman, CEO

Per Jørgensen  
Board member

Jørgen Frost  
Board member  
CEO

Trine Schønnemann  
Board member  
(employee representative)  
Key Account Manager

Theis Leth Larsen  
Board member  
(employee representative)  
PTA Manager

### Management:

Keld Lindegaard Andersen  
CEO

Jørgen Bødker  
Sales and Marketing Director

### Independent auditor's statement

#### The annual reports for 2003, 2004 and 2005 for Topsil Semiconductor Materials A/S

Deloitte, state-authorised accountant Anders O. Gjelstrup and KPMG C. Jespersen, state-authorised accountant Sven Carlsen have audited the annual reports for 2003 and 2004 presented by the management.

Deloitte, state-authorised accountant Anders O. Gjelstrup and state-authorised accountant Tim Kjær-Hansen have audited the annual report for 2005 presented by the management.

#### Annual reports for 2003 and 2004

The annual reports for 2003 and 2004 did not give rise to any qualifications.

#### Annual report for 2005

The annual report for 2005 is provided with an unqualified opinion and the following supplementary information:

:

### **Supplementary information**

As described in the Group's stock exchange announcement No. 02/06 of 6 March 2006 the Group has not managed to conclude a long-term agreement for the delivery of raw materials. We refer to the Statement of the Board of Directors and Management on page 11 of the Annual Report for 2005, in which the management describes the consequences of the lack of an agreement on raw materials, including the significant uncertainty now associated with the future expectations. In case the described expectations are not fulfilled, we agree with the management that this is likely to result in additional impairment losses and write-downs of the Group's assets, including capitalised development costs and the tax asset. Based on the raw material inventory and an already concluded agreement on raw materials the management estimates that the Group can continue its activities at least up to the year-end 2006. We therefore agree that the annual report can be prepared in accordance with the going concern principle.

### **Interim report as per 30 June 2006**

As auditors appointed by the general meeting we have audited the interim report as at 30 June 2006 presented by the management. In this connection we have issued an unqualified audit report. We have not audited or reviewed the comparative figures for the period 1 January to 30 June 2005.

### **Expectations for the full-year results for 2006 and 2007**

As auditors appointed by the general meeting we have reviewed the management's expectations for 2006 and 2007. In this connection we have issued an unqualified audit report, as stated in section 15 of the Prospectus.

### **The Prospectus**

As auditors appointed by the general meeting we have reviewed the Prospectus prepared by the management. The Prospectus has been drawn up in accordance with the securities legislation, including the regulations issued by the Copenhagen Stock Exchange and the Danish Financial Supervisory Authority.

The Group management is responsible for the Prospectus and its contents as well as the presentation of the information in the Prospectus. Our responsibility is to, on the basis of our review, express an opinion on the financial information in the Prospectus.

### **Basis of opinion**

We have conducted our audit on the basis of Danish Auditing Standards for '*Assurance Engagements Other Than Audits or Review of Historical Financial Information*' (RS 3000). We have organised and conducted our audit with a view to ensuring a high degree of certainty that the Prospectus does not knowingly omit any material fact in relation to the financial information.

We have reviewed the financial information of the Prospectus, including the presentation of the financial highlights and key ratios, which we find to have been extracted and represented correctly from the revised annual reports for 2003, 2004 and 2005 and from the revised interim report as per 30 June 2006.

With regard to the management's expectations for 2006 and 2007 for the Group we have ensured that the information has been extracted and represented correctly from the Group's expectations for 2006 and 2007 reviewed by us.

**Opinion**

In accordance with the regulations issued by the Copenhagen Stock Exchange we confirm that this Prospectus contains all material facts regarding Topsil Semiconductor Materials A/S, which are known to us and which in our opinion may influence on the evaluation of the Group's assets, liabilities and financial position as well as the results as presented in the annual reports for 2003, 2004 and 2005 and the interim report as per 30 June 2006.

Copenhagen, 18 September 2006

**Deloitte**

State-Authorised Accountants

Anders O. Gjelstrup  
State-Authorised Public Accountant

Tim Kjær-Hansen  
State-Authorised Public Accountant

**Financial adviser's statement**

We hereby confirm, in our capacity of financial advisers, that the Issuer and its accountants have given us all the information requested and deemed necessary by us. The data provided or disclosed to us including, inter alia, the data that has formed the basis for financial information, market information, etc. has not been independently verified by us; however, we have gone through the information and compared it with the information contained in this Prospectus and have found nothing that is incorrect or inconsistent.

Copenhagen, 18 September 2006

Gudme Raaschou Bank A/S  
Kalvebod Brygge 43  
1560 Copenhagen K

### **3 Auditors**

The auditors of the Group are:

Deloitte Statsautoriseret Revisionsaktieselskab  
Weidekampsgade 6  
2300 Copenhagen S

The annual report for Topsil for 2005 presented by the management has been audited by Deloitte Statsautoriseret Revisionsaktieselskab, by State-Authorised Public Accountants Anders O. Gjelstrup and Tim Kjær-Hansen. The responsible auditors, State-Authorised Public Accountants Anders O. Gjelstrup and Tim Kjær-Hansen are members of Foreningen af Statsautoriserede Revisorer, (The Institute of State Authorized Public Accountants in Denmark (FSR)), Kronprinsessegade 8, 1306 København K.

The annual reports for Topsil for 2003 and 2004 have been audited by Deloitte Statsautoriseret Revisionsaktieselskab, State-Authorised Public Accountant Anders O. Gjelstrup and Statsautoriseret Revisionsinteressentskab KPMG C. Jespersen, Borups Allé 77, 2000 Frederiksberg, by State-Authorised Public Accountant Sven Carlsen. State-Authorised Public Accountant Sven Carlsen is a member of Foreningen af Statsautoriserede Revisorer, (The Institute of State Authorized Public Accountants in Denmark (FSR)), Kronprinsessegade 8, 1306 København K.

The general meeting of 2005 held in April resolved to appoint one auditor in accordance with the new legislation. Deloitte Statsautoriseret Revisionsaktieselskab was re-elected.

## 4 Summary

*The below summary should be read as an introduction to the Prospectus.*

*The following is a summary of the information appearing in greater detail elsewhere in this Prospectus, and any investment decision should be made on the basis of the full text of this Prospectus.*

### **Topsil Semiconductor Materials A/S**

Topsil is an industrial company with a niche production of specially processed silicon. The company, which is located in Frederikssund, has more than 40 years of experience in silicon. Over the years, Topsil has been strongly influenced by suppliers' and customers' supply/demand for its special expertise.

In recent years, there has been special focus on the raw material supply, since renewed demand, especially from the solar cell industry, has given rise to dramatic price increases and permanently high demand. As a niche producer of processed silicon Topsil now has an option to enter into long-term contracts with both suppliers and customers to ensure the basic production for a number of years ahead. This gives Topsil an opportunity to establish underlying core earnings, an option that has not previously existed.

The number of registered shareholders in Topsil was approx. 3,700 as per 11 September 2006, of which the two largest shareholders combined own 19.76% of the share capital.

Topsil is listed on the Copenhagen Stock Exchange and meets the requirements of a listed company.

### **Background for the Rights Issue**

Topsil has entered into a long-term agreement of six years with one of the world's largest producers of polysilicon and thereby secured the supply of raw material for further processing until 2012. A precondition for the supply agreement is a guarantee provided by Topsil to the producer of polysilicon. Such guarantee requires a minimum of DKK 45m in liquidity, and the share issue of about DKK 33m should be viewed as a central factor in raising this capital. Moreover, Topsil has entered into an agreement with customers on fixed sale of more than 30% of the expected turnover for the period 2007-2012.

### **Use of the proceeds**

The proceeds from the Rights Issue of about DKK 33m combined with Group's other financial resources (per 30 June 2006 approx. DKK 19m) should secure the necessary liquidity to meet the terms of the long-term agreement regarding the provision of a guarantee as well as the Group's current cash requirements in the present situation.

### **Recent financial performance**

Topsil's recent financial performance is influenced by a number of factors, not least the increase in the price of silicon up to now in 2006. Reference is made to the Group's interim report, which constitutes an integrated part of this Prospectus.

### **Risk factors**

Any decision to invest in shares involves a risk element, and in addition to reading the information in this Prospectus potential investors are advised to carefully read the information in the section 'Risk factors'. The management estimates that the risk factors described in this Prospectus constitute the

most essential risks. However, the risks described in this Prospectus do not provide a full list of risks, and the risks are not described in a prioritised order.

### **Ownership per 11 September 2006**

The number of registered shareholders in Topsil was approx. 3,700 as per 11 September 2006.

As per 11 September 2006 the below major shareholders had registered their shareholdings as follows:

<b>Shareholder composition per 11 September 2006</b>	<b>No. of shares</b>	<b>Capital DKK</b>	<b>Capital %</b>	<b>Votes %</b>
EDJ-Gruppen	38,578,812	9,644,703	14.72	14.72
Sino-American Silicon Products Inc.	13,197,108	3,299,277	5.04	5.04

### **Subscription of New Shares**

Subscription amount and subscription terms

The nominal value of the Offering is DKK 32,762,509.25 corresponding to a total of 131,050,037 New Shares of DKK 0.25 each, with pre-emption right for the existing shareholders of the Group.

### **Subscription ratio**

Topsil's shareholders have pre-emption right to the New Shares at the ratio of 2:1, to the effect that shareholders will be entitled to subscribe 1 New Share of DKK 0.25 for each 2 Existing Shares held.

### **Subscription period**

The subscription period commences on 2 October 2006 and ends on 13 October 2006, both days inclusive.

### **Subscription price**

The New Shares are offered at DKK 0.2625 per share of DKK 0.25 each.

### **Dividends**

The New Shares shall carry the right to full dividend for the financial year 2006.

### **Allocation of Subscription Rights**

The shareholders will be granted 1 Subscription Right for each Existing Share of DKK 0.25 nominal value held. Accordingly, 2 Subscription Rights are required for the subscription of 1 New Share of DKK 0.25 nominal value. Shareholders who are registered with the Danish Securities Centre as shareholders of the Company on 29 September 2006 at 12.30 (Danish time) shall be entitled to subscribe for the New Shares.

### **Trading in Subscription Rights**

The Subscription Rights will be traded on the Copenhagen Stock Exchange in the period from 27 September 2006 to 10 October 2006, both days inclusive.

**Subscription Agent**

Shareholders' instructions that they wish to exercise their Subscription Rights and subscribe for New Shares shall be given to each shareholder's custodian institution.

**Issuing bank**

The issuing bank for Topsil Semiconductor Materials A/S is Nordea Bank Danmark A/S.

**Subscription form**

The subscription form is available from this Prospectus (last page) and from the Group's website [www.topsil.com](http://www.topsil.com).

**Lead Manager**

The Rights Issue has been arranged by Gudme Raaschou Bank A/S.

**Underwriting**

This Rights Issue is underwritten in full by Gudme Raaschou Bank A/S.

Gudme Raaschou Bank A/S has received the following binding advance commitments to subscribe, which implies that any unsubscribed shares will be sold to:

EDJ Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark  
Sino-American Silicon Products Inc., Taiwan 8, Industrial East Road, Sec 2, Science-Based Industrial Park, Hsin-Chu, Taiwan  
Sustainable Energy Ventures, Kalkkaai 6, 100 Brussels, Belgium  
Paul Decraemer, Koningin Astridlaan 9, 9080 Lochristi, Belgium

**Securities identification codes**

The Group's shares are registered on the Copenhagen Stock Exchange under the following securities identification codes:

Existing Shares	DK 00 1027 1584
New Shares (temporary code)	DK 00 6004 9112
Subscription Rights	DK 00 6004 9385

**Announcement of the results of the Rights Issue**

The results of the Rights Issue are expected to be announced via the Copenhagen Stock Exchange on 20 October 2006.

**Payment and registration with the Danish Securities Centre**

Registration of the New Shares in the investor's account with the Danish Securities Centre will take place with the temporary securities identification code (DK 00 6004 9112) against cash payment on subscription, however no later than on 16 October 2006.

**Listing on the Copenhagen Stock Exchange**

The temporary securities identification code will be admitted for listing on the Copenhagen Stock Exchange on 27 September 2006.

### **Withdrawal of the Offering**

The completion of the Offering is subject to no events occurring before 22 September 2006, which in the opinion of Topsil would make it inadvisable to proceed with the Offering.

### **Special remarks**

In case a dispute relating to the information in the Prospectus is brought before a court of law, the suing investor may be liable to paying the costs in connection with the translation of the Prospectus, before the proceedings are commenced.

The physical or legal persons who have drawn up the summary and any translations hereof and who have requested an approval of the summary and/or translation, may incur civil liability, but only if the summary and/or translation thereof is misleading, incorrect or inconsistent when read together with the other parts of the prospectus.

In connection with the drawing up of this Prospectus Gudme Raaschou Bank A/S has been requested to provide an English translation of the Prospectus. This translation should be considered to be for informative purposes only, and Gudme Raaschou Bank A/S does not assume any liability for this informal translation. In case of doubt the original Danish text shall apply. An approval of the translation of the Prospectus has not been requested at the Copenhagen Stock Exchange the Danish Financial Supervisory Authority.

### **Time schedule for the Rights Issue of Topsil**

Withdrawal; latest date to withdraw the rights issue	22 September 2006
Trading in Subscription Rights begins Trading in old shares without subscription right New shares admitted to the official list	27 September 2006
Allocation at the Danish Securities Centre	29 September 2006
Subscription period begins	2 October 2006
Trading in Subscription Rights ends	10 October 2006
Subscription period ends	13 October 2006
Announcement of the results of the rights issue	20 October 2006
Rights Issue registered with the Danish Commerce and Companies Agency	20 October 2006
Expected announcement of Q3 results for Topsil	7 November 2006

## **5 Risk factors**

Any investment in shares involves an element of risk, and further to the information in this Prospectus potential investors are advised to carefully read the information in this section.

The management assesses that the risk factors described in this Prospectus constitute the most essential risks to consider prior to making an investment decision. However, the risks described in this Prospectus do not provide a full list of risks and are not described in a prioritised order.

### **Stock market performance**

An investment in equities involves a risk of the investor suffering a loss if the share price declines. The stock market is volatile. Therefore there is a risk that the share price of Topsil's shares is influenced by factors which cannot be ascribed solely to the performance of the Group.

### **Unexercised Subscription Rights**

In case a shareholder does not exercise his/her Subscription Right latest by 10 October 2006 or through subscription latest by 13 October 2006 the Subscription Rights shall lapse without value. The shareholder shall not be entitled to any form of compensation.

### **Business risks**

#### **Dependence on customers**

A significant part of the Group's revenue is dependent on less than 25 customers, however none of which represent more than 20% of the total Group revenue. The Group's revenue from the ten largest customers makes up about 75% of the total revenue.

In order to minimise the Group's exposure when entering into agreements on the supply of polysilicon, wafering and irradiation at fixed minimum volumes and at fixed (index-linked) prices, the Group has entered into agreements on similar terms with its central customers.

For competition reasons these agreements are not described here in detail, however more than 30% of the Group's budgeted/forecasted revenue for the period 2007-2012 is based on agreements at fixed (index-linked) prices with several of the Group's central customers.

#### **Competition**

The Group is the fourth largest supplier of float-zone silicon in the world with a market share of about 8%. This implies that the Group is a small player among extremely large competitors, which in the medium term may imply a business risk.

#### **Dependence on suppliers**

The supply of polysilicon, wafering and irradiation represents critical factors, and lack of supply constitutes a significant risk for the Group.

The Group has, based on the proceeds from this Rights Issue, recently entered into a six-year contract (2007-2012) on the supply of polysilicon (the group's most important raw material) with a qualified supplier.

The Agreement is a combination agreement, one part covering fixed volumes at fixed (index-linked) prices, and one part covering variable volumes at market price. According to the agreement, the

variable volumes cannot exceed the fixed volumes in separate calendar years, thereby establishing a limit in terms of volumes.

The long-term agreement commits the Group to taking a minimum volume.

At the current market price, the price level on the fixed part of the agreement is competitive. The Group expects the strong demand for silicon to last throughout the period 2007-2009.

For the subsequent part of the contract period (2010-2012) the forecasting of the market trend, and thereby the market price of polysilicon, is more complex. Hence, there is a risk that by then the Group – for the fixed part of the raw material contract – may have to pay a price which is higher than the market price. In such case, there is a risk of the Group losing market shares or experiencing declining earnings.

The Group expects no significant risk in relation to the part of the agreement based on market price, because the market price fluctuates with market changes.

In addition to its raw material suppliers the Group has two essential sub-suppliers in two areas; silicon wafering, and irradiation of NTD silicon.

*Wafering:*

The Group expects to enter into six-year agreements with its existing two qualified sub-suppliers. The agreements are expected to be on similar terms as those of the Group's existing contract on the supply of polysilicon, i.e. at fixed, index-linked prices and guaranteed volumes.

These contracts are meant to secure the Group's access to wafering during the term of the contract. The contracts commit the Group to taking a minimum supply during the term of the agreement, which constitutes a potential financial risk, in case the Group does not meet this obligation.

At the moment, the Group is in the process of qualifying another wafering supplier. This qualification process is expected to be completed in late 2006, after which the Group will seek to establish a long-term agreement with this supplier.

*Irradiation:*

The Group is seeking to enter into contracts with its essential irradiation suppliers in order to secure the certainty of supply in the six-year term of the agreement.

**Key staff and knowledge**

Since the organisation is small, most employees are key staff possessing considerable knowledge and valuable competences.

**Change in technology**

On the longer term, there are a number of risk factors in connection changes in technology. One such risk factor may be that large float-zone producers stop the production of FZ silicon, which would force the electronics industry to find substitute silicon products, and the float-zone market would then diminish or vanish.

Other risks may be that new technology leads to an excess of raw materials, or that ongoing investments in new capacity leads to surplus production of raw materials, implying that the semi-

conductor industry would again put pressure on silicon producers, and prices would again decline to a level at which it would be difficult to be profitable in the industry.

## **Financial risks**

### **Currency risks**

In connection with the Group's conclusion of a contract for the delivery of polysilicon and the Group's currency risk in relation to USD has increased substantially. A fluctuation in the USD/DKK exchange rate of DKK +/-0.5 implies a currency risk for the Group of DKK 4m annually. The Group has not at the moment hedged the currency risk in relation to the long-term agreement.

### **Interest rate risk**

On the basis of the net debt at the end of the financial year 2005, an increase of 1 percentage point in the general level of interest rates would imply an annual increase in the Group's interest expenses before tax of about DKK 40,000. The Group does not hedge this interest rate risk, since this is not considered cost effective.

### **Liquidity risks**

After the completion of the Rights Issue, the Group expects to have the required cash resources to meet the current budget and implement the investment programme.

### **Credit risks**

The Group's credit risks in relation to financial activities correspond to the amounts stated in the balance sheet. Part of the invoice discounting is credit insured. The Group has experienced no significant bad debts during the period 2003-2005.

## 6 Selected financial data for the Group

### Financial highlights and key figures

The below selected financial highlights are extracts from the Annual Report 2005 for the Group. The latest financial figures for the first half of 2006 are included in the section 'Latest financial information'.

Financial highlights for 2004 and 2005 have been prepared in accordance with IFRS, cf. the description under Applied accounting policies. In connection with the transition to IFRS, comparative figures for 2003 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 and Danish Accounting Standards.

<b>Group key figures for the past 3 years tDKK</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Revenue	129,592	115,657	117,651
Operating profit/loss (EBIT)	(3,402)	1,996	(15,482)
Net financials	(1,471)	(2,787)	(1,141)
Net profit/loss for the year	(11,104)	(781)	(16,625)
Non-current assets	48,991	51,008	44,321
Current assets	63,404	62,195	87,364
Total assets	112,395	113,203	131,685
Equity	50,253	61,074	62,953
Long-term liabilities	14,422	17,804	28,505
Short-term liabilities	47,720	34,325	40,227
<b>Financial ratios</b>			
Profit margin (%)	(2.6)	1.7	(13.2)
Acid test ratio	133	*221	*217
Equity interest (%)	44.7	54.0	47.8
Return on equity (%)	(20.0)	(1.3)	(23.7)
Equity value	0.19	0.23	0.24
Quoted price	0.29	0.28	0.62
Dividend per share	0	0	0
Price/equity value (KI)	1.53	1.22	2.58
Average number of employees	76	84	93

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

**Latest financial information**

The Group has significantly increased its earnings from H1 2005 to H1 2006. The increase is related to an extensive optimisation of the customer and product mix, the general market terms as well as rationalisation.

For more detailed comments on the interim report reference is made to the Group's stock exchange announcement No. 16/06 of 29 August 2006.

**Group Income statement as at 30 June, tDKK**

	<b>1H2006</b>	<b>1H2005*</b>
Revenue	77,509	59,944
Operating profit/loss (EBIT)	17,437	(4,399)
Net financials	(1,076)	(1,085)
Half-year result after tax	18,939	(5,484)
Non-current assets	51,241	56,906
Current assets	64,711	57,618
Total assets	115,952	114,524
Equity	69,192	54,176
Long-term liabilities	13,057	11,146
Short-term liabilities	33,703	49,202
<b>Financial ratios</b>		
Profit margin (%)	22.5	(7.3)
Acid test ratio	192	117
Return on equity after tax (%)	31.7	(11.6)
Equity value	0.26	0.21
Quoted price end of period	0.34	0.31
Dividend per share	0	0
Price/equity value	1.29	1.48
Equity ratio (%)	59.7	47.3
Average number of employees	64	79

\*Not audited

## **7 Information on the Issuer**

Topsil Semiconductor Materials A/S  
Linderupvej 4  
DK-3600 Frederikssund  
Telephone: +45 47 36 56 00  
Fax: +45 47 36 56 01  
E-mail: topsil@topsil.com  
Website: www.topsil.com  
CVR No. 24 93 28 18

Topsil Semiconductor Materials A/S was established as a limited liability company pursuant to Danish legislation on 29 August 1981.

### **The Group in general**

Topsil was established in 1958 by Haldor Topsøe and has more than 40 years of experience in the silicon sector.

In silicon production, polysilicon is transformed from multicrystalline into monocrystalline silicon via melting and recrystallisation. In this process, Czochralski technology (CZ) or float-zone technology (FZ) is used; the latter provides the purest monocrystalline silicon.

Only six float-zone silicon producers exist worldwide and Topsil is the only silicon producer to have specialised float-zone (FZ) silicon.

Topsil's strategy is to offer float-zone silicon products for the semiconductor and solar cell (PV) markets. Though its focus on research, product development, advanced production methods and high quality the Group is able to offer silicon for application in products with extremely high requirements for purity and quality. With an approach of flexibility and close customer relationships the Group aims to adapt to an ever-changing market.

The Group's production is sold on the export markets, and Topsil has established agreements with distributors on the most essential markets in Germany, Japan, China, Taiwan and the US. The products are sold primarily on the semiconductor market, which has for many years been characterised by high volatility and little predictability, which is distinctive for the global electronics industry.

### **History**

The most important years of Topsil's history are stated below:

1958: FZ production started up by Haldor Topsøe A/S  
1960: Factory in Frederikssund established  
1972: Thrige Titan A/S acquires Topsil  
1974: Motorola Inc. acquires Topsil  
1983: The Group is established under the name of Topsil Semiconductor Materials A/S  
1986: Topsil Semiconductor Materials A/S is listed on the Copenhagen Stock Exchange  
2000: First financial restructuring of the Group  
2002: Second financial restructuring of the Group

**Investments**

The Group has not invested in facilities, properties or similar assets – other than what is usual for the funding and development of the Group's ongoing operations – in the last three financial years. Ordinary investments are described in the Group's annual reports, which are available from its website [www.topsil.com](http://www.topsil.com).

No significant future investments have been planned.

## 8 Business areas

### Products and production

Topsil sells products to the semiconductor market and the solar cell industry and defines its four product groups as follows:

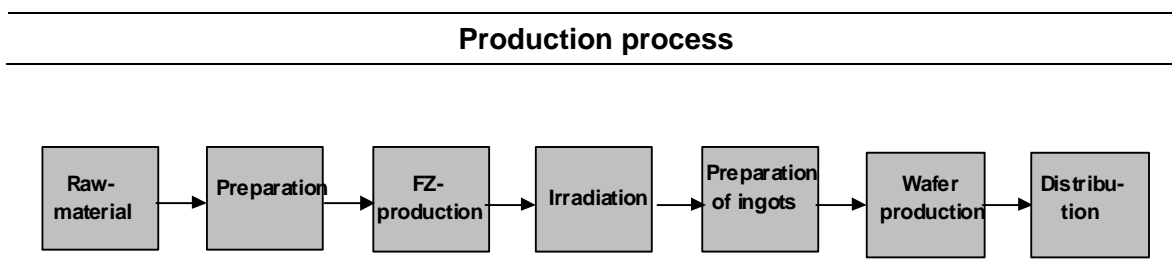
- NTD: Neutron Transmutation Doping: FZ silicon used in high and medium power components. These products are essential in the establishment of infrastructure, power production, power distribution, wind parks, electric trains, hybrid cars and energy-saving motor-operated devices. The market is relatively stable with moderate growth rates.
- PFZ: Gas phase doped silicon: FZ silicon used mainly in medium power devices for industrial plants and consumer electronics. The product is used in components for which the specifications do not call for as high efficiency as in NTD components. The components are used in energy-saving motor-operated devices, electronically controlled devices in solar cell facilities, control devices in electric consumer devices, domestic appliances, etc. The market is a growth area for FZ silicon driven by high energy prices and the need for cost effectiveness.
- HPS: High Purity Silicon: FZ silicon mainly used for special components such as sensors and detectors. The market is a niche market and relatively small.
- PV-FZ®: Photo Voltaic FZ: FZ silicon specially developed for the application in high efficient solar cells and in concentrators. The solar cell market is relatively young, and the industrialisation of the industry has taken place over the past ten years. The market is growing rapidly with expected growth rates in excess of 30% annually driven by high energy prices and the movement toward renewable/sustainable energy sources.

Topsil's products are sold as ingots and various types of wafers: as cut, lapped (grinded), etched and polished. Ingots represent about 10-15% of Topsil's revenue while wafers make up about 85-90%.

### The production process

The FZ production process takes place in a hermetically closed growth chamber. A poly ingot is placed in a puller over an electromagnetic coil, and the seed crystal is melted at extremely high temperature. A monocrystalline ingot grows out under the electromagnetic coil.

The process from raw material to finished product is shown below.



## **Core competences**

Topsil is a specialised company with focus on separate parts of the value chain. Topsil's competitors, which are all significantly larger than Topsil, typically operate at all stages of the value chain or have interests in all stages of the value chain. In 2000, Topsil outsourced its wafering, because this labour-intensive stage of the production was unprofitable and in order to focus its technical resources on crystal production. Topsil defines its core competences as the following:

1. Float-zone technology, including development and production of float-zone pullers, float-zone processes and production of float-zone silicon
2. Know-how of irradiation of silicon crystals (NTD)
3. Products and solutions for the global high power market

### **1. FZ technology**

Over the past four years Topsil has extended its product range and now covers about 98% of the product types in demand on the global market for FZ products. Historically NTD has been Topsil's main product – however the sale of PFZ and HPS is increasing. Also NTD is expected to constitute a significant part of the product range in the future. Topsil has own competences within design, development and production of pullers for the production of float-zone silicon. The company's production processes have been developed solely for production on the above float-zone pullers. This safeguards the company's know-how with regard to pullers and processes.

### **2. Know-how of irradiation of silicon crystals (NTD)**

Topsil produces FZ silicon monocrystals, and a large part of the production is irradiated to provide the material with the required qualities. Topsil has historically been a leader within irradiated FZ silicon (NTD). In 1976 Topsil, in cooperation with Risø National Laboratory, invented the irradiation technique to produce NTD products. Expertise has been built up within irradiation of silicon with subsequent heat treatment, which is necessary for the production of NTD materials. A significant part of Topsil's silicon was irradiated at Risø National Laboratory's irradiation reactor in Denmark until it was shut down in 2000. Since then, the world market for irradiation has been analysed, and Topsil now has access to irradiation capacity all over the world and uses ten different sub-suppliers for irradiation on the basis of long-term agreements.

### **3. Products and solutions for the global high power market**

Topsil has built up a global distribution network focusing on the high power electronics market. Topsil has established direct customer relationships with most large and medium size high power electronics producers. These relationships are backed by Topsil's global distribution network.

## **The silicon market**

According to SEMI (Semiconductor Equipment and Materials International) the silicon market was worth approx. USD 8bn (approx. DKK 48bn) in 2005. Topsil estimates FZ silicon's share of the total silicon market in 2005 at about DKK 1.7bn, corresponding to roughly 3.5% of the total silicon market.

## **The float zone market**

The niche market for float-zone (FZ) silicon has only to a small degree been subject to the price competition that has prevailed on the remaining silicon market.

FZ silicon is used primarily in the industrial and automotive sectors for use in discrete components.

Topsil expects no significant competition from substituting products in the coming years. Extensive experiments have been made with substituting products, but such products have all been cost-intensive to produce and have not proved to have competitive qualities.

### Competitors

The number of FZ silicon suppliers is limited and at the moment the FZ market in Europe, the US and Japan is dominated by four companies: Shin-Etsu, Siltronic (owned by Wacker Chemie AG), Komatsu and Topsil.

FZ products constitute only a small portion of the competitors' total revenue; however they produce FZ silicon in order to be able to offer a full product range. This was the prevailing trend throughout the 1990s, however the change in product requirements and demand for flexibility from the customers has resulted in more fragmented procurement patterns with the large customers. Furthermore, regional attachment is still of major significance, despite the higher degree of globalisation in the silicon trade. Only few Japanese producers have been successful in Europe, and European producers have not managed to gain a foothold in the Japanese semiconductor market. The US market is considered more open, but often prefers Western suppliers.

After several years of efforts within the float-zone technology two Chinese producers (Tianjin and Grinm) have succeeded in supplying their local markets with NTD products. Topsil assesses that it is likely to take several years for these suppliers to develop the technology and capacity to produce FZ products by the gas phase doping technique.

No precise market data for the FZ silicon market exists. The below table shows Topsil's estimated share of the FZ silicon market and the competitors' estimated revenue from FZ silicon in 2005:

#### **Topsil's estimated share of the FZ silicon market and the competitors' estimated revenue from FZ silicon in 2005**

<b>Company</b>	<b>Estimated revenue DKKbn</b>	<b>Market share 2005 (%)</b>
Topsil	0.1	8
Shin-Etsu Handotai Co., Ltd., Japan	0.7	40
Siltronic AG, Germany	0.6	34
Komatsu Electronic Metals Co., Ltd., Japan	0.1	8
Others	0.2	10
<b>Total</b>	<b>1.7</b>	<b>100</b>

Source: Topsil

As a result of the stagnant market in the period 2001–2004 and intensified competition, all FZ producers reduced their staff and production capacity during that period. There was a tendency to price pressure on the smaller diameters below 6", and producers were unable to raise their prices. Due to the increase in the price of polysilicon and the growing market in 2005 the producers managed to turn the trend and the most important customers accepted price increases. Topsil has thereby, in line with the competition, managed to increase its earnings.

### Revenue distribution by segment

The Group's only segment is 'production of FZ silicon ingots and wafers for the electronics and solar cell markets'. The Group's revenue distribution on geographical markets: before the transition to IFRS (2004) no geographical segmentation was made.

#### Geographical segments

##### DKK '000

Europe

USA

Asia

**Total**

	Group	
	2005	2004
	61,572	<b>51,602</b>
	26,578	<b>27,894</b>
	41,442	<b>36,161</b>
	<b>129,592</b>	<b>115,657</b>

### Silicon for the solar cell industry

The solar cell industry has seen high growth rates in recent years. The global production of solar cells has increased by more than 30% on average annually for the past five years, according to the European Photovoltaic Industry Association (EPIA), a trade association for solar cell industry.

Topsil's development of high efficient PV-FZ® targets the segment of the solar cell industry in which the demand for the highest efficiencies is dominant. Silicon can be one of the main elements of a solar cell, and the growth in the solar cell industry is expected to become extremely high. Topsil sees a continued future potential in the production of silicon for the solar cell industry.

### The application of PV-FZ® silicon in solar cells

The production of solar cells based on multicrystalline or monocrystalline silicon is the most common. In 2005 multicrystalline silicon made up the largest part of the market at 52%, and monocrystalline represented 38% of the market – this category includes CZ and FZ silicon. Other technologies cover about 10% of the market (Source: Photon International March 2006).

Monocrystalline solar cells based on either CZ or FZ silicon are among the most efficient and stable on a long-term basis.

On the solar cell market the demand has so far exceeded the supply, and therefore solar cell producers usually enter into long-term contracts in order to ensure certainty of supply.

### Topsil's market and customer perspectives on the FZ market (solar cells)

Topsil has had an interest in the solar cell market (PV) since 2000, and since 2002 the Group has been commercialising the PV-FZ® technology. PV-FZ® products have been qualified by several large solar cell producers.

Topsil has invested significant resources in developing PV-FZ® float-zone processes and PV-FZ® products and in the marketing of PV-FZ® for the solar cell market. PV-FZ® has been recognised in the market as a reference material for high efficient solar cells.

The PV-FZ® technology is a unique technology for the production of high quality silicon for high efficient solar cells. The sales activities and funding from development programmes continue, and significant development resources are used to apply polysilicon from various sources, including metallurgic silicon. A large development project run by Topsil in cooperation with others was

subsidised by DKK 7.9m under the PSO/Eltra (Energinet.dk) programme in 2006. This development project runs until 2009.

Due to the large demand for polysilicon and the limited opportunity to obtain sufficient quantities at competitive prices, Topsil has failed to established volume production of PV-FZ®.

The Group estimates that the PV-FZ® technology must become more cost efficient by way of further development in order to become competitive to CZ technology.

For the financial year 2006 Topsil expects FZ silicon for the solar cell industry to constitute less than 1% of its total revenue.

## 9 Organisation

Topsil Semiconductor Materials A/S is the parent company of the below wholly owned subsidiaries:

Topsil International A/S  
Linderupvej 4  
DK-3600 Frederikssund  
Denmark  
Telephone: +45 47 36 56 00  
Fax: +45 47 36 56 01  
CVR No. 25 86 35 50

Topsil International A/S was established in 2000 with the mission of selling third-party products. Subsequently the company's mission was changed to that of selling the Group's land and buildings. At the moment the company has no operating activities. The share capital of the company is DKK 500,000.

Topsil Incorporated  
c/o CT Corporation System  
3225 N. Central Ave.  
Phoenix, AZ 85012  
USA  
File Number: -0798972-8

Topsil Incorporated was established in 1998, when Topsil owned the US wafering company Riotech Inc. in Arizona. Riotech Inc. was divested in 2000, and at the moment the company has no operating activities. The share capital of the company is USD 1,000.

## **10 Property, plant and equipment**

### **Property**

In August 2005, Topsil entered into a sale and lease back agreement for its property in Frederikssund, see section 21.

### **Production facilities**

The production equipment for the growing of FZ silicon ingots was designed, developed and produced by Topsil with the assistance of subsuppliers. The newest equipment is based on many years of experience combined with the latest technology. Topsil therefore expects to have sufficient production capacity for the production of FZ silicon to cover the demand from existing customers.

For the production of wafers Topsil expects to ensure sufficient production capacity through the establishment of long-term contracts with existing sub suppliers.

### **Investment in non-current assets**

The Group expects to make minor investments on a current basis in connection with the upgrading, optimisation and maintenance of the existing production equipment.

### **Non-current assets**

The Group's non-current assets include production plants, operating equipment, machines and equipment and are measured at cost less accumulated amortisation and impairment losses. In the annual report for 2005, non-current assets are recognised at DKK 20.6m.

Depreciation is according to the straight-line method over the expected useful lives of the assets, estimated at 10-20 years for plant and machinery and 3-6 years for other fixtures and fittings, tools and equipment. 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.

### **Environment**

Topsil has a Chapter 5 approval, and no environmental issues are expected to impact on Topsil's use of the non-current assets.

## 11 Review of operations and accounts

Topsil generated a loss before tax of DKK 4.9m for 2005. The result was negatively affected by provisions for staff made redundant, amortisation and impairment losses on non-current assets and the tax asset resulting from the – at the time of the financial reporting– unresolved situation in relation to the supply of raw materials.

The Group has substantially reduced the cost base in recent years and changed the product mix toward products with a higher profit margin. The management assesses that the earnings potential of the Group has increased substantially.

The Group is a party to development projects subsidised by the EU and Energinet.dk. These projects have a positive impact on the Group's financial position. For a more detailed discussion of these projects, reference is made the Group's latest annual report.

Reference is made to the Management's statement in the Group's annual reports for 2003-2005 for more detailed descriptions of special events in the relevant financial years.

### Group income statement as at 31 December tDKK

	2005	2004	2003
Revenue	129,592	115,657	117,651
Change in manufactured goods and work in progress	(7,444)	(2,536)	(16,361)
Work performed on own account	3,394	4,763	3,533
Other operating income	2,470	97	3
Costs of raw materials and consumables	(74,702)	(66,459)	(61,368)
Other external expenses	(15,791)	(14,866)	(14,465)
Staff expenses	(30,986)	(30,190)	(32,875)
Depreciation, amortisation and impairment losses	(9,318)	(4,470)	(11,600)
Other operating expenses	(617)	0	0
<b>Operating profit/loss (EBIT)</b>	<b>(3,402)</b>	<b>1,996</b>	<b>(15,482)</b>
Financial income	646	497	3,423
Financial expenses	(2,117)	(3,284)	(4,564)
<b>Profit/loss before tax</b>	<b>(4,873)</b>	<b>(791)</b>	<b>(16,623)</b>
Tax on profit/loss for the year	(6,231)	10	(2)
<b>Profit/loss for the year</b>	<b>(11,104)</b>	<b>(781)</b>	<b>(16,625)</b>

**Group balance sheet as at 31 December****Assets tDKK**

Completed development projects

Patents and licences

Development projects in progress

**Intangible assets**

Plant and machinery

Land and buildings

Other fixtures and fittings, tools and equipment

Property, plant and equipment in progress

**Property, plant and equipment**

Other investments

Deferred tax assets

Other receivables (prepayment  
property, plant and equipment)**Financial assets****Non-current assets****Inventories**

Trade receivables

Other receivables

Prepayments

**Receivables****Cash****Non-current assets held for sale****Current assets****Assets**

	2005	2004	2003
Completed development projects	18,129	16,855	10,351
Patents and licences	34	45	56
Development projects in progress	0	6,507	15,034
<b>Intangible assets</b>	<b>18,163</b>	<b>23,407</b>	<b>25,441</b>
Plant and machinery	19,177	13,071	3,891
Land and buildings	0	0	4,046
Other fixtures and fittings, tools and equipment	483	536	813
Property, plant and equipment in progress	983	169	10,127
<b>Property, plant and equipment</b>	<b>20,643</b>	<b>13,776</b>	<b>18,877</b>
Other investments	0	3	3
Deferred tax assets	8,185	13,822	13,422
Other receivables (prepayment property, plant and equipment)	2,000	0	0
<b>Financial assets</b>	<b>10,185</b>	<b>13,825</b>	<b>13,425</b>
<b>Non-current assets</b>	<b>48,991</b>	<b>51,008</b>	<b>57,743</b>
<b>Inventories</b>	<b>24,699</b>	<b>32,143</b>	<b>36,299</b>
Trade receivables	8,768	6,499	18,172
Other receivables	5,496	6,183	3,061
Prepayments	453	276	390
<b>Receivables</b>	<b>14,717</b>	<b>12,958</b>	<b>21,623</b>
<b>Cash</b>	<b>23,988</b>	<b>2,876</b>	<b>3,488</b>
<b>Non-current assets held for sale</b>	<b>0</b>	<b>14,218</b>	<b>12,532</b>
<b>Current assets</b>	<b>63,404</b>	<b>62,195</b>	<b>73,942</b>
<b>Assets</b>	<b>112,395</b>	<b>113,203</b>	<b>131,685</b>

The group results for the 2005 reporting year are presented according to IFRS. The applied accounting policies have been changed accordingly. The comparative figures for 2004 have been restated in accordance with IFRS. The comparative figures for 2003 have not been restated in accordance with the changes in accounting policies. See page 13.

The applied accounting policies for the Group and the effect of the change in accounting standards have been described in the Group's annual report for 2005.

**Group balance sheet as at 31 December****Liabilities, tDKK**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Share capital	65,525	65,525	64,837
Revaluation reserve	0	214	9,500
Reserve for fair value of subsidiaries	0	0	31
Share-based payment reserve	497	0	0
Retained earnings	(15,769)	(4,665)	(11,415)
<b>Equity</b>	<b>50,253</b>	<b>61,074</b>	<b>62,953</b>
Mortgage banks	0	0	4,545
Other credit institutions	8,294	17,804	23,960
Finance lease commitments	6,128	0	0
<b>Long-term liabilities</b>	<b>14,422</b>	<b>17,804</b>	<b>28,505</b>
Mortgage banks	0	0	1,652
Other credit institutions	9,510	8,763	6,923
Bank debt	2,044	334	0
Trade payable	21,900	12,730	18,250
Other payables	13,187	12,498	13,402
Finance lease commitments	1,079	0	0
<b>Short-term liabilities</b>	<b>47,720</b>	<b>34,325</b>	<b>40,227</b>
<b>Total liabilities</b>	<b>62,142</b>	<b>52,129</b>	<b>68,732</b>
<b>Liabilities and equity</b>	<b>112,395</b>	<b>113,203</b>	<b>131,685</b>

The results for the 2005 reporting year are presented according to IFRS. The applied accounting policies have been changed accordingly. The comparative figures for 2004 have been restated in accordance with IFRS.

The applied accounting policies and the effect of the change in accounting principles are described the Group's annual report for 2005.

**Group income statement as at 30 June**

DKK '000

	1H2006	1H2005
Revenue	77,509	59,944
Change in manufactured goods and work in progress	4,613	910
Work performed on own account	1,156	2,814
Other operating income	54	78
Costs of raw materials and consumables	(39,277)	(39,826)
Other external expenses	(11,559)	(7,982)
Staff expenses	(12,582)	(17,987)
Depreciation, amortisation and impairment losses	(2,477)	(2,350)
Other operating expenses	0	0
<b>Operating profit/loss (EBIT)</b>	<b>17,437</b>	<b>(4,399)</b>
Financial income	259	38
Financial expenses	(1,335)	(1,123)
<b>Profit/loss before tax</b>	<b>16,361</b>	<b>(5,484)</b>
Tax on profit/loss for the year	2,578	0
<b>Profit/loss for the year</b>	<b>18,939</b>	<b>(5,484)</b>

**Group balance sheet as at 30 June**

assets, tDKK

**Non-current assets****Intangible assets**

	1H2006	1H2005
Completed development projects	16,586	17,471
Patents and licences	28	39
Development projects in progress	11	6,123
<b>Intangible assets</b>	<b>16,625</b>	<b>23,633</b>

**Plant and machinery**

Other fixtures and fittings, tools and equipment

Property, plant and equipment in progress

**Property, plant and equipment**

Other investments	0	3
Deferred tax assets	10,773	13,222
Other receivables (prepayment property, plant and equipment)	2,000	0
<b>Financial assets</b>	<b>12,773</b>	<b>13,225</b>
<b>Non-current assets</b>	<b>51,241</b>	<b>56,906</b>
<b>Inventories</b>	<b>29,312</b>	<b>30,458</b>

Trade receivables

Other receivables

Prepayments

**Receivables****Cash****Non-current assets held for sale****Current assets****Assets**

Plant and machinery	19,613	19,604
Other fixtures and fittings, tools and equipment	662	444
Property, plant and equipment in progress	1,568	0
<b>Property, plant and equipment</b>	<b>21,843</b>	<b>20,048</b>
Other investments	0	3
Deferred tax assets	10,773	13,222
Other receivables (prepayment property, plant and equipment)	2,000	0
<b>Financial assets</b>	<b>12,773</b>	<b>13,225</b>
<b>Non-current assets</b>	<b>51,241</b>	<b>56,906</b>
<b>Inventories</b>	<b>29,312</b>	<b>30,458</b>
Trade receivables	9,162	4,760
Other receivables	9,729	4,701
Prepayments	544	560
<b>Receivables</b>	<b>19,435</b>	<b>10,021</b>
<b>Cash</b>	<b>15,964</b>	<b>4,039</b>
<b>Non-current assets held for sale</b>	<b>0</b>	<b>13,100</b>
<b>Current assets</b>	<b>64,711</b>	<b>57,618</b>
<b>Assets</b>	<b>115,952</b>	<b>114,524</b>

**Group balance sheet as at 30 June****Liabilities, DKK '000**

	<b>1H2006</b>	<b>1H2005</b>
Share capital	65,525	65,525
Share-based payment reserve	497	0
Retained earnings	3,170	-11,349
<b>Equity</b>	<b>69,192</b>	<b>54,176</b>
Other credit institutions	7,540	11,146
Finance lease commitments	5,517	0
<b>Long-term liabilities</b>	<b>13,057</b>	<b>11,146</b>
Other credit institutions	1,508	3,470
Bank debt	0	2,794
Trade payables	18,221	18,623
Other debt	12,769	16,315
Liabilities concerning assets identified for sale	0	8,000
Financial lease commitments	1,205	0
<b>Short-term liabilities</b>	<b>33,703</b>	<b>49,202</b>
<b>Total liabilities</b>	<b>46,760</b>	<b>60,348</b>
<b>Liabilities and equity</b>	<b>115,952</b>	<b>114,524</b>

\*) not audited

The Group significantly increased its earnings from H1 2005 to H1 2006. The increase is based on extensive optimisation of the customer and product mix, the general market conditions and rationalisations.

For more detailed comments on the interim report reference is made to the Group's stock exchange announcement No. 16/06 of 29 August 2006.

**Comments on the results for the first six months of 2006**

The net turnover for the first six months of 2006 was DKK 77.5m, which was an increase of 29.3% compared with the same period last year.

The year-to-date operating profit was DKK 17.4m against a loss of DKK 4.4m for the same period in 2005. The year-to-date profit before tax was DKK 16.3m against a loss of DKK 5.5m for the same period in 2005. In the period the Group realised a profit after tax of DKK 18.9m against a loss after tax of DKK 6.7m in the same period in 2005.

The revenue and results for the period are primarily influenced by the favourable conditions on the world market for silicon, which have particularly worked through in the first six months of 2006. The silicon market is characterised by increased demand, which has had a positive impact on the Group's products.

Furthermore, the Group's sales strategy has been successfully implemented, including the optimisation of the customer and product mix, and at the same time the Group has been able to sell a number of slow-moving products from its surplus stock.

Finally, a considerable cost reduction compared with the same period last year contributed to the results. The number of employees has been reduced from 79 to 60.

Owing to the Group's considerably improved earnings in the first six months of 2006, and modified earnings expectations for the rest of 2006 and 2007, previous write-offs of the Group's tax asset have been reversed, including the extraordinary write-off in the financial year 2005. This implies a net taxable income for the period after deduction of tax on the results of the period. After this, the results after tax for the period totalled DKK 18.9m.

The results for the period are deemed satisfactory by the Management.

In the period the Group had a negative cash flow of DKK 6.0m, primarily due to a redemption payment of DKK 8.0m on the Group's debt commitments, ensuing from sales of the Group's property in 2005. However, at the end of the period the Group's cash and cash equivalents were DKK 11.9m higher compared with the same period last year.

## 12 Capital resources

### Group cash flow statement for 2003-2005

tDKK

	2005	2004	2003
Operating profit/loss (EBIT)	(3,402)	1,996	(15,487)
Adjustment for non-cash operating items And balance sheet items etc.:			
Depreciation, amortisation and impairment losses	9,318	4,470	11,600
Loss/gain on the disposal of assets	(1,007)	0	0
Other adjustments	93	(238)	6,238
Change in working capital	13,140	8,011	(1,535)
<b>Operating cash flows</b>	<b>18,142</b>	<b>14,239</b>	<b>816</b>
Financial income received	646	497	3,431
Financial expense paid	(2,117)	(3,284)	(4,575)
Income tax paid	0	0	2
<b>Cash flows from operating activities</b>	<b>16,671</b>	<b>11,452</b>	<b>(326)</b>
Purchase etc. of intangible assets	(3,049)	(982)	(17,181)*
Purchase etc. of property, plant and equipment	(8,772)	0	0
Sale of property, plant and equipment	35	0	0
Sale of financial assets	73	0	398
Sale of non-current assets held for sale	16,000	0	0
<b>Cash flows from investing activities</b>	<b>4,287</b>	<b>(982)</b>	<b>(16,783)</b>
Other repayments to credit institutions	(8,763)	(7,203)	6,282
Repayment of mortgage debt	0	(1,652)	0
Repayment of lease liability	(93)	0	(2,063)
Proceeds from incurring financial liabilities	7,300	0	0
<b>Cash flows from financing activities</b>	<b>(1,556)</b>	<b>(8,855)</b>	<b>4,219</b>
<b>Cash flows for the year</b>	<b>19,402</b>	<b>1,615</b>	<b>(12,890)</b>
Cash and cash equivalents, beginning of year	2,542	927	13,817
<b>Cash and cash equivalents, end of year</b>	<b>21,944</b>	<b>2,542</b>	<b>927</b>

\*Investments include non-current and intangible assets

The above cash flow statement is for the period 2003-2005. As shown in the table, the financial position of the Group has strengthened substantially during the period. The stronger financial position has been achieved through cost rationalisation and optimisation of the Group's customer and product mix and from the divestment of a property in 2005.

The Group is financed primarily by own funds and by ordinary operating and lease financing.

There are no limits for the use of the Group's capital reserves.

With the current capital base the Group expects to be able to meet its obligations, and no further debt financing is required for the continued operations. The cash and cash equivalents were approx. DKK 16m as at 30 June 2006.

<b>Group cash flow statement as at 30 June tDKK</b>	<b>1H2006</b>	<b>1H2005</b>
Operating profit/loss	17,437	(4,399)
Adjustments	3,487	2,654
Working capital changes	(12,402)	17,126
<b>Operating cash flows</b>	<b>8,522</b>	<b>15,381</b>
Financial items, net	(1,076)	(1,085)
<b>Cash flows from operating activities</b>	<b>7,446</b>	<b>14,296</b>
Acquisition of plant and equipment and intangible assets	(2,141)	(8,848)
<b>Cash flows from investing activities</b>	<b>(2,141)</b>	<b>(8,848)</b>
Repayment of liabilities other than provisions	(11,285)	(4,285)
<b>Cash flows from financing activities</b>	<b>(11,285)</b>	<b>(4,285)</b>
<b>Cash flows for the period</b>	<b>(5,980)</b>	<b>1,163</b>
Cash and cash equivalents at 01/01	21,944	2,876
<b>Cash and cash equivalents at 30/06</b>	<b>15,964</b>	<b>4,039</b>

### 13 Research and development, patents and licenses

In recent years the research and development activities have been focused on several activities relating to FZ silicon products. These projects are grouped into the following segments:

- Product development
- New silicon types as raw material for the FZ process
- New FZ production techniques
- FZ puller optimisation

The product development has been focused on new 6" products for applications in the semiconductor and solar cell industries. The Group has marketed new products within NTD for high power components and HiRES for new types of components within wireless communication. Within the area of solar cells, PV-FZ®-silicon, which is suited for high efficient solar cells, has been marketed.

In cooperation with its raw material suppliers the Group has developed new and less expensive types of silicon for the FZ process. Moreover, this optimisation process has resulted in a significant reduction in the energy consumption for the production of very pure silicon.

In cooperation with local and international universities the Group has worked on the development of new methods within FZ technology. This work has provided new knowledge for the next generation of pullers and processes.

The Group develops and produces the machine technology behind its products. In recent years the Group has worked with a new generation of fully automatic FZ pullers, which increases the productivity significantly compared to the older generation of FZ pullers.

Historically the majority of the Group's technology has been protected by secrecy. However, the Group has initiated a process of patenting selected production machines and processes.

In connection with projects involving external parties the Group protects its IP rights through patents and through the conclusion of contracts with cooperation partners. The scope of patentability is assessed on a current basis.

The Group is not dependent on patents in its production of FZ silicon.

The annual costs for research and development have been summarised in the below table. The Group has received subsidies from various external programmes in Denmark and the EU.

<b>Year, DKK '000</b>	<b>Own financing</b>	<b>Subsidies received</b>	<b>Total R&amp;D</b>
2003	5,730	3,120	8,850
2004	4,228	3,306	7,594
2005	2,629	2,333	4,962
<b>Sum</b>	<b>12,640</b>	<b>8,759</b>	<b>21,406</b>

## 14 Trend information

### Market and price performance

The shortage of polysilicon has resulted in a general increase in prices on the world market. The lack of polysilicon is mainly caused by the growth of the solar cell industry, which has seen growth rates of 30-35% annually in recent years. In 2006 the solar cell industry is therefore expected to buy almost half of the world market production of polysilicon.

This has meant that today polysilicon is almost exclusively sold on the basis of so-called long-term agreements with fixed prices, fixed volumes with advance payment or guarantees, often of 20-50% of the total sum for the contract period.

Topsil has entered into a long-term supply agreement, which is assessed to have been concluded at a competitive price level.

At the end of 2005 and in 2006 Topsil was successful in maintaining the higher price level versus customers and expects this to be the case also for the next 2-3 years.

Topsil expects the lack of polysilicon to last for another 2-3 years. At the moment, only two suppliers on the world market supply raw material to the float-zone silicon producers. This fact, combined with the shortage of polysilicon, currently gives float-zone producers favourable conditions for securing high prices and thereby higher earnings.

The entry barrier for the production of float-zone silicon is high due to the extensive investments, the limited market, the absence of scope for large-scale production, the limited number of polysilicon suppliers (two), and the knowledge-intensive nature of the industry.

### Risks

On the longer term a number of risk factors exist. The large float-zone producers may stop the production of FZ silicon, and as a result the electronics industry may be forced to find substituting silicon products. The float-zone market may then diminish or disappear.

New technology may lead to a surplus of raw materials, or the current investments in new capacity may result in surplus production of raw material. In that case, the semiconductor industry is likely to put pressure on silicon producers, and the price may fall to a level at which the competition intensifies and the profitability becomes subject to pressure. However, such a scenario seems unlikely in the short term, since at the moment investments solely involve reactor facilities including new productions already sold on the basis of long-term agreements.

Other risks are described in section 5 'Risk factors'.

### Trends in production, sale and inventories

Within the next couple of years the Group expects to be able to achieve a significant improvement in the production as a result of optimisation of the production process.

The Group expects no further measures to secure the revenue to be required in the near term.

The Group's inventories have been radically restructured in the recent period of favourable market conditions, which means that the average stock turnover ratio is now 3.5. The Group's inventories

consist mainly of raw materials and work in progress, which is expected to be processed during the period up to the start of delivery under the recently concluded supply agreement.

## **15 Earnings expectations**

The below section contains forward-looking statements on the Group's expectations for activities and earnings. The Group's actual performance may deviate significantly from the forward-looking statements. Potential risks and uncertainties include the factors described in the section on 'Risk factors' and matters discussed elsewhere in this Prospectus.

The below revenue and earnings expectations are based on the company's budget for 2006 and forecast for 2007. The revenue and earnings expectations are based on the Group's current accounting policies. The central assumptions are stated below:

The Group's primary trade currency, USD has been included at an exchange rate of 600.

The Group's revenue and sales expectations have been based on expected sales to existing customers; established on the basis of already signed agreements as well as historical sales figures and expected sales prices.

The Group expects to maintain its profit margin at the current level, also for the part of the raw material agreement based on market price. This agreement is described in detail in the section 'Material agreements'. No material fluctuation in the market price has been assumed.

No material increase in other costs has been assumed.

The financial items are expected to be at a lower level compared to previous years.

No material investments cf. the section 'Information on the Issuer' have been assumed.

### **Expectations for the financial year 2006**

On the basis of the concluded raw material agreement and the substantial demand for the Group's products, the Group has managed to optimise its raw material consumption further and take additional orders in 2006. Against that background the Group expects to realise revenue in the range of DKK 130-140m and a profit before tax in the range of DKK 20-24m.

The Management considers the expected performance for 2006 extremely satisfactory.

### **Expectations for the financial year 2007**

As described elsewhere in the Prospectus, the Group expects considerable demand for its products also in the financial year 2007. Moreover, the Group expects to implement various optimisation projects in the production to further improve the earnings.

For 2007 the Group expects to realise revenue in the range of DKK 130-150m and a profit before tax in the range of DKK 20-25m.

The Group's expectations for the financial year 2007 have been based on the conditions of the concluded raw material agreement and other material customer agreements described in the section 'Material agreements'.

## **Auditor's report on the Management's expectations for the financial years 2006 and 2007 for Topsil Semiconductor Materials A/S**

### **To the shareholders of Topsil Semiconductor Materials A/S**

We have audited the Management's revenue and earnings expectations for Topsil Semiconductor Materials A/S for the financial years 2006 and 2007 and the underlying assumptions. The revenue and earnings expectations for the financial years 2006 and 2007 have been prepared in accordance with Topsil Semiconductor Materials A/S' accounting policies.

The revenue and earnings expectations for the financial years 2006 and 2007 and the assumptions behind the expectations are the responsibility of the Group's Management. Our responsibility is to express an opinion on the expectations based on our audit.

### **Basis of opinion**

We conducted our audit of the revenue and earnings expectations for the financial years 2006 and 2007 in accordance with Danish Auditing Standards for '*Assurance Engagements Other Than Audits or Review of Historical Financial Information*' (RS 3000). We have planned and performed the audit to obtain reasonable assurance that the Group's revenue and earnings expectations for the financial years 2006 and 2007 have been estimated on the basis of the described assumptions and that these are well-founded and free of material misstatements. Our audit included an assessment of the procedure applied by the Management in estimating the future expectations, including ensuring that the expectations were estimated in accordance with Topsil Semiconductor Materials A/S' accounting policies.

### **Opinion**

Our audit did not identify any issues that would indicate that the assumptions do not provide a fair basis for the revenue and earnings expectations for the financial years 2006 and 2007, or that the expectations have not been based on the stated assumptions and Topsil Semiconductor Materials A/S' accounting policies.

Since future expectations, including the assumptions, relate to the future and therefore may be influenced by unforeseen events and circumstances, our opinion does not include an assessment of whether the realised future results will correspond to the expectations for 2006 and 2007. There may be significant deviations.

Copenhagen, 18 September 2006

### **Deloitte**

State-Authorised Accountants

Anders O. Gjelstrup  
State-Authorised Public Accountant

Tim Kjær-Hansen  
State-Authorised Public Accountant

## 16 Board of Directors, management and supervisory authorities

### Board of Directors

#### ***Chairman Jens Borelli-Kjær, age 46***

Havremarken 4  
3650 Ølstykke

First appointed to the board in 2006  
The term of office expires in 2007

MSc (engineering), HD programme, MBA (INSEAD)

Directorships and management positions held:

CEO, board member and co-owner of Vitral A/S since 2005  
Board member of XO Care A/S since 2001  
Board member of Gerstenberg & Agger A/S since 2005  
Board member of Gerstenberg og Schröder A/S since 2005

Directorships and management positions held for the past five years (2001-2005):

2000-2002: Group CEO of JAI A/S  
2002-2004: Group CEO of Icopal A/S  
2002-2004: Chairman of Monarflex A/S

#### ***Deputy chairman Eivind Dam Jensen, age 55***

Bangs Gård  
Torvet 21  
6701 Esbjerg

First appointed to the board in 2005  
The term of office expires in 2007

State-authorized estate agent

Directorships and management positions:

CEO and board member of Ejendomsaktieselskabet Bangs Gård since 1985  
CEO and board member of A/S Eivind Dam Jensen since 1975  
CEO of Statsaut. Ejendomsmæglerfirma E. Dam Jensen  
CEO of Hotel Britannia

Directorships and management positions held for the past five years (2001-2005):  
None

#### ***Jørgen Frost, age 51***

Lejrvej 13  
3500 Værløse

First appointed to the board in 2006  
The term of office expires in 2007

MSc (engineering), HD programme

Directorships and management positions held:

CEO and board member of Blendex A/S since 2006

CEO, founder and board member of Frost Invest A/S since 2006

Board member of Vestergaard Company Holding A/S since 2004

Board member of Kongskilde Industries A/S since 2006

CEO and board member of Ejendomsselskabet Anja Adamsen ApS since 2004

Directorships and management positions held for the past five years (2001-2005):

1998-2002: Board member of Fibertex A/S

1999-2004: Board member of NEG Micon A/S

2000-2002: Chairman of Aktieselskabet af 21. december 1983

2000-2004: CEO of Incentive A/S

2000-2004: Chairman of Incentive Financial Services A/S

2000-2004: Chairman of Alto Danmark A/S, Alto International A/S and Alto Property A/S

2001-2004: Board member of Ejendomsselskabet Blytækkervej A/S

***Per Jørgensen, age 47***

Zimmerstrasse 55A

D-22085 Hamburg

Germany

First appointed to the board in 2005

The term of office expires in 2007

MSc (civil engineering), HD programme, Logistics

Directorships and management positions held:

Agimix AB, Board member since 2005

Indutec Inc., Board member since 2005

Directorships and management positions held for the past five years (2001-2005):

1998-2001: CEO and board member of P.J. Holding af 25/9 1998 A/S

2000-2001: CEO and board member of Datagrossisten Holding A/S

2000-2001: CEO and board member of Evercom Network A/S

2001-2002: CEO, Group CEO and board member of Evercom Network ASA (Oslo)

2001-2002: Chairman of Network Technical AB

2001-2002: Chairman of Datagrossisten Oy

2001-2002: Chairman of Evercom AS (Oslo)

***Key Account Manager Trine Schønnemann, age 39***

Linderupvej 4

3600 Frederikssund

Staff representative

First appointed to the board in 2003

The term of office expires in 2007

Academy Economist (International Marketing), employed in 1997

Directorships and management positions held for the past five years (2001-2005):  
None

***PTA Manager Theis Leth Larsen, age 33***

Linderupvej 4  
3600 Frederikssund

MSc (engineering), PhD, employed in 1997

Staff representative  
First appointed to the board in 2003  
The term of office expires in 2007

Directorships and management positions held for the past five years (2001-2005):  
None

**Management**

***CEO Keld Lindegaard Andersen, age 46***

Linderupvej 4  
3600 Frederikssund

MA, MBA

Directorships and management positions held:  
CEO and board member of Topsil International A/S since 2005

Previous directorships and management positions held (2001-2005):  
None

***Sales and Marketing Director Jørgen Bødker, age 48***

Linderupvej 4  
3600 Frederikssund

Bachelor of Engineering (electronics), HD programme, employed in 2002

Previous directorships and management positions held (2001-2005):  
None

**Declaration regarding previous convictions**

Within the past five years none of the members of the board and the management have been convicted of fraudulent offences, or have been subject to public prosecution and/or sanctions from an authority, or by a court of law been deemed not eligible as a member of an Issuer's board, management or regulatory authority, or as a member of the management of the Issuer.

**Declaration regarding conflicts of interests**

There are no conflicts of interests between the obligations of the members of the board and the Management towards Topsil and the obligations that they have taken upon themselves due to their other interests and obligations.

**Bankruptcy and winding-up cases**

Within the past five years (2001-2005) the following board members have been involved in the following bankruptcy and winding up cases:

CEO Jørgen Frost was appointed CEO of Incentive A/S on 1 October 2000. The company has been in bankruptcy proceedings since 17 March 2004.

CEO Jørgen Frost was chairman of Ejendomsselskabet af 21. december 1983 from 31 October 2000 to 23 January 2002. The company was a subsidiary of Incentive A/S and was dissolved after voluntary winding-up on 1 November 2002.

CEO Jørgen Frost was a board member of Ejendomsselskabet Blytækkervej A/S from 30 May 2001 to 8 July 2004. The company was a subsidiary of Incentive A/S and was dissolved after voluntary winding-up on 20 December 2004.

CEO Per Jørgensen was CEO and board member of P.J. Holding af 25/9 1998 A/S from 25 August 1998 to 8 November 2001. The company was dissolved after bankruptcy on 26 June 2001.

CEO Per Jørgensen was CEO and board member of Datagrossisten Holding A/S from 19 December 2000 to 26 March and 4 July 2001, respectively. The company was dissolved after bankruptcy on 22 March 2002.

CEO Per Jørgensen was CEO and board member of Evercom Network A/S from 19 December 2000 to 1 February and 4 July 2001, respectively. The company was dissolved after bankruptcy on 1 November 2001.

The remaining members of the board and the Management have not been involved in bankruptcy or winding up cases during the relevant period.

**Topsil's associated partners**

Topsil's associated partners include the Group's subsidiaries, Management, board members and the companies in which the board members hold management positions, as well as shareholders with shareholdings in excess of 5%. Transactions are based on agreements between the parties, unless where such transactions are insignificant and concluded on market terms.

In late August 2005, Topsil entered into a sale and lease back agreement in relation to its property in Frederikssund. The buyer was Ejendomsaktieselskabet Bangs Gård, which is owned by the deputy chairman of the board, Eivind Dam Jensen.

The board of directors and the Management are subject to regulations regarding 'open windows' implying that the board of directors, the Management and other insiders must trade Topsil shares for a period of only 6 weeks after the announcement of financial statements.

## **17 Remuneration and benefits**

The board of directors receives a fixed remuneration. In 2005 the Group paid DKK 120,000 to the chairman of the board, DKK 90,000 to the deputy chairman and DKK 60,000 to each of the remaining board members. In 2006 the remuneration to the chairman was increased to DKK 150,000.

The total remuneration to the board of directors and the Management made up DKK 2,621,000 in 2005 distributed by DKK 449,000 to the board of directors and DKK 2,172,000 to the Management.

The Management and the management group of Topsil has the option of subscribing 10 million New Shares, cf. the terms stated in section 23. Exercising of the Subscription Rights is conditioned on the Subscription Rights holder not being under notice at the time of exercising the Subscription Rights. No other conditions are attached to the Subscription Rights.

No remuneration, pension or severance pay is paid to the board of directors and the management of the subsidiaries Topsil International A/S and Topsil Inc. No provisions have been made for pension or similar remuneration.

## **18 Working practices of the board of directors**

### **Corporate Governance**

Topsil regularly evaluates the relationship to its shareholders, board of directors and Management with a view to ensuring the compliance with corporate governance and best practice as recommended by the Copenhagen Stock Exchange.

Topsil aims to provide the market with complete and timely information about Topsil's activities, as well as the financial and operational performance.

Topsil's website contains the latest announcements as well as a description of the Group and its projects. On request, shareholders can be notified of general meetings etc. via email.

Topsil aims to have close cooperation with all stakeholders.

### **Committees**

Topsil has not set up an audit committee or a wage committee.

### **Role and responsibility of the board of directors**

The board of directors has the overall responsibility for Topsil and the supervision of the Management. The board of directors establishes the general guidelines in relation to business strategy, organisation, finance and accounts as well as risk management, and appoints the management of Topsil.

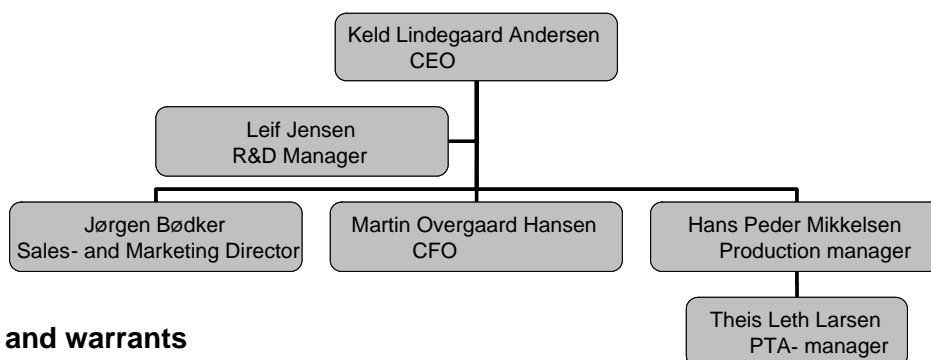
The board of directors meets on a regular basis and performs its duties according to the procedures laid down by the board of directors. The board of directors works in close cooperation with the Management, and through detailed reporting the Management ensures that the board of directors is always updated on Topsil's performance and current affairs.

## 19 Staff

As per 11 September 2006 Topsil employed about 60 employees, of whom 48% were hourly workers and the remaining part was employed in sales, administration, development and quality control. The organisation is characterised by a high seniority: 9.9 years for hourly workers and 11.7 years for salaried staff.

Over the last few years, Topsil has completed cost savings measures introduced in 2003, reducing the number of employees from about 100 persons to the present level. At the end of Q2 2005, Topsil discontinued the weekend production, since it proved cost-intensive to keep the production running on weekends relative to the earnings. The Group is now geared for 24 hour production on weekdays. The number employees as per 31 December 2003 was 93, as per 31 December 2004 the number was 84, and as per 31 December 2005 the number was 76.

The below organisation chart shows the Management of the Group.



### Shareholdings and warrants

Insiders' holdings of Topsil shares as per 11 September 2006:

Shares	Shareholding (own and significant others *)	Shareholding Nominal value
Chairman Jens Borelli-Kjær	285,000	71,250.00
Deputy chairman Eivind Dam Jensen (EDJ-Gruppen)	38,578,812	9,644,703.00
Board member Theis Leth Larsen	2,070	517.50
Board member Trine Schønnemann	63,320	15,830.00
Sales and marketing director Jørgen Bødker	250,000	62,500.00
R&D Manager Leif Jensen	275,000	68,750.00
Production manager Hans Peder Mikkelsen	440,000	110,000.00
<b>Total</b>	<b>39,894,202</b>	<b>9,973,550.50</b>
<b>Warrants allocated on 12.04.06</b>		
CEO Keld Lindegaard Andersen	3,931,500	
<b>Warrants allocated on 07.08.06</b>		
Sales and marketing director Jørgen Bødker	2,621,000	
CFO Martin Overgaard Hansen	861,875	
R&D Manager Leif Jensen	861,875	
Production manager Hans Peder Mikkelsen	861,875	
PTA manager Theis Leth Larsen	861,875	
<b>Total</b>	<b>10,000,000</b>	

\* Significant others are the management's close family and companies in which management functions are held.

The terms for warrants/Subscription Rights are discussed in section 23.

**The Management's other financial interests in Topsil**

In connection with the allocation of warrants/Subscription Rights a bonus scheme has been established for the Management and other executives.

The CEO has been allocated 2% of the Group's ordinary profit before tax for the financial year 2006 and subsequent financial years.

The payment of the bonus is conditioned on the CEO being employed by the Group at the time of payment. In case the employment is terminated by the Group, the CEO is however entitled to a proportional bonus corresponding to the number of months the CEO was employed by the Group in the relevant financial year.

The sales and marketing director has been allocated 1%, and the four other executives 0.5%, of the Group's ordinary profit before tax for the financial years 2006 to 2008.

In case the executive's employment with the Group is terminated the executive shall be entitled to a proportional share of the bonus, corresponding to the number of months the executive was employed by the Group in the relevant financial year.

The Group's other employees may have own investments in Topsil's shares.

## 20 Majority shareholders

The Group's share capital before the Rights Issue constitutes DKK 65,525,018.50 nominal and consists of 262,100,074 shares of a nominal value of DKK 0.25. No share classes exist. The Group does not have a holding of own shares.

The number of registered shareholders in Topsil was approx. 3,700 as per 11 September 2006, representing 64.3% of the total share capital.

In compliance with section 29 of the Danish Securities Trading Act, the following investors have notified Topsil that they hold 5% or more of its share capital:

### Shareholder composition as per 11 September 2006

	<u>Number of shares</u>	<u>Capital DKK</u>	<u>Capital %</u>	<u>Votes %</u>
EDJ-Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark	38,578,812	9,644,703	14.72	14.72
Sino-American Silicon Products Inc., 8, Industrial East Road, Sec. 2, Science-Based Industrial Park, Hsin-Chu, Taiwan	13,197,108	3,299,277	5.04	5.04
Other registered shareholders	129,923,006	32,481,331	49.57	49.57
Unregistered shareholders	80,401,148	20,099,707	30.67	30.67
<b>Total</b>	<b><u>262,100,074</u></b>	<b><u>65,525,018</u></b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>

There is no difference in voting rights for the Group's shares. According to section 9.4 in the Group's Articles of Association each share of nominal DKK 0.25 confers one vote.

Topsil is not aware of circumstances indicating that the Group is directly or indirectly controlled by other shareholders and is not aware of agreements implying that other shareholders may take over the control of Topsil.

## **21 Transactions with associated parties**

Associated parties are the Group's subsidiaries, management, members of the board of directors and the companies in which board members hold management positions, as well as shareholders with shareholdings in excess of 5%. Transactions are based on agreements between the parties, unless where such transactions are insignificant and concluded on market terms.

### **Leasing agreement regarding domicile in Frederikssund**

As described in section 16 regarding Topsil's associated partners, Topsil in late August 2005 entered into a sale and lease back agreement regarding its property in Frederikssund. The buyer was Ejendomsaktieselskabet Bangs Gård, which is owned by the deputy chairman of the board, Eivind Dam Jensen.

### **Wafering and distribution agreement**

Topsil has entered into agreements with the shareholder Sino-American Silicon Inc. (SAS) in Taiwan. SAS produces CZ silicon wafers for the electronics and solar cell industries. In 2000, Topsil outsourced the majority of the mechanical processing of its float-zone wafers to SAS. This process includes slicing, grinding, etching and polishing of the crystals produced at the Group's factory in Frederikssund. The agreement was latest renewed on 1 January 2005 and is valid for three years or until terminated by one of the parties. As described in section 24 regarding significant contracts, the Group expects to enter into six-year agreements with the wafering suppliers on similar terms as those applying to of the Group's agreement on the supply of polysilicon.

Topsil further has a sales agreement with SAS, under which SAS is committed to selling FZ silicon produced by Topsil, and Topsil is committed to selling CZ silicon produced by SAS. The sales agreement has been effective since November 2000 and remains valid until terminated by one of the parties.

## 22 Information about financial statements

### Table of cross references

This prospectus takes the form of a basis prospectus in pursuance of Commission Regulation (EC) No. 809/2004 of 29 April 2004 on the implementation of the European Parliament's and the Commission's directive 2003/71/EU regarding information in prospectuses as well as format, integration of information by references, publication and announcement of such prospectuses, and inclusion in the prospectus of audited financial statements for the last three financial years as well as interim reports prepared since the audited annual report. In accordance with article 28 in the prospectus regulations and paragraph 18, item 2 in the Executive Order, the following information is integrated in the prospectus with reference to the Group's annual reports for 2003, 2004 and 2005 and interim report for 2006, which are available from the Group's website: [www.topsil.com](http://www.topsil.com).

#### Information:

Directors' report for the financial year 2003  
Applied accounting policies  
Income statement, balance sheet and cash flow statement  
Notes

Directors' report for the financial year 2004  
Applied accounting policies  
Income statement, balance sheet and cash flow statement  
Notes

Directors' report for the financial year 2005  
Applied accounting policies  
Income statement, balance sheet and cash flow statement  
Notes

Directors' report for H1 2006  
Applied accounting policies'  
Income statement, balance sheet and cash flow statement

#### Reference:

The Group's annual report for 2003, pp 9 – 12  
The Group's annual report for 2003, pp 13 – 17

The Group's annual report for 2003, pp 18 – 22  
The Group's annual report for 2003, pp 23 – 28

The Group's annual report for 2004, pp 9 – 12  
The Group's annual report for 2004, pp 13 – 17

The Group's annual report for 2004, pp 18 – 22  
The Group's annual report for 2004, pp 23 – 30

The Group's annual report for 2005, pp 10 – 14  
The Group's annual report for 2005, pp 15 – 21

The Group's annual report for 2005, pp 22 – 27  
The Group's annual report for 2005, pp 28 – 50

The Group's annual report for 2006, pp 1 - 10  
The Group's annual report for 2006, pp 1 - 10

The Group's annual report for 2006, pp 1 - 10

### Auditors' report for 2005

#### Annual report for 2005

The annual report for 2005 is provided with an unqualified opinion and the following supplementary information:

**Supplementary information**

As described in the Group's stock exchange announcement No. 02/06 of 6 March 2006 the Group has not managed to conclude a long-term agreement for the delivery of raw materials. We refer to the Statement of the Board of Directors and Management on page 11 of the Annual Report for 2005, in which the management describes the consequences of the lack of an agreement on raw materials, including the significant uncertainty now associated with the future expectations. In case the described expectations are not fulfilled, we agree with the management that this is likely to result in additional impairment losses and write-downs of the Group's assets, including capitalised development costs and the tax asset. Based on the raw material inventory and an already concluded agreement on raw materials the management estimates that the Group can continue its activities at least up to the year-end 2006. We therefore agree that the annual report can be prepared in accordance with the going concern principle.

**Dividend policy**

The Group's board of directors proposes dividend each year subject to approval by the general meeting. For the years 2003, 2004 og 2005 the dividend was 0 %.

**Significant changes in the financial or commercial position of the Group**

No events have occurred since the last interim report, which have not been stated in the Prospectus.

**Litigation**

There are no pending legal proceedings and there have been no legal proceedings within the past year with a significant negative impact on the Group's financial position. The Management has no knowledge of any legal or arbitration proceedings pending or being threatened, which would have a significant negative impact on the Group's financial position.

**Holding of own shares**

At the general meeting held on 25 April 2006 the board was authorised to let the company acquire up to 10% of the company's share capital during a period of 18 months. As per the date of the Prospectus the company has no holding of own shares.

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## **23 Additional information**

### **Share capital**

The Group's share capital is DKK 65,525,018.50 distributed on 262,100,074 shares of a nominal value of DKK 0.25. The share capital is fully subscribed.

At the beginning of the year 2005 the total number of shares in the Group was 262,100,074. No shares were issued in 2005.

The shares are negotiable instruments issued to bearer, but may be registered by name. No restrictions apply to the transferability of the shares.

The Group does not have a holding of own shares.

The board of directors has been authorised to increase the capital, by 22 May 2008, in one or more steps by issuing up to 300 million New Shares of a nominal value of DKK 0.25, corresponding to DKK 75m, with or without pre-emption rights for the existing shareholders. The board of directors shall determine the conditions for the subscription in connection with the individual offers, including the subscription price. In case the subscription price is lower than the market price, existing shareholders shall have pre-emption right in connection with the capital increase.

The board of directors has been authorised to increase the capital, by 22 May 2008, in one or more steps by issuing up to 2 million New Shares, corresponding to DKK 500,000, to be offered to the employees of the Group, without pre-emption right for the existing shareholders, at a share price of minimum DKK 0.2625 per share. Other conditions for the capital increase shall be determined by the board of directors and shall comply with section 7A of the Danish Tax Assessment Act.

For the shares issued under the above authorisations the same rules shall apply as those pertaining to the Existing Shares. Specific reference is made to the fact that the shares are negotiable instruments. The shares are issued to bearer, but may be registered by name. No restrictions shall apply to the pre-emption right attaching to the New Shares in connection with future capital increases, unless the board of directors determines otherwise and in that case only if the capital increase is effected at market price. The rights attaching to the New Shares shall be effective when the shares have been fully paid, and the shares shall carry the right to dividend for the financial year in which they were fully paid.

### **Warrants**

The board of directors had been authorised, by 22 May 2008, to award warrants to executive employees of the Group for up to nominal 10 million New Shares, corresponding to DKK 2.5m. Awarded warrants hold the right to subscribe shares at a minimum share price of DKK 0.2625 per share. The authorisation was fully utilised in 2006.

The board of directors resolved on 12 April 2006 to award 3,931,500 warrants to CEO Keld Lindegaard Andersen.

The board of directors resolved on 7 August 2006 to award 6,068,500 warrants. Sales and Marketing Director Jørgen Bødker was awarded 2,621,000 warrants; CFO Martin Overgaard Hansen, Production Manager Hans Peder Mikkelsen, R&D Manager Leif Jensen, and PTA Manager Theis Leth Larsen were each awarded 861,875 warrants.

The terms for the warrants were the following:

- Each warrant entitles the holder to subscribe one share of a nominal value of DKK 0.25 in the Group.
- The subscription price is fixed at DKK 0.29 per share.
- The warrants can be exercised by 1/3 in each of the following periods:
  - Up to 6 weeks after the announcement of the annual report for 2006
  - Up to 6 weeks after the announcement of the annual report for 2007
  - Up to 6 weeks after the announcement of the annual report for 2008
- It is a requirement that the recipient is employed by the Group at the time of exercising the awarded warrants.

### **Movements in the Group's share capital since 1 January 2003**

The below table shows the movements in the Group's registered share capital from 1 January 2003 to date.

<b>Date</b>	<b>Transaction</b>	<b>Share capital</b>	<b>No. of shares</b>
01.01.2003		64,827,845.00	259,311,380
09.07.2003	Exercising of 7,500 warrants for subscription of 7,500 shares of a total of DKK 1,875	64,829,720.00	259,318,880
18.12.2003	Exercising of 30,000 warrants for the subscription of 30,000 shares of a total of DKK 7,500	64,837,220.00	259,348,880
29.04.2004	Exercising of 2,741,894 warrants for the subscription of 2,741,894 shares of a total of DKK 685,473.50.	65,522,693.50	262,090,774
03.11.2004	Prepayment of 9,300 convertible bonds for the subscription of a total of 9,300 share of a total of DKK 2,325	65,525,018.50	262,100,074

As per 1 July 2004 the Group's holding of 902,375 convertible bonds was prepaid at par, and 448,276 warrants expired.

After the registration on 3 November 2004 at the Danish Commerce and Companies Agency the Group's share capital has remained unchanged.

### **Memorandum of Association and Articles of Association**

#### **Mission**

The mission of the Group is to produce and trade primarily semiconductor materials.

The mission statement of the Group is stated in the Group's Articles of Association, section 2, available from the Group's website, [www.topsil.com](http://www.topsil.com).

### **The Board of Directors**

The general meeting elects a board of directors comprising of three to six members among the shareholders or from outside the shareholder group. The board members elected by the general meeting are appointed for one-year terms and may be re-elected.

In addition the employees elect up to three employee representatives in accordance with the Danish Companies Act in force at any time regarding employee representatives on the board.

The board of directors elects among its members a chairman and a deputy chairman and has the overall responsibility for the Group's affairs. The decisions of the board are based on simple majority of votes, but in case of equality of votes the chairman's vote is decisive.

### **Management**

The board of directors appoints the Management, consisting of one or more members, to be responsible for the day-to-day operation of the company.

### **Authorised to sign**

Authorised to sign for the Group are: the board of directors jointly; or the CEO jointly with the chairman of the board; or the CEO jointly with the deputy chairman of the board and a member of the board.

### **Rights, preferences and restrictions**

The Group's Articles of Association, section 4, specify the following rights, preference and restrictions for the Group's shares:

- The shares shall be negotiable securities.
- The shares shall be issued to bearer, but may be registered in the Company's list of shareholders. Requests for registration in the Company's list of shareholders shall be submitted to the account controller, Nordea Bank Danmark A/S, Issuer Services HH, P.O. Box 850, DK-0900 Copenhagen C
- No shareholder shall be obliged to have his shares wholly or partly redeemed.
- No restrictions apply to the transferability of the shares.
- No shares shall have special rights.

### **Changes to the shareholders' rights**

The Group's Articles of Association stipulate the following in relation to changes to the shareholders' rights:

- The issues discussed by general meetings shall be decided by simple majority.
- Decisions to modify the Company's Articles of Association or to liquidate the Company shall require that at least half the share capital is represented at the general meeting and that the proposal is adopted by at least 2/3 of the votes cast as well as of the voting share capital represented at the general meeting.

- If the above-mentioned share amount is not represented at the general meeting in question and if the proposal fails to achieve 2/3 of the votes cast, the proposal shall have failed. If the proposal achieves 2/3 of the votes cast, the Board shall within 14 days call a new extraordinary general meeting, and if the proposal achieves at least 2/3 of the votes cast at this meeting as well as of the voting share capital represented at the general meeting, the proposal shall have been adopted regardless of the size of the share capital represented.

These conditions are stricter than the statutory requirements.

### **General meeting**

All general meetings shall be called electronically at no less than eight days' and no more than four weeks' notice. Each shareholder who has provided the Company with an e-mail address and who has requested to be called to general meetings shall be called by e-mail. All relevant documents shall be available from the Group's website: [www.topsil.com](http://www.topsil.com) under the menu 'Investor Relations'.

The ordinary general meeting shall be held no later than four months after the end of the financial year in Frederikssund or Copenhagen, in due time for the audited and adopted annual report to be submitted to and received by the Danish Commerce and Companies Agency. The financial year shall be the calendar year.

All shareholders are entitled to have a particular issue discussed by the general meeting provided that the shareholder submits a written request no later than the previous 1 February.

Extraordinary general meetings shall be held when the Board or the auditors deem it necessary. Furthermore, extraordinary general meetings shall be called within 14 days when, for the purpose of dealing with a particular specified issue, this is requested in writing by shareholders owning 1/10 of the share capital.

Any shareholder shall have access to general meetings if, at least three days prior to the meeting, he/she has obtained an admission card. Shareholders shall have voting right when their shares have been registered in the list of shareholders, or by presentation of documentation of the shareholding. Voting rights may be exercised through a proxy who shall present a written and dated proxy.

Each share amount of DKK 0.25 shall entitle the holder to one vote.

### **Provisions in the Articles of Association etc. which may delay any change in the control**

Topsil's Articles of Association do not include provisions implying that a change in the control of the company may be delayed, postponed or prevented.

### **Provisions on the level of investments**

Topsil's Articles of Association do not include provisions on the level of investments.

### **Specification of conditions in the Memorandum of Association for capital changes**

Reference is made to the above section on 'Share capital'.

## 24 Significant contracts

Topsil enters into agreements based on business terms on a daily basis. The below specification includes only agreements with profound implications for the Group.

### **Raw material suppliers**

The Group has – based on the proceeds from this Rights Issue – recently entered into a six-year agreement (2007-2012) on the supply of polysilicon (the Group's primary raw material) with one of the Group's qualified raw material suppliers.

The agreement is a combination agreement, one part with fixed volumes at fixed (index-linked) prices, and one part with variable volumes at market prices. The variable volumes cannot exceed the fixed volumes in any calendar year, thereby putting a limit to the volumes of the agreement.

The long-term agreement commits the Group to purchasing a minimum volume.

In the current market the Group estimates that the price level for the fixed part of the agreement is competitive. The Group expects the large demand for polysilicon to last throughout the period 2007-2009.

For the subsequent part of the contract period (2010-2012) forecasting of the market conditions is far more difficult and thereby also the estimation of the market price of polysilicon. Hence there is a risk that the Group at that time – for the fixed part of the long-term agreement – may pay a price above the market price. In that case there is a risk of the Group losing market share or experiencing declining earnings.

The Group estimates no significant risk in relation to the part of the agreement based on market price, since the market price should fluctuate with market changes.

### **Sub-suppliers**

The Group has significant sub-suppliers within two areas; silicon wafering and irradiation of NTD silicon.

#### *Wafering:*

The Group expects to enter into six-year agreements with its existing two qualified sub-suppliers. The agreements are expected to be on similar terms as those of the Group's existing agreement regarding the supply of polysilicon, i.e. at fixed, index-linked prices and guaranteed volumes.

The agreements are meant to secure the Group's required access to wafering during the term of the agreement. The agreement commits the Group to taking a minimum supply during the term of the agreement, which constitutes a potential financial risk if the Group does not meet this obligation.

At the moment, the Group is in the process of qualifying another wafering supplier. This qualification process is expected to be completed in late 2006, after which the Group will seek to establish a long-term agreement with this supplier.

#### *Irradiation:*

The Group is seeking to enter into agreements with its essential irradiation suppliers in order to secure the certainty of supply in the six-year term of the agreement.

Such agreements should commit the Group to purchasing a fixed minimum of irradiation capacity during the agreement period. This constitutes a potential financial risk in case the Group does not meet this obligation.

### **Customers**

In order to minimise the Group's exposure when entering into agreements on the supply of polysilicon, wafering and irradiation at fixed minimum volumes and at fixed (index-linked) prices, the Group has entered into agreements on similar terms with its central customers.

For competition reasons these agreements are not described here in detail, however more than 30% of the Group's budgeted/forecasted revenue for the period 2007-2012 is based on agreements at fixed (index-linked) prices with several of the Group's central customers.

**25 Information from third parties, expert statements and declarations of interest**

This registration document does not contain expert statements, etc.

## **26 Documentation material**

Documentation material such as transcripts from the Danish Commerce and Companies Agency, declarations from the Management and the Group's auditors in accordance with the provisions of the Danish Companies Act, Articles of Association, financial statements etc. is available on contacting Topsil on tel. 47 36 56 00 or by email [topsil@topsil.com](mailto:topsil@topsil.com). Electronic versions of the documentation is available from the 'Investor Relations' menu at [www.topsil.com](http://www.topsil.com)

## 27 Information about ownership interests

The Group has no ownership interests other than in the below subsidiaries.

### Ownership

<b>Group</b>	<b>Country</b>	<b>Percentage ownership by Topsil Semiconductor Materials A/S</b>
Topsil Semiconductor Materials A/S	Denmark	
<b>Subsidiaries</b>		
Topsil International A/S	Denmark	100
Topsil Inc.	USA	100

## **28 Risk factors in relation to the securities**

### **Risk factors**

Any decision to invest in shares involves financial as well as commercial risks, and in addition to reading the information in this Prospectus potential investors are advised to carefully read section 5 'Risk factors'.

The value of the Group's assets and liabilities, cash flows and future earnings depends on the general economic situation and the market conditions. The Group has control over the performance in certain areas, whereas the performance in other areas is influenced by factors beyond the Group's control.

The management estimates that the risk factors described in this Prospectus constitute the most essential risks to consider prior to an investment. However, the risks described in this Prospectus do not provide a full list of risks, and the risks are not described in a prioritised order.

### **Equity market performance**

An investment in equities involves a risk of the investor suffering a loss if the share price declines. The stock market is volatile. Therefore there is a risk of the share price of Topsil's shares being influenced by factors which cannot be ascribed solely to the performance of the Group.

### **Unexercised Subscription Rights**

In case a shareholder does not exercise his/her Subscription Right latest by 10 October 2006 or through subscription latest by 13 October 2006 the Subscription Rights shall lapse without value. The shareholder shall not be entitled to any form of compensation.

### **Currency risks**

In connection with the Group's conclusion of a contract for the delivery of polysilicon the Group's currency risk in relation to USD has increased substantially. A fluctuation in the USD/DKK exchange rate of DKK +/-0.5 implies a currency risk for the Group of DKK 4m annually. The Group has not at the moment hedged the currency risk in relation to the long-term agreement.

### **Credit risks**

The Group's credit risks in relation to financial activities correspond to the amounts stated in the balance sheet. Part of the invoice discounting is credit insured. The Group has experienced no significant bad debts during the period 2003-2005.

## 29 Key information

### **Statement about the working capital**

The Group estimates the available working capital and the net cash inflow from the Group's current operations to be sufficient to cover the Group's capital requirement.

### **Capitalisation and debt situation**

The Group is financed primarily by own funds and by ordinary operating and lease financing. Reference is made to the Group's latest annual report and interim report. No significant changes have occurred since the publication of these reports. After 1H 2006 the equity constitutes DKK 69m. The interest-bearing debt made up DKK 16m as at 1H 2006, corresponding to cash equivalents of DKK 16m. The combined net interest-bearing debt is approx. DKK 0.

### **Latest financial performance**

In connection with the interim report for 2006 the Management upgraded the guidance for the Group's full-year results for 2006 from a profit before tax of DKK 6-8m to a profit before tax of DKK 20-24m.

The basis for the increased guidance is the recently concluded raw material supply agreement, continued strong demand for the Group's products as well as a further optimisation of the consumption of raw materials and additional orders in 2006.

Reference is made to the Group's interim announcement No. 16/06, available from [www.topsil.com](http://www.topsil.com).

### **Physical and legal persons' interest in connection with the Rights Issue**

Topsil's board of directors, the Management and employees may have personal interests in the Group's performance in the form of investments in Topsil's shares. Reference is made to section 19 for a specification of the shareholdings of the board of directors and the Management.

For an overview of the Group's ownership structure reference is made to section 20 'Majority shareholders'.

This Rights Issue is underwritten in full by Gudme Raaschou Bank A/S.

Gudme Raaschou Bank A/S has received the following binding advance commitments to subscribe shares, which implies that any unsubscribed shares will be sold to:

EDJ Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark  
Sino-American Silicon Products Inc., Taiwan, 8, Industrial East Road, Sec 2, Science-Based Industrial Park, Hsin-Chu, Taiwan  
Sustainable Energy Ventures, Kalkkaai 6, 100 Brussels, Belgium  
Paul Decraemer, Koningin Astridlaan 9, 9080 Lochristi, Belgium

In addition to the above, no physical or legal persons have an interest in the Rights Issue.

## **Background for the Rights Issue**

### **The market for polysilicon**

At the moment, there is severe shortage of polysilicon, which is used in the semiconductor and the solar cell industries. This shortage of polysilicon started to affect the market in mid-2005 and is estimated to last another two to three years.

The shortage of polysilicon is the result of the 30-35% annual growth rate in the solar cell industry in recent years. About half of the world market production of polysilicon in 2006 is expected to be used in the solar cell industry.

Up until 2004-2005, semiconductor producers had for many years had strong negotiation power over polysilicon and silicon producers. Due to falling demand resulting from cyclical fluctuations with customers/semiconductor producers, polysilicon producers have previously experienced overcapacity for long periods of time.

As a result of the large demand for – and shortage of – polysilicon, the market price has increased dramatically during the past two years, and polysilicon producers have exploited this situation by introducing new commercial terms.

These new commercial terms have been successfully implemented toward large solar cell producers wanting to secure their growth in the solar cell market.

### **Current polysilicon market for float-zone and conclusion of a long-term agreement**

At the moment, eight to ten established producers of polysilicon exist globally, representing a total market share of 99.5%. Only two of these producers make polysilicon suitable for direct application in Topsil's float-zone processes. This market situation also applies to Topsil's competitors within the float-zone area.

Both producers are qualified suppliers to Topsil. One of them has been Topsil's key supplier for more than 20 years, and the other has been a supplier for a shorter number of years. At the end June 2005, Topsil's key supplier of polysilicon terminated its contract with Topsil with effect from 31 December 2005. The majority shareholding of the raw material supplier had been taken over by a company with main activities in the solar cell industry, and this company wanted to secure raw materials for its own solar cell production. For several months Topsil negotiated a new long-term agreement with the new majority shareholder, and by the end of October 2005 Topsil succeeded in securing the necessary raw material supplies to service its customers throughout 2006 and part of 2007.

Topsil has now entered into a long-term agreement for the period 2007-2012, however as described elsewhere in this Prospectus, the agreement is conditioned on the provision of a guarantee. The long-term agreement should enable Topsil to continue its existing business and optimise future earnings.

At the same time, Topsil is investigating the opportunity of qualifying new suppliers which do not traditionally supply the FZ industry. However, this process requires extensive development activities over a longer period.

### **Topsil's market and customer perspectives on the FZ market (electronics)**

Topsil holds a relatively strong niche position in the FZ market. Topsil primarily acts as:

- Supplier of niche products for multinational companies in the high power market
- Supplier of niche products for specialised medium-size electronics companies

Topsil often acts as second source, since the two largest competitors (Shin-Etsu and Siltronic), with their 70-80% market share, typically operate at a cost advantage, as their production is streamlined for economies of scale. Topsil estimates its own market share at about 8% of the global market for FZ silicon.

### **Commercial strategy**

On the sales side Topsil has entered into long-term agreements with a number of strategic customers on conditions essentially reflecting Topsil's conditions under the concluded raw material agreement. For competition reasons these agreements are not described here in detail, however more than 30% of the Group's budgeted/forecasted revenue for the period 2007-2012 is based on agreements at fixed (index-linked) prices with several of the Group's central customers.

The Group has entered into customer agreements on similar terms, bringing the part of the revenue which is secured on the longer term (2007-2012) in excess of 30%.

The above commercial approach should enable Topsil to secure a basic production volume with more predictable earnings over the six-year period.

### **Topsil's market and customer perspectives in the FZ market (solar cell market)**

Topsil plans to continue its activities in the solar cell industry via continued sales to solar cell producers and via development activities with a view to applying slightly processed raw materials from a variety of different suppliers. Topsil considers it a precondition for establishing volume production of PV-FZ® that the shortage of silicon comes to an end, or that a breakthrough is made in the development project regarding new raw material suppliers.

### **Background for the issue**

Topsil's entry into a long-term supply agreement for polysilicon is conditioned on the Group providing a substantial financial guarantee to the supplier.

The board of directors has therefore resolved to raise the required capital through a Rights Issue.

### **Use of the proceeds**

The proceeds from the Rights Issue will be used solely to strengthen the Group's financial position in order to provide the required guarantee in connection with the conclusion of the raw material agreement.

### 30 Information about the securities offered or admitted for listing

#### Background for the Rights Issue

With a view to strengthening Topsil's capital resources and thereby enabling the Group to enter into long-term contracts with sub-suppliers of polysilicon, the most essential raw material in the Group's production, the Management of Topsil has resolved to increase the share capital by nominal DKK 32,762,509.25, corresponding to 131,050,037 New Shares of DKK 0.25, to a total share capital after the Rights Issue of nominal DKK 98,287,528.00, corresponding to 393,150,112 shares of DKK 0.25.

The Offering comprises 131,050,037 New Shares of DKK 0.25 each with pre-emption right for the existing shareholders, cf. the company's Articles of Association, section 3.3.

The Rights Issue is being made pursuant to Danish law.

The subscription of New Shares takes place at the ratio of 2:1, to the effect that shareholders will be entitled to subscribe 1 New Share of DKK 0.25 for each 2 Existing Shares held.

The subscription price for the New Shares is DKK 0.2625 per share of DKK 0.25.

#### Ownership

The Group's share capital prior to the Rights Issue constitutes DKK 65,525,018.50 nominal and consists of 262,100,074 shares of nominal DKK 0.25. The shares are not divided into share classes. The Group has no holding of own shares.

The number of registered shareholders in Topsil was 3,700 as per 11 September 2006, representing 64.3% of the total share capital.

In compliance with section 29 of the Danish Securities Trading Act, the following investors have notified Topsil that they hold 5% or more of the company's share capital:

#### Shareholder composition per 11 September 2006

	<u>No. shares</u>	<u>Capital DKK</u>	<u>Capital %</u>	<u>Votes %</u>
EDJ-Gruppen Bangs Gård, Torvet 21 6701 Esbjerg, Denmark	38,578,812	9,644,703	14.72	14.72
Sino-American Silicon Products Inc. 8, Industrial East Road, Sec. 2, Science-Based Industrial Park Hsin-Chu, Taiwan	13,197,108	3,299,277	5.04	5.04
Other registered shareholders	129,923,006	32,481,331	49.57	49.57
Unregistered shareholders	80,401,148	20,099,707	30.67	30.67
<b>Total</b>	<b><u>262,100,074</u></b>	<b><u>65,525,018</u></b>	<b><u>100.00</u></b>	<b><u>100.00</u></b>

#### Dividend

The New Shares are eligible for any dividend payable in respect of the 2006 financial year and shall carry the same rights as the Group's Existing Shares. A withholding tax of currently 28% is imposed

on any dividend pursuant to the rules currently in force. Dividend not claimed within five years from the due date shall be transferred to the Company's reserve fund.

**Negotiability**

In accordance with the Group's Articles of Association, attention is drawn to the fact that no restrictions will apply the transferability of the shares, and the shareholders are not under any obligation to have his/her shares redeemed.

**Liquidation surplus**

No resolution has been passed with regard to the shareholders' participation in the distribution of any liquidation surplus.

## **31 Terms and conditions for the offering**

### **Subscription amount**

The offering comprises a total of 131,050,037 New Shares of a nominal value of DKK 0.25 with pre-emption right for Topsil's existing shareholders. All amounts are settled in DKK. The shares are registered electronically at Værdipapircentralen A/S (the Danish Securities Centre), Helgeshøj Alle 61, 2630 Taastrup. The shares are placed in safe custody and may be registered by name on contacting the shareholder's own custodian bank.

### **Subscription ratio**

The Group's shareholders have pre-emption rights to the New Shares at the ratio of 2:1, to the effect that shareholders will be entitled to subscribe 1 New Share of DKK 0.25 for each 2 Existing Shares held.

### **Subscription period**

The subscription period commences on 2 October 2006 and ends on 13 October 2006, both days inclusive.

### **Subscription price**

The New Shares are offered at a price of DKK 0.2625 per share of DKK 0.25 each.

### **Allocation of Subscription Rights**

The shareholders will be granted 1 Subscription Right for each Existing Share of DKK 0.25 nominal value held. Accordingly, 2 Subscription Rights are required for the subscription of 1 New Share of DKK 0.25 nominal value.

Shareholders who are registered with the Danish Securities Centre as shareholders of the Company on 29 September 2006 at 12.30 (Danish time) shall be entitled to subscribe for the New Shares.

### **Trading in Subscription Rights**

The Subscription Rights will be traded on the Copenhagen Stock Exchange in the period from 27 September 2006 to 10 October 2006, both days inclusive.

### **Transferability of the Subscription Rights**

No restrictions shall apply to the transferability of the Subscription Rights.

### **Unexercised Subscription Rights**

In case a shareholder does not exercise his/her Subscription Rights, by trading the Subscription Rights latest by 10 October 2006 or by subscribing shares latest by 13 October 2006, the Subscription Rights shall lapse without value. The shareholder shall not be entitled to any form of compensation.

Shareholders should contact their custodian institution at which their shares are registered in order to ensure that the time limits of the individual custodian institutions are observed. It is emphasised that shareholders who do not exercise their Subscription Rights to subscribe New Shares will experience dilution of their relative ownership and voting rights in Topsil after the completion of the Rights Issue.

### **Subscription Agent**

Shareholders' instructions that they wish to exercise their Subscription Rights and subscribe for New Shares shall be given to each shareholder's custodian institution.

### **Announcement of the results of the Rights Issue**

The results of the Rights Issue are expected to be announced on the Copenhagen Stock Exchange on 20 October 2006.

### **Payment and registration with the Danish Securities Centre**

Registration of the New Shares in the investor's account with the Danish Securities Centre will take place with the temporary securities identification code (DK 00 6004 9112) against cash payment on subscription, however no later than on 13 October 2006.

### **Securities identification codes**

Topsil's shares are registered on the Copenhagen Stock Exchange under the following securities identification codes:

Existing Shares	DK 00 1027 1584
New Shares (temporary code)	DK 00 6004 9112
Subscription Rights	DK 00 6004 9385

### **Listing on the Copenhagen Stock Exchange**

The temporary securities identification code will be admitted for listing on the Copenhagen Stock Exchange. The New Shares will be merged with the Existing Shares after registration at the Danish Commerce and Companies Agency.

### **Underwriting**

This Rights Issue is underwritten in full by Gudme Raaschou Bank A/S as per 8 August 2006.

Gudme Raaschou Bank A/S has received the following binding advance commitments to subscribe, which implies that any unsubscribed shares will be sold to:

EDJ Gruppen, Bangs Gård, Torvet 21, 6701 Esbjerg, Denmark  
Sino-American Silicon Products Inc., Taiwan 8, Industrial East Road, Sec 2, Science-Based Industrial Park, Hsin-Chu, Taiwan  
Sustainable Energy Ventures, Kalkkaai 6, 100 Brussels, Belgium  
Paul Decraemer, Koningin Astridlaan 9, 9080 Lochristi, Belgium

### **Withdrawal of the Offering**

The completion of the Offering is subject to no events occurring before 22 September 2006, the last business day before dealings in Subscription Rights begin, which in the opinion of Topsil would make it inadvisable to proceed with the Offering.

### **Arranger**

The Rights Issue is arranged by Gudme Raaschou Bank A/S.

### Time schedule for the Rights Issue of Topsil

Withdrawal; latest date to withdraw the Rights Issue	22 September 2006
Trading in Subscription Rights begins Trading in old shares without Subscription Right New shares admitted to the official list	27 September 2006
Allocation at the Danish Securities Centre	29 September 2006
Subscription period begins	2 October 2006
Trading in Subscription Rights ends	10 October 2006
Subscription period ends	13 October 2006
Announcement of the results of the rights issue	20 October 2006
Rights Issue registered with the Danish Commerce and Companies Agency	20 October 2006
Expected announcement of Q3 results for Topsil	7 November 2006

#### **Pre-emption right**

Existing shareholders have pre-emption right.

Topsil's Board of Directors and Management, where such persons are shareholders in the Group, have accepted the offer to subscribe New Shares.

## **32 Listing on the Copenhagen Stock Exchange**

The New Shares are expected to be admitted for listing on the Copenhagen Stock Exchange on 27 September 2006. The shares will be registered by a temporary ISIN code until the capital increase has been finally registered at the Danish Commerce and Companies Agency, after which the shares are merged with the Group's Existing Shares and traded under one ISIN code.

### **33 Shareholders wishing to sell**

Topsil's Management and the Issuing Bank have no knowledge of shareholders wishing to sell their shares in connection with this Rights Issue.

### 34 Expenses for the Rights Issue

**Expenses:**

Fees to financial intermediary	DKK	656,000
Provision of guarantee	DKK	776,000
Fees to legal advisers and auditors	DKK	500,000
Printing, layout and posting	DKK	75,000
Other expenses	DKK	150,000

**Total expenses** **DKK 2,157,000**

The net proceeds after costs constitute DKK 32,243,634.71. Expenses in connection with the Rights Issue exceeding the nominal value of the Rights Issue of 32,762,509.25, shall be paid from Topsil's current operations.

## **35 Dilution**

For shareholders exercising their pre-emption right to subscribe New Shares there will be no dilution of their relative shareholding in the Group.

Shareholders who do not exercise their Subscription Rights will experience dilution of their shareholding of up to 33.3%.

## **36 Further information**

For further information reference is made to the Group's website: [www.topsil.com](http://www.topsil.com).

The arranger of the Rights Issue can be contacted at the below address:

Gudme Raaschou Bank A/S  
Kalvebod Brygge 43  
1560 København V  
Tel. +45 3344 9000  
[www.gr.dk](http://www.gr.dk).

Issuing Bank

Nordea Bank Danmark A/S  
Issuer Services HH  
Postboks 850  
0900 Copenhagen C

### **Tax implications of Subscription Rights**

Reference is made to the Group's website: [www.topsil.com](http://www.topsil.com) – the 'Investor Relations' menu for information on the tax implications of purchase and sale of the Subscription Rights.

### **Announcements to the Copenhagen Stock Exchange 2006**

12.01 Financial calendar 2006  
06.03 Raw materials and revised outlook for 2005  
14.03 Notification concerning the 2005 financial results  
10.04 Insider transaction  
12.04 Warrant and bonus schemes to the CEO  
12.04 Annual report 2005  
12.04 Annual General Meeting  
12.04 Insider transaction  
25.04 Change in management  
25.04 Summary Annual General Meeting 2006  
10.05 Quarterly report, 1st quarter 2006  
10.05 Updated financial calendar 2006  
17.05 Insider transaction  
07.08 Warrant and bonus schemes to the management  
07.08 Bonus schemes to the management - correction  
11.08 Long-term agreement for polysilicon / issue of shares  
29.08 Interim report 2006

Binding offer to subscribe to New Shares in Topsil Semiconductor Materials A/S

*(only one subscription form per subscriber)*

Offering:	131,050,037 New Shares of DKK 0.25 nominal	
Subscription price:	The shares are offered at a fixed price of DKK 0.2625 per share of DKK 0.25 nominal	
Trading in Subscription Rights:	27 September 2006 – 10 October 2006	
Subscription period:	2 October 2006 – 13 October 2006 at 16.00 both days inclusive	
First trading day:	27 September 2006	
Payment for and delivery of the shares:	Registration of the awarded shares at the Danish Securities Centre takes place against cash payment according to the note submitted. The New Shares may be registered by name in the Group's register of shareholders.	
ISIN code:	Existing shares:	DK 00 1027 1584
	New Shares (temporary code)	DK 00 6004 9112
	Subscription Rights	DK 00 6004 9385
Issuing bank:	Gudme Raaschou Bank A/S	

Shareholders or investors subscribing to New Shares in Topsil at the Subscription price may acquire Subscription Rights and exercise these for the subscription of New Shares, or commit themselves to subscribe to New Shares by the enclosed Subscription form. Only shareholders and investors acquiring or exercising Subscription Rights are guaranteed allotment of New Shares in Topsil in connection with the Rights Issue, and only in case the Rights Issue is completed. Subscription to New Shares may take place only on the basis of the Prospectus dated 18 September 2006.

After the expiry of the Subscription period, or at withdrawal of the Rights Issue, the Subscription Rights shall lapse without value for both shareholders and investors who may have acquired such Subscription Rights.

The Subscription form shall be completed and submitted to the shareholder's own custodian bank (financial institution).

## Binding commitment

On the terms stipulated in the Prospectus dated 18 September 2006 I/we hereby commit myself/ourselves to subscribe to New Shares in Topsil. 2006 I/we hereby commit myself/ourselves to pay the equivalent value of the allotted shares at the Subscription price. Field (1) or (2) to be completed.
I/we wish to subscribe for DKK (1) _____ or (2) New Shares _____
I/we hold _____ Subscription Rights for the subscription of New shares

## Details and signature

CPR/CVR:	Danish Securities Centre – custodian bank:
Name:	Danish Securities Centre – account No.:
Address:	Account with financial institution for settlement:
Postal code and city:	Reg. No.:
Telephone:	Account No.:
Date:	In (financial institution)
Signature:	Registered by name in the Group's register of shareholders, tick box:

## To be completed by the custodian bank

Reg. No.:
CD-ident.:
Stamp and signature: