

TOPSIL UPDATE

Q2 2014

Jyske Bank 27 August 2014

AGENDA

- **Q2 2014 highlights**
 - Strategy
 - Claim issue
- Financial Performance Q2
- Expectations for 2014

MARKET EXPECTATIONS UNCHANGED

MARKET DEVELOPMENT

- Price pressure retained (SEMI, Yole).
- Yole Developpement: Growth forecast for the power market unchanged in the range of 3-8% in 2014 in terms of value.
- SEMI: Volume growth on industry sales of silicon wafers, 9.6% in H1 2014 compared to corresponding period of 2013.
- Other sources (Gartner, WSTS, SEMICO) continue to expect volume growth 2014, SEMICO expects about 7%.

REVENUE AND EARNINGS DEVELOPMENT

HIGHLIGHTS OF THE QUARTER

- Revenue DKK 65.3m Q2 against DKK 87.3m Q2 2013. Revenue adversely affected by claim issue. Q2 2013 was positively affected by silicon sales to a number of one-off projects.
- Contribution margin 42.3% against 48.7% Q2 2013. Margin adversely affected by decline in sales, changes in sales mix and extra irradiation expenditure.
- Other external costs and staff costs up by DKK 1.8 million compared to Q2 2013. Increase mainly related to additional production staff and costs related to the establishment and operation of sales office in Japan.
- EBITDA loss of DKK 5.0m against profit of DKK 11.6m Q2 2013.
- Net working capital stood at DKK 136.1m, reduction of DKK 19.5 compared to 30 June 2013.
- Positive cash flows from operating activities DKK 7.3m Q2 2014 compared to negative cash flows of 9.1m Q2 2013. Cash flows for investing activities were DKK 2.6 million, a reduction of DKK 3.4m compared to corresponding period of 2013.
- Agreement signed with principal bankers.
- Guidance for year unchanged from profit warning of 3 July 2014: Revenue in the range of DKK 270-290m, EBITDA in the range of DKK 0-10m.

CHANGE OF SALES MANAGEMENT

- Michael Lisby Jensen (1972)
- B.Sc. in engineering, BBA in Business Administration, MBA (CBS)
- Impressive track record in managing B2B sales organisations, delivering strong results in challenging market conditions
- Global Marketing management, Key accounts, Product management
- GN Netcom A/S (2003-2014)
- Glunz & Jensen A/S (1997-2003)
- Danfoss A/S (1995-1997)



EVENTS IN QUARTER

Four key points:

- **STRENGTHEN POSITION IN HIGH AND MEDIUM POWER, ESPECIALLY PFZ AND NEXT GENERATION WAFERS (200 MM)**
- **EXPAND POSITION IN JAPAN AND CHINA**
- **REDUCE WORKING CAPITAL AND INCREASE CASH FLOWS FROM OPERATIONS**
- **INCREASE CAPACITY AND ENHANCE PRODUCTION EFFICIENCY**

– Strategy:

- Next version of 150mm products released for customer qualification. Products built on the 200mm platform – supporting a more efficient production process at Topsil and featuring better technical specifications.
- Japan: Next generation silicon wafers (200mm float zone) qualified by a large, potential customer in the automation industry.
- Framework agreement China: Order received in line with plans for 200mm float zone wafers to be used for qualification of customer's new production facility.
- Efficiency enhancement activities proceeded according to plan, expected to have favourable impact on production costs for silicon wafers
- Production at the former production facility expectedly to be closed down early Q4 2014 and facility vacated by the end of the year.

CUSTOMER CLAIM UPDATE

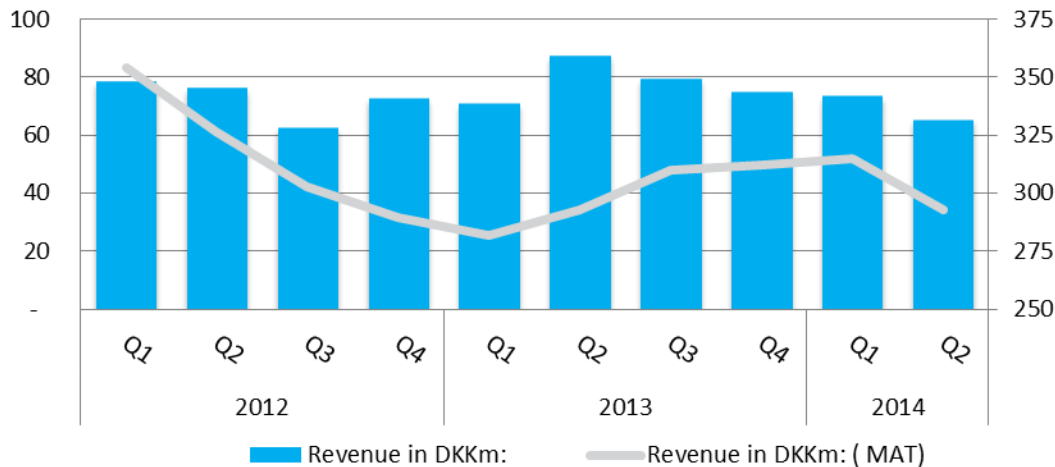
- Q2 performance affected by complaint from major customer. Temporary suspension of all silicon supplies until defect identified and problem solved.
- Technical investigation nearing its completion. Topsil believes that the defect arose in connection with substantial, unapproved process changes launched by Topsil's sub contractor. The sub contractor has not confirmed this. Topsil foresees an obligation to supply a full amount of replacement wafers, prior to reopening ordinary supplies of wafers to customer.
- Shipment of replacement wafers to customer has begun after balance sheet date.
- Topsil's own costs for investigating customer complaint are recognised in other external costs for the quarter. No provisions has been made for any compensation that may become payable to the customer, as Topsil maintains that the defect arose at the sub contractor. The questions regarding compensation and clarification of legal liability are pending.

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REVENUE Q2

Revenue in DKKm:



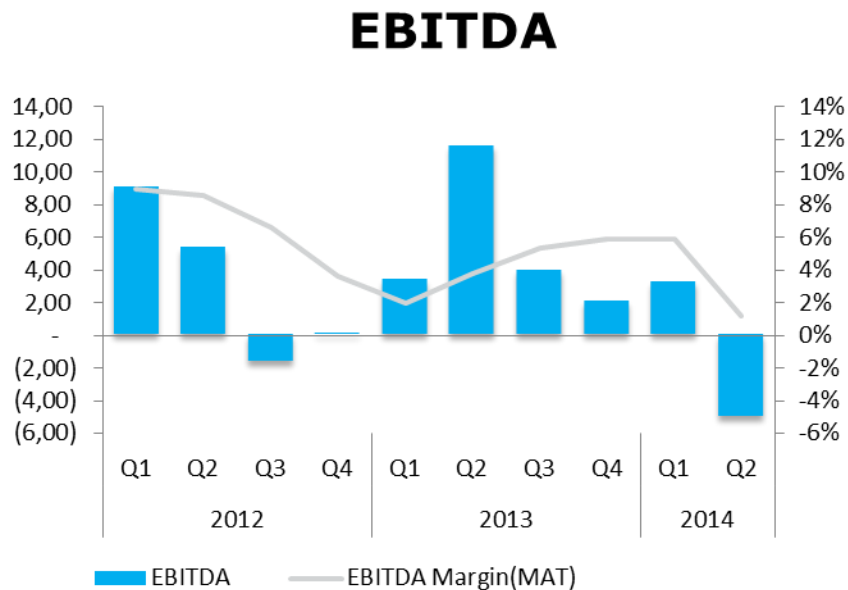
Revenue development

- Q2 2014: DKK 65.3m (down by 25.2%).
- H1 2014: : DKK 138.7m (H12013 DKK 158.0m).

Revenue negatively impacted by customer claim.

Q2 2013 positively affected by number of one-off projects

EBITDA MARGIN Q2



- **Contribution margin 42.3% Q2 (Q2 2013: 48.7%)**
 - Lower sales
 - Product mix
 - Additional irradiation costs

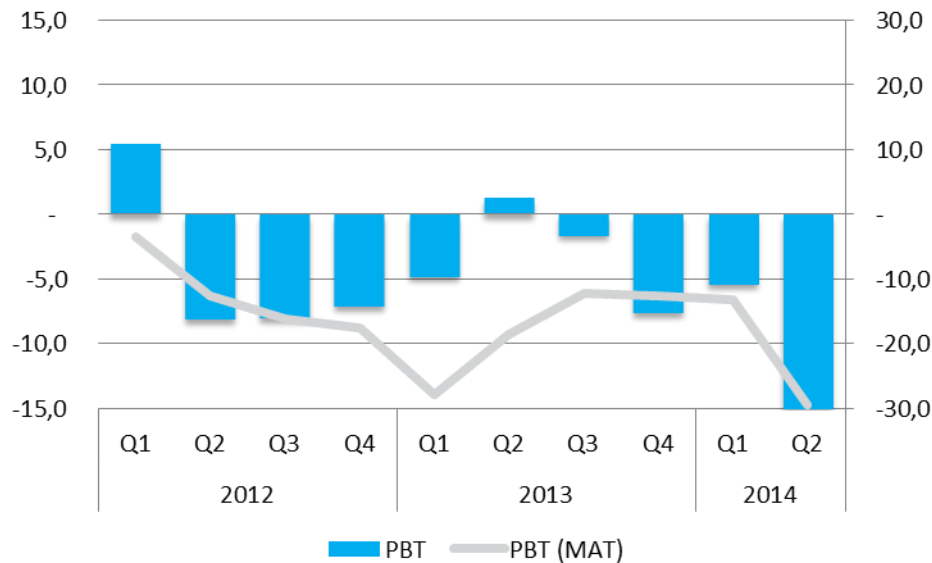
- **Fixed costs increased by DKK 1.8m Q2 compared to Q2 2013**
 - Additional production staff
 - Japan sales office
 - Cost related to claim handling

- **Consolidated Q2 EBITDA of DKK (5.0)m (Q2 2013 DKK 11.6m)**
 - EBITDA-margin of (7.7)% (Q2 2013: 13.3%)

- **H1 EBITDA of DKK (1.8)m (H1 2013 DKK 15.0m)**

PROFIT BEFORE TAX

PBT in DKKm



– **Depreciations at DKK 7.3m (DKK 6.8m)**

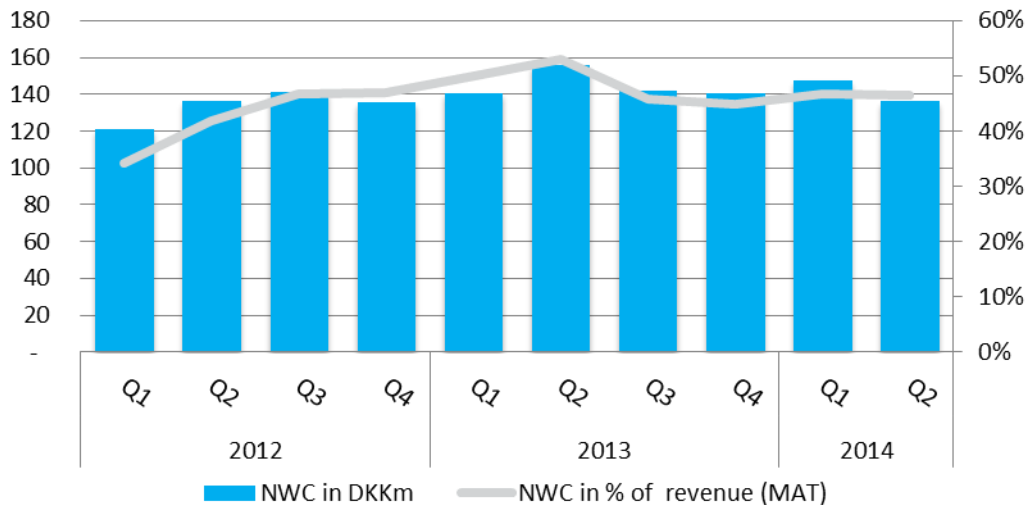
- New production equipment depreciated from 1 September 2013.

– **Net financials at DKK (2.6)m (DKK (3.4)m).**

– **Loss after tax DKK 12.4m. (Profit of DKK 0.1m Q2 2013).**

NET WORKING CAPITAL

Net Working Capital



– **Net working capital (NWC) DKK 136.1m, representing an decline of DKK 19.5m vs. corresponding period 2013**

- Inventories DKK 154.3m, up DKK 11.3m (+8%) vs. end of Q2 2013.
 - Purchasing obligations
 - Lower sales in quarter
 - Change in transporting procedures to reduce cost
- Accounts receivables DKK 36.1m, down by DKK 29.3m vs. end of Q2 2013.
- Accounts payables DKK 39.9m, increased DKK 3.1m vs. end of Q2 2013.

CASH FLOW DEVELOPMENT

Cash flow in DKKm



- Net interest bearing debts down by DKK 2.5m in quarter ending at 171.1m, at level with the corresponding period of 2013.
- Cash flow from operations (CFFO) totaling DKK 7.3m in Q2 (Q2 2013: DKK (9.1)m).
- CAPEX driven by investments in production equipment DKK 2.0m and in development projects of DKK 0.6m. (Q2 2013: DKK 6.0m)
- Agreement with principal bankers:
 - Additional collateral
 - Margin increase on total loan facilities +1.3% points
 - Renegotiation 1 March 2015 as part of ordinary loan facility review

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EXPECTATIONS FOR 2014

Unchanged guidance from profit warning 3 July 2014: Revenue in the range of DKK 270-290 million and EBITDA in the range of DKK 0-10 million.

The guidance includes temporary costs of operating at two locations in Denmark and one-off costs related to the planned move of all production to the new plant and closure of the old plant. These costs are estimated to be in the region of DKK 5 million. The guidance does not include potential customer compensation costs related to the complaint.

The updated guidance for the full year is subject to significantly greater uncertainty than would normally be the case. The technical analyses in connection with the customer complaint have not yet been completed, and the issue of compensation has not been clarified with the sub contractor. Moreover, there is as yet no full clarity with respect to the total costs relating to the complaint, when normal sales to the customer can be resumed, or other risks related to the matter.

The guidance is based on exchange rates of DKK 550/USD 100 and DKK 180/PLN 100..

DISCLAIMER: This presentation includes forward-looking statements reflecting management's current expectations for certain future events and financial performance. Forward-looking statements are inherently subject to uncertainties, and results may differ significant from expectations. Factors that may cause the actual results to differ from expectations includes, but are not limited to, developments in the economy and financial markets, changes in the silicon market, market acceptance of new products and the introduction of competing products. Topsisil is only obliged to update and adjust the expectations if so required by Danish legislation and the Danish law on securities trading, etc.

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