

TOPSIL ANNUAL REPORT 2014

Jyske Bank 25 March 2015

AGENDA

- **2014 highlights**
- Market update
- Strategy update
- Customer claim
- Financial Performance 2014
- Expectations for 2015

A DIFFICULT YEAR – BUT POTENTIAL IS INTACT

FINANCIAL RESULTS NOT SATISFACTORY

- Revenue was DKK 272.3m in 2014 (2013: DKK 312.1m), a 13% decline.
- The contribution ratio was 48.1% in 2014, a year-on-year improvement of 1.8 percentage point.
- EBITDA was a loss of DKK 9.4m in 2014 (2013: a profit of DKK 21.0m). The lower EBITDA was mainly a consequence of the complaint case and one-off costs. It is estimated that the complaint case reduced EBITDA by approximately DKK 30m.
- Working capital was DKK 118.6m at 31 December 2014, down DKK 21.5m vs. 2013. Cash outflow from operating activities of DKK 6.3m in 2014 (2013: inflow of DKK 18.3m).
- 2014 was a year with many positive results in terms of product launches, optimisation of production, and new important framework agreements on the Asian market. The growth platform was strengthened and in the coming three-year strategy period, efforts will be even more focused on efficiency improvements and on a less complex business approach. Moreover, we will investigate the possibilities of forming strategic partnerships to strengthen our supply chain and sales efforts.

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MARKET EXPECTATIONS MORE POSITIVE

General:

- Continued price pressure: Weak yen and overcapacity in the market.

2014 (Yole Developpement):

- Demand in the power market grew by approx. 10% in terms of volumes
- Continued price pressure, estimated to be 8-10%
- Overall growth rate was approx. 1% against a decline of approx. 4% in 2013

Outlook 2015 (Yole Developpement):

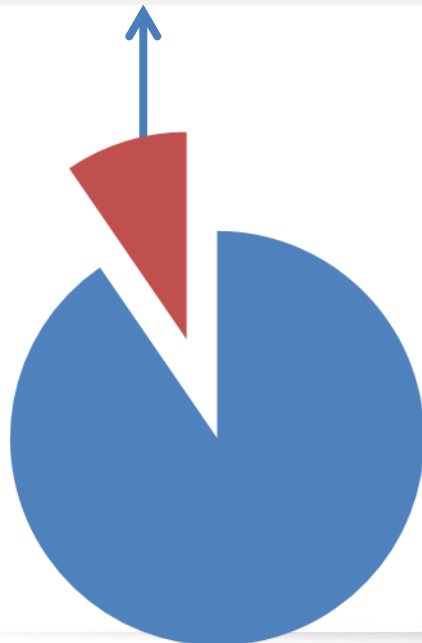
- Volume growth and falling price pressure
- Highest growth rates are expected in the medium-voltage (FZ-PFZ) and the high-voltage (FZ-NTD) segments

POWER MARKET, MARKET SIZE 2012 - 2016

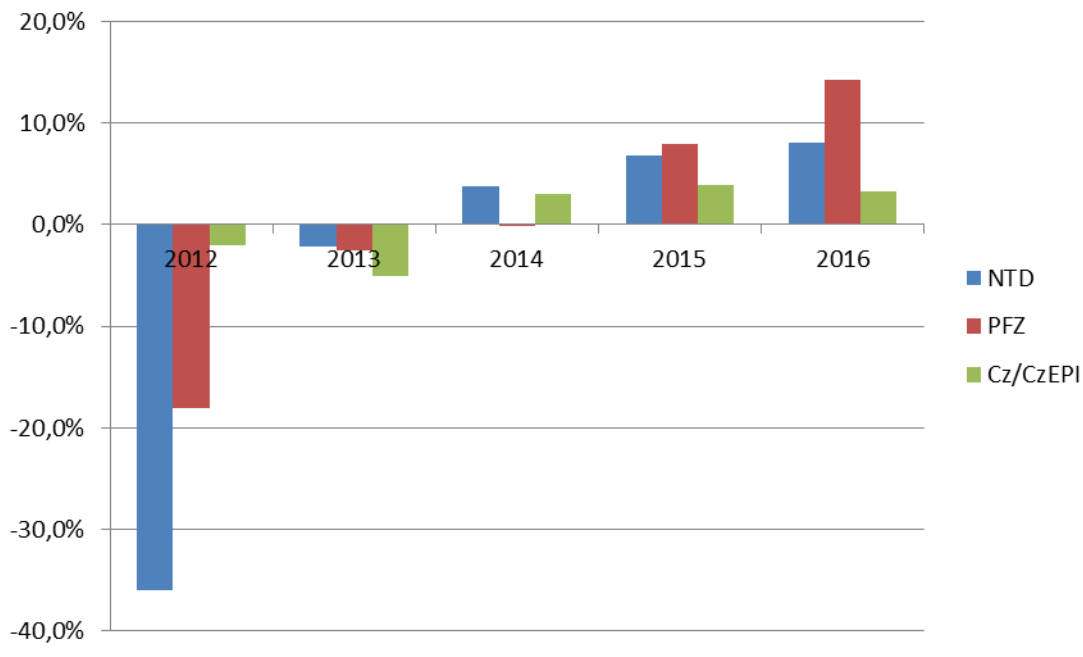
The aggregated silicon market worth around USD 10 billion in 2014.

The power market accounted for about 10% of this market. Main substrates are NTD, PFZ and CZ/CZ-EPI.

Sources: SEMI, Yole Developpement, March 2015



Estimated market growth, power market YoY, 2012-2016



Source: Yole Developpement, March 2015

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STRATEGY UPDATE, EXECUTING ON OPPORTUNITIES

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**

In line with our strategy, our growth platform was strengthened in 2014:

- New technically improved products were launched and qualified at customers (next version 150 mm & 200 mm FZ wafers)
- In the Japanese market, an agreement was signed with a Japanese partner for sales and marketing development
- In China framework agreements with two large customers have been signed.
- The efficiency measures started up in production led to a higher rate of utilisation of raw materials and resources. Topsil's target of reducing the average variable cost per wafer by a minimum of 15% during the strategy period has now been achieved.
- Production in Denmark was moved to a single site at the new plant at the end of 2014.
- New sales management in place, which led to a number of sales supporting initiatives in 2014 and 2015 to grow sales on the price-focused power market.

Topsil intends to adjust and further develop its current strategy, aiming to achieve a substantially higher level of earnings, reduce relative working capital and strengthen the capital base. We will continue our relentless efforts to make the business more efficient and less complex. Moreover, we will seek to increase earnings by intensifying focus, and we will investigate the potential of further strengthening supply chain and sales efforts through strategic partnerships.

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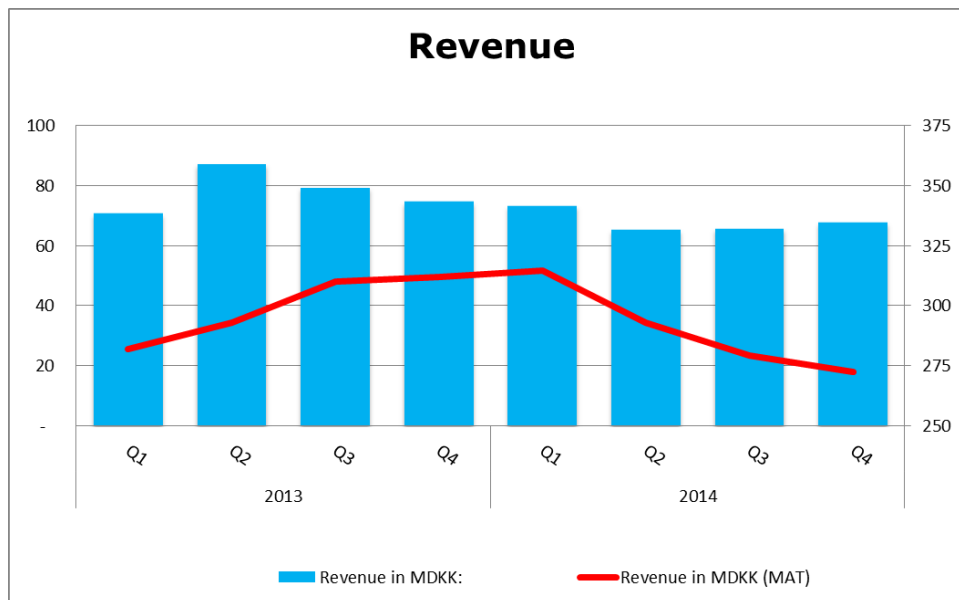
CUSTOMER CLAIM UPDATE

- In Q1 2014, Topsil received a complaint from one of its biggest customers.
- The defect was identified at a third-party contractor following extensive analysis. As a consequence of this case, Topsil has further tightened up its supplier management, including specific measures agreed with the third-party contractor in question.
- Topsil and the customer in question reached an agreement in February 2015 to resume deliveries. The customer's minimum purchase obligations under the existing long-term contract will be distributed over 2015 and 2016 to support a carefully monitored start-up phase. Deliveries are expected to start up in 1. half of 2015.
- It is estimated that the complaint case reduced EBITDA by approximately DKK 30m in 2014.
- Negotiations regarding compensation from third-party contractor not completed.

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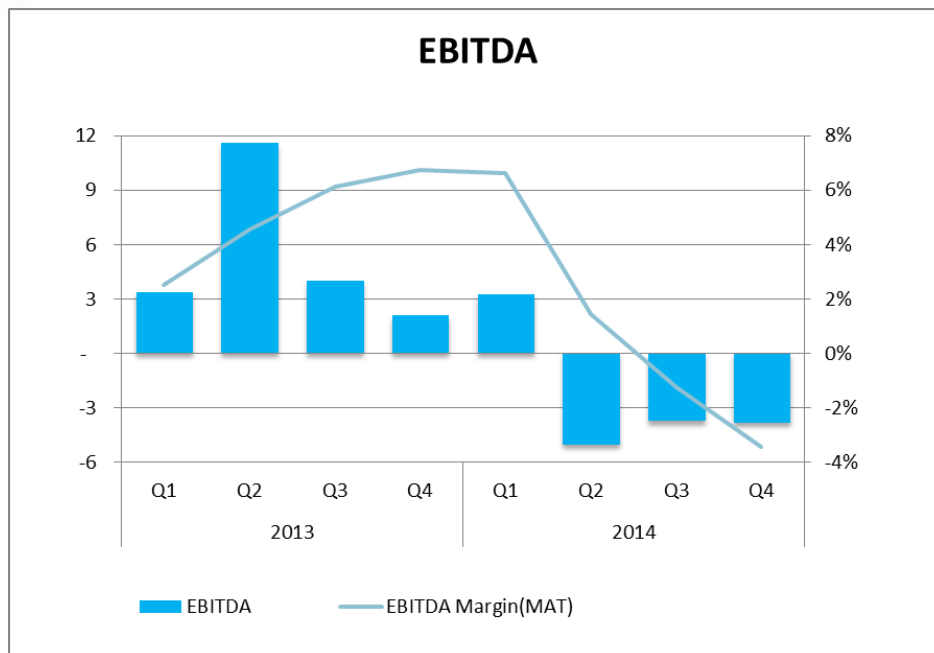
REVENUE



— Revenue development

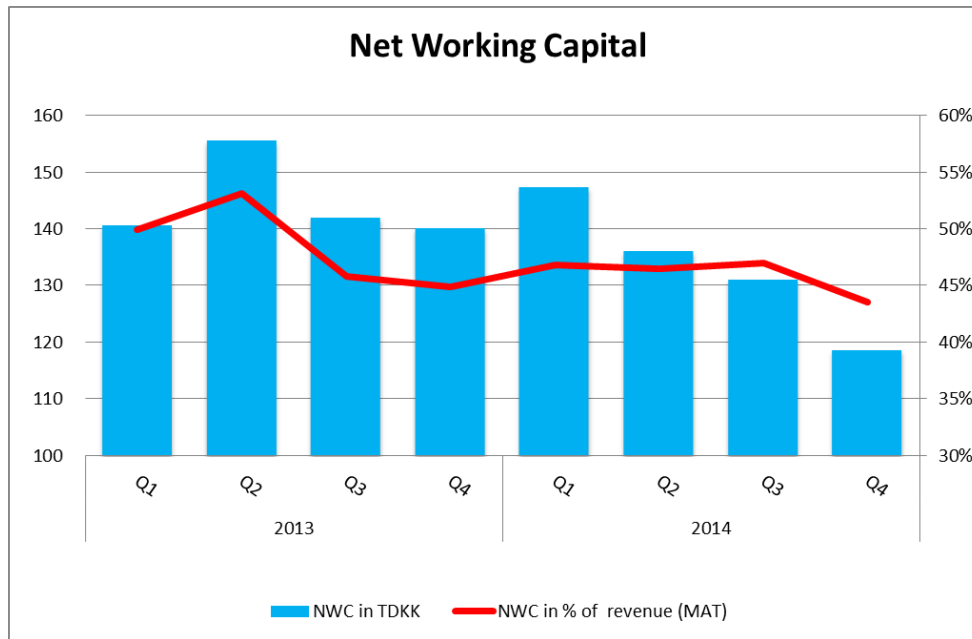
- Q4 2014: DKK 67.8m (2013 74.7m)
 - 2014: DKK 272.3m (DKK 312.1m)
- Revenue negatively impacted by customer claim
- In addition, prices were squeezed due to the continuing surplus capacity in the industry and the weak Japanese yen

TOPSIL'S 2014 RESULT WERE NOT SATIS FACTORY



- **Contribution margin 48.1 % in 2014 (2013: 46.3%)**
 - Product mix, production efficiency partly offset by price pressure
- **Fixed costs increased by DKK 16.8m in 2014**
 - Costs inclusive of costs related to complaint issue at the level of DKK 12m
 - One-off cost related to transfer and provision for severance pay for former Sales Director
 - Reduction of 15 non-production employees in January 2015
- **Consolidated EBITDA of DKK (9.4)m (2013: DKK 21.0m)**
 - Complaint case estimated EBITDA effect of appr. DKK 30m
- **Depreciations at DKK 29.3m vs. DKK 27.4 in 2013**
 - Full year effect of new plant and machinery
 - 200 mm development project completed in Q3 2014, depreciations initiated
- **Net financials at DKK (10.9)m (DKK 6.3m).**
 - Capitalized interest in 2014 DKK 0.0m (2013: DKK 2.1m)
- **Loss after tax DKK 42.0m (Loss of DKK 9.8m in 2013)**

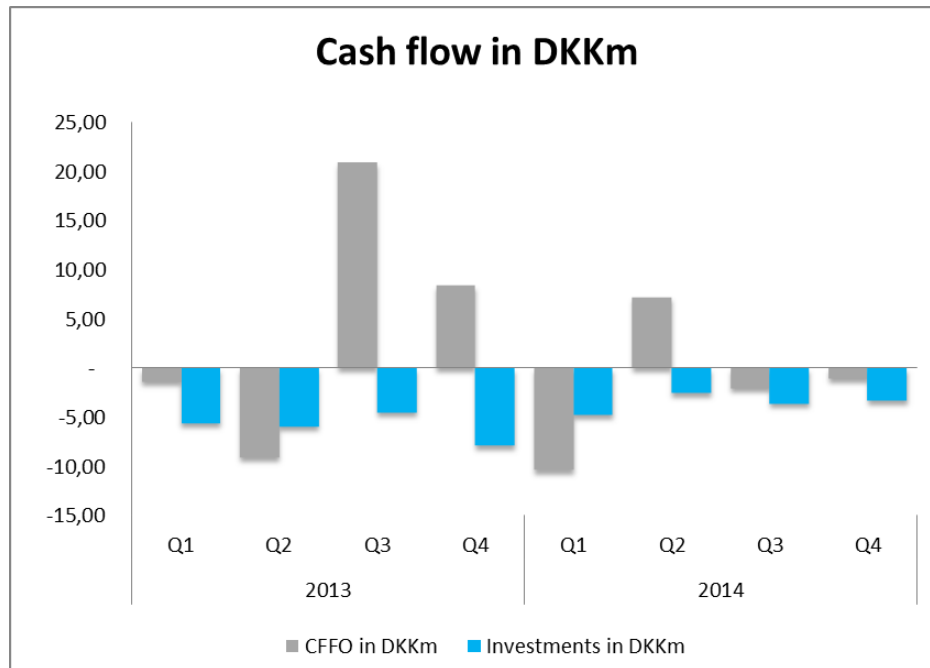
NET WORKING CAPITAL



– **Net working capital (NWC) DKK 118.6m, representing a decline of DKK 21.5m vs. 2013**

- Inventories DKK 156.1m, up DKK 11.7m vs. end of 2013, in line with expectations
 - Purchase commitments
 - Change of transport procedure
 - Shortfall of sales
- Trade receivables DKK 33.9m, down by DKK 12.5m vs. end of 2013 as a result of lower sales and accelerating the collecting
- Other payables DKK 33.2m, up DKK 17.7m, increase amongst other due to liability towards customer in customer complaint, provision for change in sales management

CASH FLOW DEVELOPMENT



- Cash flow from operations (CFFO) totaling an outflow of DKK 6.3m in 2014 (2013: inflow of DKK 18.3m).
- CAPEX driven by investments in production equipment DKK 8.8m and in development projects of DKK 5.5m. (2013: DKK 24.1m)
- Net interest bearing debts up by DKK 22.1m in 2014 ending at 180.6m.
- Agreement with principal bankers renewed, existing facilities extended until 1 March 2016.

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EXPECTATIONS FOR 2015

In 2015, Topsil expects revenue growth of around 0-5% and an EBITDA of 10-20 million kr.

Based on the strategic growth initiatives, the positive trend in the market and a gradual resumption of deliveries to the customer affected by the complaint, Topsil expects revenue to grow in 2015. The highest growth rates are expected in Asia, especially in the market for silicon products for the medium-voltage segment (FZ-PFZ).

The underlying volume growth will be somewhat higher, but prices are expected to remain squeezed as the surplus capacity in the market continues. However, the lower selling prices are expected to be offset by efficiency improvements and cost reductions.

The guidance is based on exchange rates of DKK 650/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. Topsil 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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