pv crystalox solar

PV Crystalox Solar PLC Annual Report and Accounts 2011

The key to solar power

PV Crystalox Solar has navigated a very difficult 2011, which was a very challenging year for the PV industry. Worldwide production capacity continued to increase dramatically, particularly from companies in China, which led to sharp falls in pricing across the PV value chain and drove wafer sales prices below production costs.

The Board has taken action to manage the business through these difficult times and in particular to conserve the Group's cash. Production output was significantly reduced at our ingot and wafer operations in the United Kingdom and Germany and polysilicon production was suspended at our facility in Germany.

Market overview

- 2011 global module installations estimated at 27.7GW up 70% from 2010
- Unprecedented wafer spot pricing reduction of 69% during 2011

Overview of results

- Wafer shipments 384MW (2010: 378MW)
- Revenues €210.4m (2010: €252.6m)
- EBIT before exceptional items of €4.1m (2010: €33.3m)
  - Exceptional impairment of plant of €27.9m
  - Exceptional inventory writedown of €22.8m
  - Exceptional onerous contract charge and provisions of €20.9m
- EBIT loss of €67.5m (2010: profit of €33.3m)
- EBT loss of €67.1m (2010: profit of €33.7m)
- Net cash €22.6m (2010: €54.8m)

Revenues
€210.4m
2010: €252.6m

EBIT (earnings before interest and taxation) before exceptional items
€4.1m
2010: €33.3m

Operating cash flow
€1.6m
2010: €11.3m

Net cash (cash less external loans)
€22.6m
2010: €54.8m

Contents

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The directors submit to the members their Annual Report and Accounts of the Group for the year ended 31 December 2011. Pages 4 to 40, including the Chairman's Statement, Operational Review, Financial Review, Directors, Directors' Report, Principal Risks and Uncertainties, Corporate Social Responsibility, Corporate Governance Statement, Directors' Remuneration Report and the Statement of Directors' Responsibilities form part of the Report of the Directors.

Who we are:

PV Crystalox Solar is a leading supplier to the world's major photovoltaic companies, producing multicrystalline silicon wafers for use in solar electricity generation systems.

Our customers, the world's leading solar cell producers, process these wafers into solar modules to harness the clean, silent and renewable power from the sun. We are playing a central role in making solar power cost competitive with conventional hydrocarbon power generation and, as such, continue to seek to drive down the cost of production whilst increasing solar cell efficiency.

20 years
Manufacturing experience in the PV industry

750 MW
2012 production capacity

How we operate:

PV Crystalox Solar focuses on the first three segments of the PV value chain. Our extensive experience in these areas gives us international recognition as a leading multicrystalline silicon wafer manufacturer.

1 Solar grade polysilicon production

- PV Crystalox Solar operates its in-house polysilicon production plant in Bitterfeld – the heart of Germany's solar valley
- The facility is unique in Europe, being the first to use modifications to the established Siemens process, where operations have been optimised for the exclusive production of solar grade polysilicon

2 Ingot production

- The Group's ingot production facilities are based in Oxfordshire, UK, where four production plants are in operation
- Multicrystalline silicon ingots are directionally solidified, under carefully controlled conditions, from molten, high-purity polysilicon, in production systems designed and manufactured by Crystalox Limited
- Continual innovation and development ensures PV Crystalox Solar's leadership in the manufacture of superior quality silicon ingots

Leading through experience and continual innovation

PV Crystalox Solar focuses on the first three major stages concerned with silicon processing technologies, areas in which we possess extensive expertise and experience.

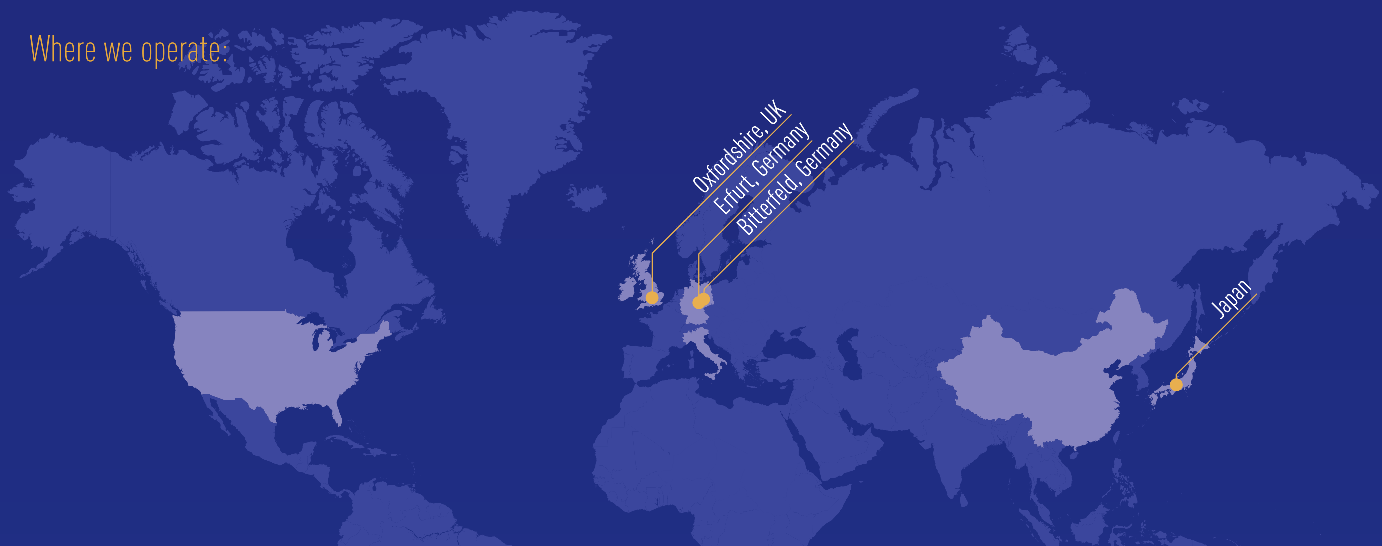
Externally supplied raw materials

PV Crystalox Solar Silicon GmbH
Bitterfeld, Germany

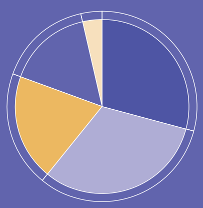
Crystalox Limited
Abingdon, UK

Externally supplied polysilicon

Where we operate:

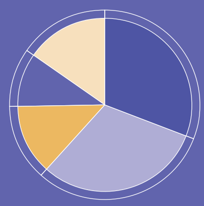


Geographical sales profile 2011 (%)



Japan	29.2
China	31.9
Rest of the world	19.6
Germany	15.9
USA	3.4

Geographical sales profile 2010 (%)



Japan	31.1
China	30.7
Rest of the world	13.1
Germany	9.8
USA	15.3

3 Block production

- The sectioning of ingots into blocks is carried out at the Group's facilities in the United Kingdom and by PV Crystalox Solar's partners in Japan
- Quality checks are carried out throughout ingot and block production resulting in consistent, high performance multicrystalline wafers

4 Wafer production

- Wafering of the blocks takes place at the Group's wafering facility, PV Silicon in Erfurt, Germany, and in Japan by our wafering subcontractors
- Wafers are manufactured to meet the highest standards

5 External sales

- PV Crystalox Solar supplies multicrystalline silicon wafers to major PV companies in Europe and Asia from its wafering facilities in Germany and Japan. From these strategic locations, PV Crystalox Solar collaborates closely with its customers to ensure standards are maintained and that any technological developments are passed on quickly

Crystalox Limited
Abingdon, UK

PV Silicon GmbH
Erfurt, Germany

Crystalox Limited
Abingdon, UK

PV Silicon GmbH
Erfurt, Germany

PV Crystalox
Solar KK
Tokyo, Japan

Japanese subcontractors

Japanese subcontractors

Chairman's statement

> **"We remain committed to the solar industry and believe that the long-term outlook for solar installations remains positive. In the medium-term we expect that market conditions will return to levels that allow companies to operate profitably."**

Summary of Chairman's Statement

- PV Crystalox Solar has navigated a very difficult 2011, which was a very challenging year for the PV industry.
- Sharp falls in pricing across the PV value chain drove wafer sales prices below production costs.
- The Board has taken action to manage the business through these difficult times and in particular to conserve the Group's cash.
- The Board will continue to take the decisions necessary to maximise shareholder value.

PV Crystalox Solar has navigated a very difficult 2011, which was a very challenging year for the PV industry. Worldwide production capacity continued to increase dramatically, particularly from companies in China, which led to sharp falls in pricing across the PV value chain and drove wafer sales prices below production costs.

Despite the problems faced by the industry during 2011, growth in the global PV market was significantly above industry expectations, with strong demand in the second half of the year driven by the 40% fall in module prices and the continuing market incentive programmes in Europe. The European Photovoltaic Industry Association ("EPIA") estimates that global installations grew to around 27.7GW in 2011, which represents a 70% increase over the previous year.

In response to the challenging market environment, the Board has taken action to manage the business through these difficult times and in particular to conserve the Group's cash. Production output was significantly reduced at our ingot and wafer operations in the United Kingdom and Germany and polysilicon production was suspended at our facility in Germany.

Employment costs were reduced through the introduction of short-time working, a reduction in the number of temporary workers in Germany and, regrettably, redundancies in the United Kingdom.

The Group's shipment volumes of 384MW in 2011 were slightly above the 378MW achieved in 2010. However, Group revenue was 17% lower at €210.4 million due to the effect of lower average selling prices which impacted profitability leading to earnings before interest and taxes ("EBIT"), before exceptional items, of €4.1 million, representing a margin of 1.9%. As a result of the dramatic reduction in wafer and polysilicon spot prices and the challenging market environment, the Group recognised exceptional charges of €71.6 million in 2011. These comprised: a €27.9 million impairment charge in relation to the Group's polysilicon facility at Bitterfeld; a €22.9 million inventory writedown; and a €20.9 million writedown in relation to onerous contracts with our external suppliers. Once these exceptional items are taken into account, total EBIT loss was €67.5 million for the year.

Maarten Henderson

The loss after taxes was €60.9 million, equating to a loss per share of 15.0 Euro cents. The Group retained a positive net cash position of €22.6 million at the year end.

In view of the current challenging market conditions that continue to be experienced in the first three months of 2012, the Board has decided not to declare a dividend. The Board continues to recognise the importance of dividends to shareholders and the directors will review the potential to reinstate dividends based on the future performance and prospects of the Group.

We remain committed to the solar industry and believe that the long-term outlook for solar installations remains positive. In the medium-term we expect that market conditions will return to levels that allow companies to operate profitably.

In parallel the Group will accelerate its cost reduction programmes and continue its cash conservation strategy, whilst preserving the Group's operational capabilities. The Board will continue to take the decisions necessary to maximise shareholder value.

Maarten Henderson
Chairman
27 March 2012

"The Group will accelerate its cost reduction programmes and continue its cash conservation strategy, whilst preserving the Group's operational capabilities."

Operational review

> **"2011 has been an extremely challenging year for the global PV industry. We believe that our cash conservation measures and internal cost reduction programme are the most appropriate approaches to protect shareholder value in the current turbulent environment."**

Summary of Operational Review

- Our wafer shipment volumes of 384MW in 2011 were marginally above 2010.
- Fierce price competition resulted in the market pricing falling below our production costs in the second half of the year.
- Overall global PV installations grew by 70% in 2011 to reach 27.7GW.

Summary

PV market conditions in 2011 were extremely challenging, with a combination of increasing industry production capacity and high inventory levels leading to pressure on pricing, which grew in intensity as the year progressed.

Our wafer shipment volumes of 384MW in 2011 were marginally above the 378MW achieved in 2010. Although our long-term wafer supply contracts provided some protection from the worst of the market pressures, average sales prices ("ASPs") fell by 18% and adversely impacted our margins. Fierce price competition resulted in the market pricing falling below our production costs in the second half of the year and has resulted in inventory writedowns, onerous contract provisions and impairment of assets.

The Group has responded to market oversupply and lower selling prices by adopting a cash conservation strategy. Accordingly, in December 2011 production was suspended at our polysilicon facility in Bitterfeld and production output was significantly reduced at our United Kingdom ingot and German wafer operations.

Market

Overall global PV installations grew by 70% in 2011 to reach 27.7GW according to the European Photovoltaic Industry Association ("EPIA"), with Europe continuing to be the major market and accounting for 75% of the installed capacity.

PV end-market demand was sluggish in the first half of the year, particularly in the two key markets of Germany and Italy. PV installations in Germany, hitherto the largest global market, were only around half the level installed in the same period in 2010. In Italy, uncertainty due to delays in finalising revisions to feed in tariffs ("FIT") froze demand during the first half of the year.

In the second half both markets rebounded strongly, stimulated by lower pricing, and showed remarkable growth with Germany installing 3.0GW in December alone to reach a full year total of 7.5GW, slightly above the 2010 level. Italy overtook Germany to become the largest market with installations of 9.0GW in 2011.

The turbulent times in the PV industry have created difficulties for many PV companies as market prices for cells and modules also fell below production costs. Spot prices across the value chain remained stable until April 2011 but had fallen by 40% for modules, 69% for wafers and 59% for polysilicon by the year end. The turmoil has taken its toll on PV companies both in Europe and in the USA, with several filing for bankruptcy including SpectraWatt, one of our long-term contract customers in a key strategic market.

Operational review of 2011

In light of the weak pricing environment, in October the Board decided to take action to conserve the Group's cash. Accordingly

Dr Iain Dorrity

the Group reduced production output at its United Kingdom ingot and German wafer operations and also suspended production temporarily at its polysilicon facility in Bitterfeld, Germany. Regrettably, these actions led to redundancies in the United Kingdom, short-time working in Germany and a reduction in temporary workers in both countries. In addition, the Group continued to have discussions with its suppliers in order to reduce costs and will continue to seek further methods of achieving greater efficiencies within the Group's operations.

During 2007-2008, Group companies entered into a number of long-term agreements with customers to supply wafers at prices which are considerably above today's market levels. In most cases we have been able to reach agreement with our customers to continue supply of contracted volumes, albeit at reduced prices. However, the Group has been unable to reach any agreement with two customers who no longer wish to take delivery of wafers and so resolution is being sought under the jurisdiction of the International Court of Arbitration. If these actions are successful, they will result in significant cash settlements in the Group's favour, during the latter part of 2012.

While the Group was successful in managing the effect of the difficult market environment during the first half of the year, the more intense pressure during the second half impacted pricing and to a lesser extent volumes.

Demand for our products continued to be strong during the first four months of the year and although demand weakened during May and June, shipment volumes for the first half of 2011 totalled 204MW, a 23.6% increase on the 165MW shipped in the same period in 2010. Our ASP during the first half was approximately 9% below that reported for the full year 2010 but the impact on margins was offset by the accelerated progress in our wafering and internal polysilicon production cost reduction programmes. Our ASPs fell more sharply during the second half as market pressures intensified but shipment volumes of 180MW were only 11.8% down on the first half. This represented a creditable performance in the context of the unprecedented 69% decline in wafer spot market prices which was seen during the year.

The Group continues to respond to the global shift in PV manufacturing to Asia. Shipments to customers in Asia exceeded 80% (2010: 75%) with China overtaking Japan to become our largest geographical market. Sales to customers in Taiwan also grew significantly and were up by almost 50% on those in 2010. However, shipments to this region were predominately achieved during the first half as sales were lower during the second half as market conditions and pricing deteriorated sharply.

The interim Group strategy focuses on cash conservation and retention of capabilities, at the expense of emphasis on growth. We will review this strategy on a regular basis while monitoring market conditions.

The chart below shows how our priorities are being adapted to address the current market conditions.

Our vision

Our vision is to remain one of the PV industry's cost leaders and to supply quality wafers

Our long-term strategy

- Continued focus on operating cost reductions
- Retaining flexibility of production
- Continued focus on major PV companies
- Focus on further developments of the leading silicon processing technology
- Cash conservation

The Group remains committed to systematically enhancing its position in the PV industry as an independent producer of multicrystalline silicon wafers. By focusing on the wafer and not competing with our customers in cell production, we are able to develop strong relationships with solar cell producers. It is our intention to remain one of the PV industry's cost leaders and to supply quality wafers.

Previous priorities	Current priorities
• operating Bitterfeld polysilicon facility at full capacity; • production efficiencies; and • higher yields.	• temporary suspension of production at Bitterfeld; • negotiate improved polysilicon pricing; • other supplier price reductions; • production efficiencies; and • higher yields.
• diversity in sourcing polysilicon supply; and • diversity in wafer production.	• diversity in sourcing polysilicon supply; and • diversity in wafer production.
• enhanced relationships with existing customers; and • new customers in the major markets of Taiwan and Korea.	• enhanced relationships with existing customers; and • new customers to retain operational capabilities.
• working with customers to increase product quality and develop the next generation of wafer technology.	• working with customers to increase product quality and develop the next generation of wafer technology.
	• temporary reduction in production output; • trading excess polysilicon; and • working capital management.

Operational review continued

"Wafer and ingot production volumes will be maintained at reduced levels, consistent with the retention of our operating capabilities, and we will maintain a strong focus on cost control and inventory management including trading of excess polysilicon."

Summary of Operational Review

- In October the Board decided to take action to conserve the Group's cash.
- We will accelerate our cost reduction and efficiency programmes.
- The Group's cash conservation measures are expected to continue for the foreseeable future.

Bitterfeld

Further progress was made at our internal polysilicon production facility in Bitterfeld where improvements in both electricity and $SiCl_4$ consumption per kg Si were achieved. Since operation started in July 2009 production has ramped up steadily and a significant increase in output to 1,218MT was achieved during 2011 (2010: 823MT). However, output of the plant was restricted to some extent by a bottleneck identified in part of the plant and has led us to reduce the name-plate capacity from 1,800MT to 1,600MT. The fully loaded production cost remained below the average price of our contracted polysilicon from external suppliers throughout 2011.

The Group's decision to cut back on ingot and wafer production and the associated reduction in internal polysilicon requirements necessitated a temporary suspension of production from December 2011 onwards. After taking this unscheduled shutdown into account, annualised output in 2011 was equivalent to 1,330MT per annum or 83% of the current name plate capacity. It should be noted that further investment of €4m on de-bottlenecking would enable capacity to be expanded to 2,000MT. No expenditure is under consideration whilst current market conditions persist.

Flexibility in production

The Group maintains its strategic focus on its core technology and undertakes all ingot production in-house but retains flexibility with regard to polysilicon and wafering. The Group has invested in the Bitterfeld facility to produce its own polysilicon but also retains relationships with external polysilicon suppliers and obtains significant quantities of polysilicon from them. Whilst production at Bitterfeld has been temporarily suspended the Group has the flexibility to restart production should market conditions be favourable.

The Group wafers its ingots through a combination of its in-house wafering facility at Erfurt, Germany and wafering sub-contractors in Japan.

Capacity expansion

The expansion of the Group's ingot production capacity is approaching completion and following implementation of productivity improvements, the capacity will reach 750MW during Q2 2012 rather than the originally planned 670MW. The Group had earlier indicated an intention to expand capacity further to reach 1GW by 2013 but this capital expenditure has been postponed until there is a recovery in market conditions.

Cash conservation focus in 2012

The Group will continue with its cash conservation strategy while current market conditions persist. Wafer and ingot production volumes will be maintained at reduced levels, consistent with the retention of our operating capabilities, and maintain a strong focus on cost control and inventory management including trading of excess polysilicon. At the same time we will prioritise our own internal cost reduction programmes.

The decision to restart production at our polysilicon facility in Bitterfeld will depend on the development of market wafer pricing, the Group's internal polysilicon requirements and on polysilicon pricing.

The Group has long-term contractual commitments for purchase of polysilicon but has been successful in negotiating improved pricing for deliveries in the first half. Price reductions have also been negotiated with other key suppliers including wafering subcontractors which will enable direct wafer production costs to be reduced significantly (in excess of 20%) during the first half of the year.

Outlook

There continues to be great uncertainty regarding short-term market developments and most industry forecasts predict little if any growth in global PV demand in 2012. Increases in installations are expected in China, where the Government has recently increased its PV target from 10–15GW by 2015 and also in Japan where a feed in tariff will be introduced in July 2012. However, these increases are expected to be offset by reduced demand following policy adjustments in key markets in Europe. Pressure on pricing is expected to continue, resulting in an intensely competitive environment. Accordingly we will accelerate our cost reduction and efficiency programmes.

With the difficult trading conditions expected to persist throughout 2012, the Group's cash conservation measures are expected to continue. Production output is currently running at around 40% of average 2011 levels. Shipments to customers have been reduced accordingly and are expected to be in the range 80-100MW in the first half. ASPs are expected to be considerably above spot price levels.

The Group is trading excess polysilicon in order to optimise inventory levels. The success of the strong focus on working capital management is demonstrated by the improvement of our net cash balance, which at the end of February 2012 was markedly higher than at the end of 2011.

Dr Iain Dorrity
Chief Executive Officer
27 March 2012

Financial review

"The Board believes the cash conservation strategy will enable the Group to sustain adequate cash resources for the foreseeable future."

Summary of Financial Review

- In 2011 Group revenue decreased by 16.7% to €210.4 million mainly due to the 18% fall in ASP.
- Earnings after tax were a loss of €60.9 million producing earnings per share at a loss of €0.15.
- Results generated net cash inflows from operating activities of €1.6 million.
- The Group's capital expenditure in the year gave a net cash outflow of €20.8 million.
- The Group's net cash position at year end was €22.6 million.
- The base plans indicate that the Group will be able to operate within its net cash reserves for the foreseeable future.

In 2011 Group revenue decreased by 16.7% to €210.4 million (2010: €252.6 million) although total wafer shipments were marginally higher than in 2010 at 384MW (2010: 378MW). The decline was mainly due to the 18% fall in ASPs during the year. This impact was more significant in the second half of 2011 when ASPs were 29% lower than in the first half.

During the year the Group generated EBIT (before exceptional items) of €4.1 million (2010: €33.3 million). Actual EBIT (including exceptional items) was a loss of €67.5 million (2010: profit of €33.3 million). This reduction in underlying profitability was driven primarily by the severe decline in average selling prices during the second half of 2011. In addition, the relatively strong Japanese Yen had a negative impact on Group EBIT due to higher raw material and sub-contracting costs in Japan.

Net interest income of €0.5 million (2010: €0.4 million) was almost the same as that in the previous year due to continuing low global interest rates. The Group's net cash position at year end was €22.6 million (2010: €54.8 million). In the first half the main impact on cash was the completion of the planned capital expenditure programme and a balancing advance payment to an external supplier of polysilicon. During the second half the cash position was impacted by the effect of the poor trading environment on inventory levels and to a lesser extent, the pressure on margins.

Earnings after tax were a loss of €60.9 million (2010: profit of €23.3 million) producing earnings per share at a loss of €0.15 (2010: profit of €0.06).

These financial results generated net cash inflows from operating activities of €1.6 million (2010: €11.3 million) and free cash outflow of €20.0 million (2010: €6.3 million). Free cash flow is defined using the cash flow statement as net cash from operating activities plus cash from/(used in) investing activities less interest received. The net operating cash flow was impacted by the absorption of €6.8 million into working capital (2010: €23.5 million). Poor sales at the end of the year led to cash being absorbed into higher inventories, although non cash writedowns of closing inventory led to closing inventory levels being slightly lower than at the previous year end. This was offset to some extent by a reduction in debtors due to lower sales in Q4 2011 and improved payment terms, resulting from the change in the geographical mix of customers.

The Group's capital expenditure in the year of €21.9 million (2010: €19.9 million) was offset by grants received of €1.1 million (2010: €3.3 million), giving a net cash outflow of €20.8 million compared against 2010 when the net cash outflow was €16.5 million. Investment grants received were all in respect of the German operations as capital expenditure in the United Kingdom does not qualify for such grants.

Dr Peter Finnegan

There was a small movement of Japanese Yen loans of a net €0.3 million (2010: €11.1 million). These loans were utilised as a hedge against movements in the Japanese Yen and its effect on assets held in that currency. Dividends totalling €8.1 million were paid in respect of the 2010 profit in June 2011 (2010: €12.1 million).

The Group's directors have put in place a cash conservation strategy to enable the Group to manage its operations whilst market conditions remain difficult. The following passage sets out the rationale behind this strategy and why the Board believes it will enable the Group to sustain adequate cash resources for the foreseeable future.

Going concern

A description of the market conditions, the reduction in spot prices of wafers during 2011 and the Group's actions to conserve cash are included in the Operational Review.

As part of its normal business practice, the Group regularly prepares both annual and longer-term plans which are based on the directors' expectations concerning key assumptions. The assumptions around contracted sales volumes and prices and contracted purchase volumes and prices are based on management's expectations and are consistent with the Group's experience in the first part of 2012.

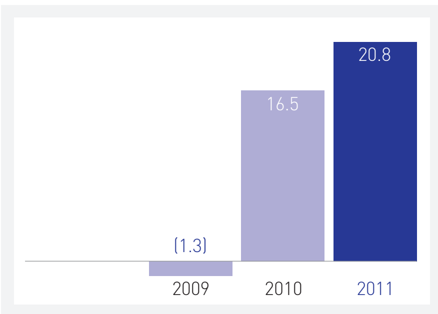
There are several long-term wafer supply contracts for unexpired periods of up to three years and accordingly the Group is able to sell wafers at prices that are above current market spot prices despite the difficult market environment. Wafer sales to customers without long-term contracts are assumed in the longer-term plans at values close to spot prices. In addition the Group is negotiating compensation for the termination of certain wafer supply contracts and these are expected to generate a significant cash inflow within the next twelve months.

Likewise, the Group has long-term contracts with suppliers of our main raw material polysilicon for unexpired periods of between two and four years. Polysilicon used in the Group's wafer production comes from two external suppliers and from the Group's plant at Bitterfeld. The Group's management has been successful in working with these suppliers to secure periodic contract amendments through a combination of adjusted prices and volumes. As a result, these amendments have brought the terms more in line with current market pricing. To manage inventory levels the Group will sell excess polysilicon and has been successful in this respect during the first quarter of 2012.

The nature of the Group's operation means that it can vary production levels to match market requirements. As part of the cash conservation measures and the associated planning assumptions, production output has been reduced to match expected demand. At the same time production capacity has been retained. In line with the Group's strategy of retaining flexibility in production levels, production can be brought back on stream when market conditions allow. Employment costs have been reduced following the reduction in contract labour, redundancies in the United Kingdom and Government supported short-time working in Germany. The Group expects to reduce other costs through negotiation with suppliers and by achieving greater efficiencies within the Group's operations.

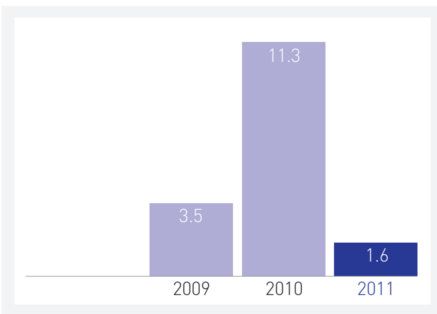
Net capital expenditure

€20.8m



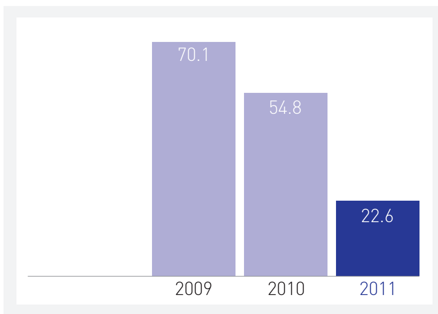
Operating cash flow

€1.6m



Net cash

€22.6m



Financial review continued

Summary of Financial Review continued

- During the year the Group generated EBIT (before exceptional items) of €4.1 million.
- An impairment charge has been recognised to reduce the carrying values of plant by €27.9 million.
- The Group wrote down its inventories by €22.9 million.
- Onerous contract charge and provisions of €20.9 million.
- Actual EBIT (including exceptional items) was a loss of €67.5 million.

Going concern continued

As a result of these modelling assumptions the base plans indicate that the Group will be able to operate within its net cash reserves for the foreseeable future.

On 31 December 2011 there was a net cash balance of €22.6 million, comprising cash or cash equivalents of €71.6 million and short-term loans of €49.0 million. The borrowings are in Japanese Yen and are subject to certain covenants on the Japanese subsidiary company (including interest cover, profitability, restrictions on Group dividends and debtor cover).

The Group's plans are based upon remaining within its net cash balance and are not dependent upon these short-term borrowings.

Therefore, whilst any consideration of future matters involves making a judgement at a particular point in time about future events that are inherently uncertain, the directors, after careful consideration and after making appropriate enquiries, are of the opinion that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Thus the Group continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Impairment

The Board has assessed the carrying values of the Group's property, plant and equipment for impairment as at 31 December 2011. As a result of this assessment, an impairment charge has been recognised to reduce the carrying values of plant by €27.9 million. The impairment charge has been recognised in the Income Statement. As an impairment of fixed assets it had no impact on the Group's cash flow.

On 31 December 2011 the Group had invested approximately €100 million in its polysilicon plant at Bitterfeld and had received grants of €23 million. The current difficulties in the photovoltaic industry dictated that an impairment test should be carried out to determine whether the plant should be impaired. The recoverable value of Bitterfeld plant is estimated to amount to €47.9 million, based on an estimate of its value in use. This has been derived from a forecast of potential cash flows from the plant. These cash flows were discounted at a post tax cost of capital of 9.67%, which was determined by calculating the Group's cost of capital using the CAPM (capital asset pricing model). The resultant (discounted cash flow) analysis determined the net present value of the plant. The potential future cash flows have been estimated on the assumption that the plant is brought into production in the second half of 2012 and produces at full capacity thereafter. This analysis assumes that sales of polysilicon are at prices based on management's expectations backed up by the forecast from an external consultant that has a high level of experience of the photovoltaic industry. Plant running costs were obtained from the Group's internal planning system.

The level of impairment of the assets of our plant is predominantly dependent upon judgements used in arriving at future market prices, plant maintenance costs, future growth rates, the discount rate applied to cash flow projections and successfully operating the plant at Bitterfeld. The estimates and judgement used in the aforementioned assessment represents management's best estimate based on current experience and information available, which may be different from the actual results in the future due to changes in the Group's business and the external environment. Any significant changes in the market price of polysilicon, $/€ exchange rate, or plant maintenance costs might lead to further impairment of some or all of the capitalised assets.

The sensitivity of the valuation to these parameters is as follows:

- 5% increase/decrease in the sales price forecast decreases/increases the impairment by €14 million;
- 5% reduction/increase in the direct cost of production forecast decreases/increases the impairment by €9 million; and
- 1% change in the cost of capital changes the impairment by €6 million.

Other exceptional items

The exceptional items in the year are set out in note 35 to the accounts. In addition to the above mentioned impairment of €27.9 million, the Group wrote down its inventories by €22.9 million and made onerous contract charge and provisions of €20.9 million. The inventory writedown was made to adjust inventory carrying values to realisable value. The onerous contract provision was made in respect of contracts with external suppliers of raw materials. These contracts run for the unexpired period of between two and four years. The provision relates to future losses that are likely to be made if the Group processes or sells the material committed to under the contracts, although adjustments have been made to purchase prices according to the directors' estimates of how contract prices are likely to be renegotiated.

Dr Peter Finnegan
Chief Financial Officer
27 March 2012

Principal risks and uncertainties

During 2011 the Group was exposed to several risks that had been identified in the 2010 Annual Report. One of the key mitigating strategies was the adoption of the cash conservation measures described in the Operational Review on pages 6 to 11. The possibility remains that certain of the risks described below which the Group are exposed to will continue or worsen.

Principal risks	Nature of risk	Mitigating actions
Price of wafers on the spot market remain below cash cost of production	The Group has previously sold wafers under long-term contracts and at spot prices. As pricing on the spot market decreased during 2011 we cooperated with our long-term contract customers and offered lower prices but at a premium to spot prices. However, during 2011 spot pricing fell below our production costs and so selling to customers without any contractual commitment was no longer attractive.	• Only selling on the spot market when prices are above production cash costs. • Lowering production costs. • Temporary reduction in ingot and wafer production. • Temporary suspension of production at our polysilicon facility in Bitterfeld. • Adopting and continuing cash conservation measures. • Maintaining a strong balance sheet which gives the Group the strength to weather any medium-term price squeeze.
Changes in spot prices for polysilicon affect our competitiveness and the viability of our plant at Bitterfeld	Historically the long-term contract prices with our polysilicon suppliers were below the spot prices. Our polysilicon plant at Bitterfeld was designed to have production costs below our historic contract prices. However, when spot prices drop below contract prices, any competitors who buy on the spot market are at a competitive advantage and can produce wafers at a lower cost than us.	• We negotiate with our suppliers to achieve polysilicon prices at or below the spot price where possible. • We have temporarily suspended production at Bitterfeld and this will continue until spot pricing moves above our cash costs.
The loss of a major long term contract customer might adversely impact the Group's financial performance	Sales to a small number of customers represent a substantial portion of the Group's revenues and the loss of any major customer either to a competitor or through its own business circumstances might impact significantly on the Group's financial condition. Where a long-term contract is in place the Group is able to achieve a higher selling price than through sales at spot market prices.	• We concentrate on customers that are financially strong with a clear strategic vision for the PV industry and accordingly have the potential to be long-term major players in the industry. • We work with our customers to ensure that the quality, specifications and efficiency of our wafers are suitable for their current and future needs. • We are working actively to broaden our customer base.
Our reliance on key suppliers could adversely impact our financial performance	The Group is reliant on certain key suppliers. Evonik supply silicon tetrachloride for our polysilicon production at Bitterfeld. Polysilicon feedstock is purchased from two suppliers and we sub-contract the wafering of 70% of our output in Japan.	• We have long-term contracts in place to ensure access to the goods and services provided by our key suppliers: with Evonik, with our polysilicon suppliers and with our wafering subcontractors. • We look to obtain flexibility in terms of price, volume and timing of deliveries by negotiating amendments to the terms of our long-term contracts with our suppliers. • We have built our own polysilicon production facility at Bitterfeld to give the Group its own source of polysilicon feedstock.

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The Group might be affected by a number of risks, which may have a material adverse effect on our reputation, operations and/or financial performance. The risks associated with the Group's financial instruments are detailed in note 30 in the Notes to the Consolidated Financial Statements.

The Group is exposed to a number of other risks, some of which may have a material impact on its results. It is not possible to identify or anticipate every risk that may affect the Group, some of which may not be known or may not have been assessed. Our overall success as a global business depends, in part, upon our ability to succeed in different economic, social and political environments and manage and mitigate such risks.

Principal risks	Nature of risk	Mitigating actions
Government incentives, support and legislation are crucial to stimulate the take up of solar electricity	The solar industry is dependent on the support of individual governments to encourage the installation and use of solar electricity within their territories. Without such support the increased uptake of solar electricity may reduce or be slow to develop.	• We work with various PV industry bodies which seek to encourage governments to support solar electricity generation. • We focus on supplying those major PV companies with superior market shares and operating efficiencies, which are better equipped, therefore, to sell product into their markets. • We ensure that the Group operates internationally thus spreading risk among several markets. • We focus on cost reduction and efficiency enhancement strategies to reduce the need for Government support in the long-term.
Over capacity in the PV industry reduces module prices and adversely impacts on profitability	Over capacity in the PV industry has caused significant reductions in module prices during 2011. This reduction in module prices has led to a reduction in wafer prices. Further capacity is still coming on stream and it could be several years before the supply/demand capacity comes into balance. The reduction in price has led to reduced profitability across the value chain. Since H2 2011 the Group has generated operating losses. With take or pay polysilicon contracts and ever reducing spot wafer prices this situation is worsening.	• We work with our customers to maintain contract volumes. • Where we have long-term contracts we are able to obtain prices at a premium to spot prices. • In the last resort we can enforce contract terms through arbitration. • We focus on cost reduction and efficiency enhancement strategies. • We have a strong balance sheet which gives the Group the strength to weather any medium-term price squeeze. • We have adopted a cash conservation strategy to survive into the medium term due to the expectation of low prices over the next 12–18 months by minimising production and maintaining core competencies.
Exchange rate fluctuations might create earnings and balance sheet fluctuations	The Group reports in Euros, but trades internationally and has operating subsidiaries reporting in Sterling, Euros and Yen and is therefore subject to currency fluctuations arising on transactional foreign currency exposures and the translation of subsidiaries' balance sheets.	• We strive for a natural hedging position at operating level by sourcing raw materials and other direct materials and services (where possible) in the same currencies as sales revenues are derived. • This has become increasingly difficult particularly with the reduction in activity in H2 2011 and as expected in 2012. Accordingly, the exposure to currency imbalances is being reviewed so that currency assets continue to be broadly matched with equivalent liabilities in the same currencies. • We have been working to balance exposure to currency due to debtor balances by matching these with equivalent liabilities in the same currencies. The Group has large balances in Yen in respect of accounts receivable and has taken out borrowings in Yen to reduce the impact of any changes in the Yen exchange rate.
Loss of a key production facility could disrupt our ability to deliver contracted wafer volumes	The Group only sells wafers but has operations at different stages in the value chain. The loss of a facility at any stage would impact the Group's ability to fulfil contracted wafer volumes thereby reducing sales.	• We are currently producing at levels considerably below capacity due to our cash conservation activities. • We use two different polysilicon feedstock suppliers and have our own internal polysilicon production in Bitterfeld, Germany. • Ingot manufacturing is carried out in the United Kingdom in four separate facilities. • Wafering is carried out at our internal facility in Germany and at sub-contractors in Japan. • We have health and safety, fire prevention and security procedures in place at all facilities. • We have comprehensive property damage and business interruption insurance in place.

Corporate social responsibility

The environment

Our product

The Group is a major producer of multicrystalline silicon wafers for the production of solar cells. These cells are processed into solar systems used for the generation of renewable electricity with a lifetime in excess of 25 years. As technology improvements increase the efficiency of solar cells, it is expected that the lifespan of the solar modules will lengthen, providing electricity for a known starting cost and little maintenance. Depending on the system's location, it has been estimated that all the energy used in the production of a silicon solar system will be repaid within two to three years.

In our position as a producer of silicon wafers, for the generation of electricity, free of carbon emissions, our focus on our environmental responsibilities is evident.

Our processes

It is the Group's policy to:

- seek to eliminate and, where this is not practicable, to minimise negative environmental impacts from the pursuit of all business interests while continuing to produce high quality products which meet customer requirements;

- comply with all statutory environmental legislation as a minimum and to aim to improve upon the standards set by the local regulatory authorities; and

- foster an informed and responsible approach to all environmental concerns and encourage the involvement of employees, customers and suppliers. Regulatory authorities are consulted and informed at all appropriate times.

Waste and recycling

The Group has effective environmental management and health and safety systems in place, in support of, and to complement, its quality assurance systems. Across all its sites in the United Kingdom and Germany a proactive approach is taken to the pre-treatment of waste as required by the EU Landfill Directive. The purpose of this treatment requirement is to reduce the impact of waste sent to landfill and to increase the amount of waste that is recycled. For instance, within the Group, all silicon carbide used in the sawing of blocks and wafers is continually treated and recovered for reuse.

- Crystalox in the United Kingdom is a member of compliance schemes which fulfil local legislation requirements such as The Producer Responsibility Obligations (Packaging Waste) Regulations 2007. This scheme sets targets for British industry for the recovery and recycling of packaging waste, seeking to ensure that discarded products are environmentally treated through recycling and recovery rather than being disposed of in landfill.

- A similar scheme exists in Germany where PV Silicon received an award from the State of Thuringia for participating successfully in the sustainability programme "Ökoprofit"; a voluntary programme carried out by industrial companies that first analyses the impact of their industrial production on the environment and then reduces waste materials, packing materials, consumption of water, use of energy and emissions.

- In 2011 we reduced our packaging materials for wafers by 30%. All plastics, wood, paper, polythene, cardboard, metals, etc. are recycled, either by being sold to recycling companies or under local council arrangements, removed for recycling. The Group endeavours to recycle all recyclable packaging materials to conform to current packaging legislation and thereby minimise waste to landfill across all its sites.

Environmental management systems

We recognise the need to establish, formalise and apply an environmental management system at each of our manufacturing sites. Therefore, in order to further enhance its already effective environmental and health and safety management systems:

- Crystalox in the United Kingdom has made a good start on its programme to achieve environment and health and safety accreditations; and

- the site in Erfurt, Germany, has been carrying out an environmental audit for the last five years, focusing on the consumption of water, electricity and on the emission of waste materials.

These high standards complement and consolidate Crystalox and PV Silicon's EN ISO 9001 status; further fulfilling our responsibility to the environment and health and safety.

Bitterfeld

With the introduction of environmental and energy management system targets to reduce waste material, consumption of water and energy, the Bitterfeld site in Germany plans to apply for DIN EN ISO 9001 Quality Management System, DIN EN ISI 14001 Environmental Management System and DIN EN ISO 50001 Energy Management System.

The production of solar-grade polysilicon at Bitterfeld necessitates a heightened focus on health and safety. Therefore, prior to commencing production, Hazard and Operability Studies ("HAZOP") were performed and thereafter, regular HAZOP meetings are held by the management with an external safety expert, where any issues are discussed and improvements defined. For all planned and realised changes in the production process and in the construction of the plant, safety aspects have to be considered and HAZOP studies are performed if applicable. Bitterfeld's focus on safety and high standards was affirmed by a successful Safety Management System Audit in 2011.

The construction and operation of the Bitterfeld plant requires it to comply with the German Emissions Control Act. This requires that every emission source be identified and that all emissions are monitored periodically by the authorities. Waste, energy and water consumption have to be minimised; waste is recycled or recovered; excess energy from the production process is used for heating and hot-water in the office buildings; and coolant used in production (water) is re-used.

An environmental compatibility study was performed and we were able to reduce electric power consumption for solar-grade silicon production. This was achieved mainly through improvements to the high-temperature processes for silicon deposition and hydrogenation of Chlorosilanes. In addition, working with a chemical processing plant nearby we were able to employ a more energy efficient waste water treatment.

Our staff

The Group's policy is to provide equal opportunities to all existing and prospective employees. The Group recognises that its operation and reputation depends upon the skills and effectiveness of its employees and is committed to the fair and equitable treatment of all and to prohibit discrimination on the grounds of age, sex, religion, sexual orientation, race, nationality or ethnic origin.

It is the Group's policy to give sympathetic consideration to the recruitment, continuing employment, training, career development and promotion of disabled persons. In the event that a person became disabled he or she would continue to be employed, wherever possible, in the same job.
If the degree of disablement made this impractical, every effort would be made to find suitable alternative employment and to give any appropriate training. The Group's policy on training and career progression applies equally to everyone within the Group whether or not disabled.

During the last quarter of 2011, in light of the ongoing adverse market conditions the Board resolved to take appropriate actions to manage the business through the difficult times facing the Group and the industry and to conserve the Group's cash. In the short term this led to reduced production output at its United Kingdom ingot and German wafer operations and the Board suspended production temporarily at its polysilicon facility in Bitterfeld, Germany. Regrettably these actions led to significant job losses in the United Kingdom, with 45 redundancies, and short-time working in Germany at both Bitterfeld and Erfurt. The Board's actions were a necessary response, designed to preserve the capabilities within the business.

The Group continues to believe in the importance of protecting the Group's capabilities and cash for the future and maintains that the medium-term outlook for solar installations is positive.

Training

The Group recognises that a key factor in its successful operations is its personnel. The continued expansion of operations and the parallel increase in the workforce has meant that management's top priority has been to provide a safe and secure work environment for all. To this end, health and safety training has been of paramount importance.

Initial in-house health and safety induction training for all personnel joining is supported by external specialist trainers for occupation specific training. During 2011 fire safety training and comprehensive training for fire marshals was undertaken by selected staff at each site. A number of staff were externally trained as first-aiders, thereby helping to ensure maximum first-aid cover to all staff. As part of its ongoing responsibility to comply with health and safety legislation, refresher training was provided to all forklift operators.

In Bitterfeld we introduced a special web based training tool for all personnel to improve further the safety record at the plant where there were no chemical processing related accidents recorded during 2011.

In Erfurt we introduced a voluntary health management programme for all staff.

The Group is committed to the ongoing training and development of its personnel. Particular skills-based training is provided to individuals when identified and seen as beneficial to the overall operation of the Group. The introduction of new technologies and new and efficient working methods, has resulted in personnel being trained to both develop and hone their knowledge and skills. A flexible work environment has meant that personnel are given the chance to work in different departments, thereby helping them maximise their potential and sense of fulfilment.

In Germany we run an apprenticeship programme where we currently have 16 young people in Erfurt and nine young people in Bitterfeld enrolled in technical and administrative jobs. The intention is that after a three year period these apprentices have the chance to become permanent members of staff. We are running programmes for some of the apprentices enabling them to continue with their studies to obtain a degree in engineering.

Health and safety

The Group recognises its responsibilities under health and safety legislation in each country of operation to ensure, so far as it is reasonably practicable, the health, safety and welfare of all its employees. Group policy is to take all reasonable precautions to prevent accidents and dangerous occurrences and for the creation of working conditions which safeguard employees. The Group attaches the greatest importance to health and safety, considering this to be a management responsibility. To this end the Group will allocate the necessary resources and enlist the active support of all employees upon whom duties are also imposed by health and safety legislation. The Group regards the standards set by the various relevant statutory provisions as the minimum standards which must be achieved and endeavours to improve upon these where reasonably practicable.

Our community

We have been running local events in Erfurt for several years to demonstrate the possibilities of solar electricity. During 2011 we participated in the local event "Long Night of the Sciences" where our apprentices demonstrated and explained our technology to all interested citizens of Erfurt from 6.00pm until midnight. We also worked with the local power provider to carry out the annual solar car race programme with local students. The feed-in tariff which we receive from our 30 KW solar system mounted to building in Erfurt, which feeds electricity directly into the local grid, is used to finance these projects.

The Group is an initiator and participant in the five year long project "SolarValley Mitteldeutschland". This is a research and development cluster in the German states of Thuringia, Sachsen-Anhalt and Saxony. Dr Hubert Aulich, the Group's Director of German operations, is the chairman of the project. It involves 35 companies, five universities and nine research institutes working on the entire crystalline silicon value chain with the aim of reducing the cost of solar electricity to below that of conventional power and accelerating market introduction. This is the largest worldwide PV cluster with 98 projects and an overall €150 million budget over five years which is funded 50% by the Government and 50% by industry.

Within the United Kingdom, Crystalox sponsors the annual Photovoltaic Science, Application and Technology ("PVSAT") conference and exhibition organised by the United Kingdom's Solar Energy Society whose goal it is to advance the utilisation of the sun's energy through research and public education.

Directors

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1. Maarten Henderson
Chairman

Maarten Henderson, a Dutch national, graduated in economics from Hamburg University. He started his career at multinational electronics company Philips in 1972, where he held various commercial and financial positions, ending as member of the board of management and chief financial officer of Philips Kommunikations Industrie AG in 1996. After that, he was chief financial officer and member of the board of management of Schmalbach Lubeca AG, an international packaging company listed in Germany, from 1996 to 1999, of KPN N.V., the Dutch telecommunications incumbent listed in Amsterdam and New York from 2000 to 2004, and of Nuon N.V., a Dutch energy company, from 2004 to 2006. In 2006 and early 2007, he worked for mobile service provider debitel AG as interim chief financial officer and head of the divestment team. From April 2007 to October 2007 he worked as member of the board of management and chief financial officer for Getronics N.V., an international ICT services company listed in Amsterdam. In 2008 he also worked as a "B" director on the management board of Hagemeyer NV, a company then listed in Amsterdam. In July 2009 Maarten Henderson was appointed as a member of the supervisory board and in July 2011 he was appointed as chairman of the supervisory board of freenet AG, the biggest network-independent telecommunications provider in Germany.

2. Dr Iain Dorrity
Chief Executive Officer

Iain Dorrity has a PhD in Physical Chemistry from Exeter University. He joined the Company in 1986 and became responsible for sales and marketing in 1988. He was a member of the MBO team that acquired the Crystalox business in 1994 and was appointed to the Boards of both Crystalox Limited and Crystalox Solar Limited at that time. Subsequently, following the merger of PV Silicon GmbH and Crystalox Limited, he became a member of the Board of PV Crystalox Solar GmbH in 2002 and a director of the Company on its formation in December 2006. Dr Dorrity has over 25 years' experience in crystal growth and semiconductor materials with an emphasis latterly on multicrystalline silicon technology. Prior to joining Crystalox, he spent eight years working in research and in industry with General Electric Company.

3. Dr Peter Finnegan (DBA, MBA, FCMA)
Chief Financial Officer

Peter Finnegan has a Doctorate in Corporate Finance from Henley Business School, an MBA from Manchester Business School and is a Fellow of the Chartered Institute of Management Accountants. He has been involved in the Group's management since 1985 when he became Company Secretary of Crystalox whilst he was Financial Director of its holding company at that time, Elkem (Holdings) Limited. He was appointed to the Board of Crystalox Solar Limited in 1994 and was a director of Crystalox Limited from 1994 to 2009. He was appointed as a director of the Company on its formation in December 2006. Dr Finnegan has overall Group responsibility for finance, accounting, planning, financial control, legal matters and investor relations. Prior to joining the Group he held a number of senior managerial positions in large international manufacturing companies.

4. Dr Hubert Aulich
Executive Director, German Operations

Hubert Aulich has a PhD in Physical Chemistry from NYU, New York City, USA. Dr Aulich founded PV Silicon GmbH in 1997 with his partner Dr Friedrich Wilhelm Schulze. In 2002 he became a member of the Board of PV Crystalox Solar GmbH where he had responsibility for the German operations including the production and sales of wafers and was appointed as a director of the Company on 21 May 2007. In 2008 he became chairman of the five year long project SolarValley Mitteldeutschland which involves 35 companies, five universities and nine research institutes working on the entire crystalline silicon value chain with the aim of reducing the cost of solar electricity to below that of conventional power. Prior to founding PV Silicon GmbH, Dr Aulich worked for Siemens Solar Group. Dr Aulich joined the Central Research Laboratories of Siemens AG in Munich, Germany, in 1974 where he worked in various positions in the field of optical fibre communication and photovoltaics. From 1988 to 1991 he was managing director at PV Electric, a joint venture of Siemens Solar GmbH, Germany, and Arco Solar, USA, where he was responsible for the commercialisation of amorphous silicon thin film technology. In 1992 he became managing director at Siemens Solar GmbH where he was responsible for technology of thin film and crystalline silicon solar cells. He was senior vice president for technology and research for the Siemens Solar Group responsible for research and development in thin film and crystalline silicon solar cells as well as for systems application for Germany, USA and Japan.

5. Michael D Parker CBE
Non-executive Director

Mike Parker was born in Liverpool and has a Bachelor's degree in Chemical Engineering from the University of Manchester and an MBA from the Manchester Business School. He began his career with Dow in 1968 and became president and chief executive officer of The Dow Chemical Company in Midland, Michigan, USA from November 2000 to December 2002 and a member of the company's board of directors from 1995 to February 2003. During his time at Dow he gained extensive international experience with over 30 years of living and working in the USA, United Kingdom, Switzerland and Hong Kong. He was appointed as group chief executive of British Nuclear Fuels Limited on 1 August 2003; at the end of June 2009 he finished this role following the successful dismantling and privatisation of the business. He joined the Invensys plc board as a non-executive director in May 2006 and subsequently became the senior independent director in December 2006. In April 2008 he became chairman of Liverpool's new economic development and regeneration company, Liverpool Vision. He joined the Board at the Royal Society for the Prevention of Accidents as a trustee in December 2009. In September 2010 he was appointed to the board of directors of the Canadian based SNC-Lavalin Group. In June 2011 he was appointed as chairman of Street League.

6. John Sleeman
Non-executive Director

John Sleeman graduated in Physics from the University of Durham and started his career at Deloitte & Touche in 1970 where he qualified as a Chartered Accountant before moving in 1975 to Samuel Montagu where he qualified as a Chartered Banker and held various corporate and project finance advisory roles, becoming a director in 1989. Following its acquisition by HSBC, he held directorships with a number of companies within the HSBC Group, and from 2000 to 2003 was managing director, head of international team, corporate finance. After that, John was an independent director of OSJC Power Machines (from 2003 to 2008), the Russian power generation equipment manufacturer 25% owned by Siemens AG, an independent director of JSC Open Investments (from 2005 to 2009), the Russian real estate group, and was an advisor for two years to Emerging Markets Group, specialising in structured financial solutions and strategic advice. Since 2006 he has been a founding partner of S.P. Angel Corporate Finance LLP.

Directors' report

The directors are pleased to present their report together with the consolidated audited financial statements of the Group for the year ended 31 December 2011.

Principal activities

PV Crystalox Solar PLC is a holding company which owns, directly or indirectly, investments in the companies constituting the PV Crystalox Solar Group of companies. The principal subsidiaries are listed in note 1 on page 73. The principal activity of the Group is the production and supply of multicrystalline silicon wafers to the worldwide photovoltaic market. The Group supplies multicrystalline silicon wafers to some of the major photovoltaic cell makers in the world. The Chairman's Statement, Operational Review and Financial Review contain a review of these activities and comments on the future outlook.

Results for the year

The Consolidated Statement of Comprehensive Income for the year ended 31 December 2011 is shown on page 42. The Consolidated Statement of Changes in Equity for the year is shown on page 44 and segmental information is shown in note 8 on pages 55 and 56.

Dividends paid and proposed

The directors have not recommended a final dividend in respect of the current financial year and no interim dividend was paid during 2011. The total dividend for 2010 was €0.03 per ordinary share.

Business review

The Group is required by the Companies Act 2006 to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2011 and of the position of the Group at the end of the year (Business Review) and a description of the Principal Risks and Uncertainties facing the Group. The information concerning the Business Review can be found in the Operational Review on pages 6 to 11, the Financial Review on pages 12 to 15 and the description of the Principal Risks and Uncertainties on pages 16 and 17. The Business Review also includes details of expected future developments in the business of the Group.

Future developments for the business/outlook

The Board's assessment and evaluation of future development and the outlook for the business is discussed in the Operational Review which can be found on pages 6 to 11.

Exceptional items

Exceptional items are discussed in the Financial Review which can be found on pages 12 to 15.

Summary of key performance indicators

The Group monitors the performance of each of its business units through detailed monthly operational and financial reporting, with comparisons to plan. Updated business forecasts are regularly made. In addition, the Group maintains regular reviews and dialogue with each of the Group's operational business units. At Board level, the most important key performance measures are:

- megawatts peak output equivalent from wafers produced;
- revenue;
- EBIT;
- EBIT excluding exceptional items;
- net cash from operating activities;
- free cash flow, defined using the Cash Flow Statement as net cash from operating activities less cash used in investing activities less interest received;
- EBIT excluding currency gains and losses and exceptionals as a percentage of revenue (EBIT margin excluding currency gains); and
- basic earnings per share.

Comparative performance in the current year and prior year is summarised as follows:

	2011	2010
Megawatt peak output equivalent	**384MW**	378MW
Revenue	**€210.4m**	€252.6m
EBIT	**€(67.5)m**	€33.3m
EBIT excluding exceptional items	**€4.1m**	€33.3m
Net cash from operating activities	**€1.6m**	€11.3m
Free cash flow*	**€(20.0)m**	€(6.3)m
Net cash	**€22.6m**	€54.8m
EBIT margin (excluding currency gains and exceptionals)	**1.25%**	13.7%
Basic earnings per share ("EPS") (Euro cents)	**(15.0)**	5.7

* Free cash flow is defined using net cash from operating activities less cash used in investment activities less interest received.

Environmental policy
The environmental policy is discussed in the Corporate Social Responsibility statement which can be found on pages 18 to 19.

Directors
The directors who served throughout the year to 31 December 2011 are:

Dr Hubert Aulich	Executive Director, German Operations
Dr Iain Dorrity	Chief Executive Officer and Executive Director
Dr Peter Finnegan	Chief Financial Officer and Executive Director
Maarten Henderson*	Chairman
	Chairman of the nomination committee
	Member of the remuneration committee
	Member of the audit committee
Michael Parker*	Member of the nomination committee
	Member of the remuneration committee
	Member of the audit committee
John Sleeman*	Senior Independent Director
	Chairman of the audit committee
	Chairman of the remuneration committee
	Member of the nomination committee

* Non-executive directors.

Biographical details of the directors are set out on page 21. There have been no changes since the year end.

Retirement and re-election of directors
The Company's Articles of Association require all directors to seek re-election by shareholders at least once every three years. In addition, any directors appointed by the Board must stand for re-election at the first AGM following his or her appointment. Any non-executive directors who have served for more than nine years are subject to annual re-election.

Last year the Board of Directors approved the annual re-election of directors in line with the United Kingdom Corporate Governance Code (June 2010). Accordingly, at the 2012 AGM all directors will retire and, being eligible, will offer themselves for re-election.

Directors' interests and remuneration
The Remuneration Report, which includes details of service agreements and the directors' interests in PV Crystalox Solar PLC shares, is set out on pages 32 to 39.

Beneficial interests in significant contracts
None of the directors has a material interest in any contract of significance to which the Group or any of its subsidiaries were party during the year.

Substantial shareholders
As at 9 March 2012 the Group had been notified, or is aware, of the following shareholdings amounting to 3% or more of the issued ordinary share capital of the Company:

	Number of ordinary shares	% of issued ordinary shares
Schroder Investment Management Limited	65,401,856	15.69
Dr Iain Dorrity	44,085,974	10.58
Barry Garrard	41,881,642	10.05
Stuart Oldham	26,718,750	6.41
TD Direct Investing	16,365,598	3.93
Barclays Stockbrokers Limited	14,431,561	3.46
Graham Young	14,037,110	3.37

Directors' report continued

Directors' indemnity and insurance

As at the date of this report and throughout the period under review, the Company has provided to all the directors an indemnity in accordance with the Articles of Association (to the extent permitted by the Companies Act 2006) in respect of liabilities incurred as a result of their office and the Company has taken out an insurance policy in respect of those liabilities. This indemnity is a qualifying indemnity provision for the purposes of Sections 232 to 234 of the Companies Act 2006. Neither the indemnity nor insurance provides cover in the event that the director is proved to have acted dishonestly or fraudulently.

Share capital

The authorised share capital and allotted, called up and fully paid share capital of the Company is shown in note 28. There were no changes to the number of shares during the year and up to the date of this report. As at the date of this report, 416.7 million ordinary shares of 2 pence each were allotted, called up and fully paid with an aggregate nominal value of €12.3 million.

The Company has a single class of share capital, which are ordinary shares of 2 pence each, and full details of rights accorded to the holders of these ordinary shares are set out in the Articles of Association. Holders of ordinary shares have the rights accorded to them under United Kingdom Company law, including the right to receive the Company's Annual Report and Accounts, attend and speak at general meetings, appoint proxies and exercise voting rights.

The Company operates an employee benefit trust to hold shares pending employees becoming entitled to them under the Company's employee share plans. The trust has an independent trustee which waives its rights to dividends on the shareholding. Details of employee share schemes and shares held by the PV Crystalox Solar PLC Employee Benefit Trust are set out in note 29.

In respect of the Company's share capital there are no restrictions on the transfer of shares, no limitations are placed on the holding of shares and prior approval is not required from the Company or from other holders of shares for a transfer.

Subject to the provisions of the Companies Act 2006 and of the Articles of Association, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

The Board may declare and pay such interim dividends as appears to the Board to be justified by the profits of the Company available for distribution. All dividends shall be apportioned and paid pro rata according to the amount paid up on the shares.

The Company was given authority at the 2011 AGM to allot further shares up to a maximum of £2,778,169, which was approximately 33% of the issued share capital on 21 April 2011 and to allot an additional number of ordinary shares up to a maximum of £2,778,169 which is approximately a further 33% of the issued share capital on 21 April 2011 by way of a rights issue in which the new shares are offered to existing shareholders in proportion to their existing shareholdings. No ordinary shares were allocated during the period from the AGM to the date of this report. This authority will expire at the 2012 AGM and approval will be sought from shareholders at that meeting for a similar authority to be given for a further year.

The Company was given authority at the 2011 AGM to make market purchases of up to 41,672,533 of its own ordinary shares. This authority will expire at the 2012 AGM and approval will be sought from shareholders at that meeting for a similar authority to be given for a further year. The Company did not make any purchases of its own ordinary shares during the period from the AGM to the date of this report. Approval will be sought from shareholders at that meeting for a similar authority to be given for a further year.

Going concern

Going concern is discussed in the Financial Review which can be found on pages 12 to 15.

Policy on the payment of creditors

Individual companies within the Group operate different creditor payment policies. In Germany it is policy to take advantage of prompt payment discounts where offered, which are typically discounts of 2% or 3% for payment within ten days, otherwise standard terms are an average of 30 days net. In the United Kingdom (including PV Crystalox Solar PLC) and Japan payment is made in line with standard terms, which are an average of 45 days.

Donations

During the period under review the Group made charitable donations of €3,150 (2010: €11,841). It is the Group's policy not to make general political donations. No political donations were made in the period (2010: €nil).

Research and development

The Group spent €6.4 million (2010: €11.1 million) on research and development during the year in the field of continuous production process optimisation and improvement and adaptation of products to market requirements.

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Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of one of the Group subsidiary companies such as commercial supplier and customer contracts. There is no individual contractual arrangement that is considered to be essential to the continuing operation of the Group.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Independent auditors

PricewaterhouseCoopers LLP have indicated that they are willing to continue in office. A resolution to re-appoint PricewaterhouseCoopers LLP as auditors for the ensuing year will be proposed at the AGM.

Annual General Meeting

The AGM will be held at 3 More London Riverside, London SE1 2AQ on Thursday 24 May 2012 at 2.00pm. The Letter from the Chairman and Notice of Meeting document give full details of the AGM and the resolutions to be proposed.

By order of the Board

Matthew Wethey
Group Secretary
27 March 2012

Corporate governance statement

Compliance

The Board is firmly committed to ensuring that high standards of corporate governance are maintained by the Group. Throughout the year ended 31 December 2011, the Group complied with the provisions set out in the United Kingdom Corporate Governance Code (June 2010) ("the Code") except that the Group did not comply with certain provisions relating to board and committee composition during the year, namely sections B.1.2, C.3.1 and D.2.1.

Under the Code a smaller company is defined as one that is below the FTSE 350 throughout the year immediately prior to the reporting year. The Company was a member of the FTSE 350 until 16 March 2010 and as such is not considered a smaller company for the 2011 reporting year. However, the Company will be considered to be a smaller company for the 2012 reporting year. As a smaller company the Company would be fully compliant with the Code.

Section B.1.2 states that except for smaller companies, at least half of the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. A smaller company should have at least two independent non-executive directors. The Board recognises that during the year, the Group did not have a majority of independent non-executive directors. The Board consisted of three executive directors, two independent non-executive directors and the Chairman who is a non-executive director and was deemed to be independent on appointment but is not considered to be independent under the Code. The directors consider the current structure appropriate having regard to the size of the organisational structure of the Group.

Section C.3.1 states that the Board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience. All three non-executive directors are members of the audit committee, however only two are considered independent under the Code. The Chairman is one of the members and was considered to be independent on appointment. The directors at present consider the current structure appropriate having regard to the size of the organisational structure of the Group.

Section D.2.1 states that the Board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors. In addition the Company Chairman may also be a member of, but not chair, the committee if he or she was considered independent on appointment as Chairman. All three non-executive directors are members of the remuneration committee, however only two are considered independent under the Code. The Chairman is one of the members and was considered to be independent on appointment. The directors at present consider the current structure appropriate having regard to the size of the organisational structure of the Group.

Board of directors

The Board is primarily responsible for the success of the Group by providing leadership within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance. The Board sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Matters reserved for the Board

The Board has a formal schedule of matters reserved to it for its decision. This schedule is reviewed annually and includes approval of:

- Group objectives, strategy and policies;
- business planning;
- substantial transactions, contracts and commitments;
- review of performance;
- risk assessment;
- dividends;
- appointments to the Board and as Group Secretary; and
- senior management appointments and succession plans.

Other specific responsibilities are delegated to Board committees, which operate within clearly defined terms of reference. Details of the responsibilities delegated to Board committees are given on pages 28 to 39.

Board balance and independence

The Board comprises the non-executive Chairman, two non-executive directors and three executive directors. With the exception of the Chairman, who is presumed under the Code not to be independent, the Board considers all the non-executive directors to be independent. John Sleeman is the recognised Senior Independent Director who is available to shareholders if they have any relevant issues or concerns. Brief biographical details of all members of the Board are set out on page 21 and further information concerning the appointments is set out in the Directors' Report.

The non-executive directors bring a wide range of commercial and financial experience and knowledge and are independent of management and any business or other relationship that could interfere with the exercise of their judgement. This provides a balance whereby an individual or small group cannot dominate the Board's decision-making.

Board balance and independence continued

The non-executive directors entered into arrangements for initial three year periods and their appointments continue subject to re-election at each AGM or six months' notice in writing from either party. The terms and conditions of appointment of the non-executive directors can be inspected at the Company's registered office and will be available for inspection at the Annual General Meeting. Maarten Henderson and John Sleeman were appointed on 11 June 2007 and Michael Parker was appointed on 1 January 2010.

The Board has established a separate nomination committee and details of its responsibilities and activities are on pages 28 and 29.

Board meetings

The Board meets at least six times per annum and at other times according to business requirements. During 2011 there were ten meetings, including two meetings in May 2011 and in October 2011, where the Board met offsite to consider the Group's strategy and to review key business issues. Meetings are held in central London and at the Group's operating subsidiaries: at Abingdon in the United Kingdom; and at Erfurt and Bitterfeld in Germany. When the Board meets at the Group's operating subsidiaries the Board will have a detailed presentation from the subsidiary directors at that location and an opportunity to review the operation and to meet local management. During 2011 the number of Board and committee meetings with individual attendances was as follows:

	Board	Audit	Remuneration	Nomination
Hubert Aulich	10	3	4	3
Iain Dorrity	10	3	4	3
Peter Finnegan	10	3	4	3
Maarten Henderson*	10	3	4	3
Michael Parker*	10	3	4	3
John Sleeman*	10	3	4	3

* Non-executive directors.

Board support

All directors have access to advice and services from the Group Secretary. The appointment and removal of the Group Secretary is a matter for the Board as a whole. The Group Secretary is responsible for advising the Board on all governance matters, ensuring Board procedures are followed and applicable rules and regulations are complied with. The directors are free to seek any further information they consider necessary and directors can obtain independent professional advice at the Group's expense.

Information, induction and professional development

The Chairman, assisted by the Group Secretary, is responsible for ensuring that the Board receives appropriate and timely information on all relevant matters.

On appointment to the Board, new directors receive background reading about the Group and details of Board procedures and other governance related matters. In addition, the directors participate in a comprehensive induction programme, including site visits to the Group's operations and meetings with the executive directors and senior management across the Group.

The Chairman regularly reviews and agrees with each director their training and development needs as part of the succession planning process. Directors receive ongoing training and updates on relevant issues as appropriate, taking into account their individual qualifications and experience. The Group Secretary helps directors undertake any other professional development they consider necessary to assist them in carrying out their duties.

Chairman and Chief Executive

The roles of Chairman and Chief Executive Officer are separated and their responsibilities are clearly established. The Chairman is responsible for the leadership and workings of the Board and ensuring its effectiveness and the Chief Executive Officer together with the executive directors are responsible for the implementation of strategy and policies and the day-to-day decision-making and administration.

Other significant commitments of the Chairman, Maarten Henderson, are set out in the Directors section on pages 20 and 21. The Board is satisfied that these commitments do not restrict him from carrying out his duties as Chairman effectively.

Performance evaluation

The directors believe that an effective Board is vital to the success of the Group and, as a result, undertake a thorough evaluation each year in order to assess how well the Board, its committees, the directors and the Chairman are performing. The aim is to improve the effectiveness of the Board, its committees and ultimately the Group's performance. The process is led by the Chairman and is supported by the Group Secretary and the Senior Independent Director. The Board believes that a combination of external reviews every third/fourth year with internal reviews in the other intervening years is the most appropriate method for evaluating effectiveness. The Board conducted an external evaluation for the 2008 Annual Report and intends to carry out an external review for the 2012 Annual Report.

The performance of individual directors was evaluated by the Chairman and the other non-executive directors. Following the review process, the Chairman concluded that each director continues to make an effective contribution to the work of the Board, is well prepared and informed concerning items to be considered by the Board, has a good understanding of the Group's businesses and that their commitment to the role remains strong.

The Senior Independent Director together with Michael Parker and the Chief Executive Officer evaluated the performance of the Chairman and concluded that the Chairman operated effectively in his role.

Corporate governance statement continued

Performance evaluation continued
The Board carried out an internal evaluation of its effectiveness during a structured discussion at a board meeting in February 2012. The process was led by the Chairman with the assistance of the Group Secretary. The discussion focussed on: the Board's roles and responsibilities; the Board's culture and dynamics; the Board's processes; and the role of the Chairman. The review concluded that the Board was operating in an effective manner. It identified a number of significant strengths and it also identified some areas where changes could be made to improve longer-term effectiveness. These areas identified in the review are to be addressed in 2012 by an action plan developed by the Board.

The audit, nomination and remuneration committees carried out internal evaluations of their effectiveness at meetings in February and March 2012. The process for each review was similar to that used for the Board's effectiveness review. The reviews concluded that each committee was operating in an effective manner. Each review identified a number of strengths and some areas where changes could be made to improve longer-term effectiveness.

Relations with shareholders
The Board values the views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management.

The AGM is used to communicate with investors and documents are sent to shareholders at least 20 working days before the meeting. The Chief Executive makes a presentation there on the Group's progress. The Chairman, Chief Executive, Chief Financial Officer, Executive Director German Operations and the chairmen of the audit committee and remuneration committee are available to answer relevant questions. Separate resolutions are proposed on each substantial issue so that they can be given proper consideration and there is a resolution to receive and consider the Annual Report and financial statements. The Group counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The totals of proxy votes on each resolution, including details of any votes withheld, are announced at the meeting after each resolution has been dealt with on a show of hands and the full proxy voting results are announced through a regulatory news service and on the Company's website. In the event of a close result as indicated by the proxies held by the chairman of the meeting, the chairman would call a poll but this has not proved necessary at any of the AGMs to date. The Board believes that the immediacy of voting on a show of hands with the proxy votes immediately being announced, rather than a laborious process of conducting a formal poll on every resolution, is appreciated by the shareholders who attend the meeting.

During the year the executive directors maintained a regular programme of visits and presentations to major institutional shareholders both in the United Kingdom and overseas. The Chairman and the Senior Independent Director, who participate in this programme as appropriate, met with a number of major shareholders to discuss the introduction of the performance share plan before the 2011 AGM and reported the views of these shareholders to the Board. All directors receive copies of analysts' reports on the Group's and are updated by the Group's financial advisors on investors' perceptions of PV Crystalox Solar.

There were formal presentations following the preliminary and interim results and in addition the Group released Interim Management Statements in May and October 2011 and a trading update in June 2011.

Key announcements, financial reports, the presentations referred to above and other information about the Group can be found on the Group's website at www.pvcrystalox.com.

Accountability
The Board aims to present a balanced and understandable assessment of the Group's position and prospects in all reports and other price sensitive disclosures, reports to regulators and information required to be presented by statute. The responsibilities of the directors as regards the financial statements are described on page 40 and that of the auditors on page 41. A statement on going concern appears on pages 13 and 14.

Remuneration committee
The Directors' remuneration report and details of the activities of the remuneration committee are on pages 32 to 39. It sets out the Group's policy and the full details of all elements of the remuneration package of each individual director.

Nomination committee
The nomination committee of the Board comprises Maarten Henderson, Chairman of the Committee, John Sleeman and Michael Parker. It is appointed by the Board and is made up of at least three members, a majority of whom should be independent non-executive directors. The Chief Executive Officer, the Chief Financial Officer, other directors and external advisors may be invited to attend meetings as and when appropriate. The Group Secretary acts as the Secretary of the committee. The terms of reference of the nomination committee are available to members of the public upon request and are available on the Group's website at www.pvcrystalox.com. The nomination committee meets not less than twice a year and is required to report formally to the Board on its proceedings.

The main responsibilities of the nomination committee are to:

- review regularly the structure, size and composition (including the skills, knowledge, experience and diversity) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Group and what skills and expertise are therefore needed on the Board in the future;
- be responsible for identifying and nominating for the approval of the Board candidates to fill Board vacancies as and when they arise;

Nomination committee continued

- before appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board and, in the light of this evaluation, prepare a description of the role and capabilities required for a particular appointment;
- for the appointment of a chairman, the committee should prepare a job specification, including the time commitment expected. A proposed chairman's other significant commitments should be disclosed to the board before appointment and any changes to the chairman's commitments should be reported to the board as they arise;
- prior to the appointment of a director, the proposed appointee should be required to disclose any other business interests that may result in a conflict of interest and be required to report any future business interests that could result in a conflict of interest;
- keep under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- review the results of the board performance evaluation process that relate to the composition of the board;
- keep up to date and fully informed about strategic issues and commercial changes affecting the Group and the market in which it operates;
- review annually the time required from non-executive directors. Performance evaluation is used to assess whether the non-executive directors are spending enough time to fulfil their duties; and
- ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

The nomination committee is also required to make recommendations to the Board concerning:

- the formulation of plans for succession for both executive and non-executive directors and in particular for the key roles of Chairman and Chief Executive Officer;
- suitable candidates for the role of Senior Independent Director;
- membership of the audit and remuneration committees, in consultation with the chairmen of those committees;
- the re-appointment of any non-executive director having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;
- any matters relating to the continuation in office of any director at any time including the suspension or termination of service of an executive director as an employee of the Company subject to the provisions of the law and their service contract; and
- the appointment of any director to executive or other office other than to the positions of Chairman and Chief Executive Officer.

The nomination committee met three times during the year. Details of attendance are shown in the Corporate Governance Statement on page 27.

During the year the main items considered were:

- review of the structure, size and composition of the Board;
- organisational changes and senior appointments within the Group;
- succession planning for directors and senior managers within the Group;
- the nomination committee effectiveness review;
- a review and recommendation of changes to the terms of reference of the nomination committee to the Board; and
- a review of the knowledge, skills and experience of the directors proposed for annual re-election at the AGM.

Audit committee

The audit committee of the Board is chaired by John Sleeman and is to be made up of a minimum of two members where a majority of the members shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience. The committee is made up of three members, the two independent non-executive directors, John Sleeman and Michael Parker and Maarten Henderson, the Chairman of the Board, who was considered to be independent on appointment. John Sleeman is a Chartered Accountant and a Chartered Banker who since 2006 has been a founding partner of S.P. Angel Corporate Finance LLP. Maarten Henderson is a finance professional who has held several CFO roles. He was chairman of the audit committee until his election to chairman of the Board of freenet AG in July 2011 and his most recent executive role as a CFO ended in October 2007. The Board considers that these two members have recent and relevant financial experience. Michael Parker, a former CEO of both The Dow Chemical Company and BNFL, brings many years of international commercial experience to the committee. The Board believes that this combination of professional experience is appropriate to fulfil the duties of the committee.

The Chief Financial Officer, the other directors and the external auditor may be invited to attend audit committee meetings as and when appropriate. The Group Secretary acts as the Secretary of the committee. The terms of reference of the audit committee are available to members of the public upon request and are available on the Group's website at www.pvcrystalox.com. The audit committee meets not less than three times a year and is required to report formally to the Board on its proceedings.

Corporate governance statement continued

Audit committee continued

The main responsibilities of the audit committee include:

- overseeing the Group's financial reporting process and monitoring the integrity of the financial statements and formal announcements relating to the Group's financial performance;
- reviewing significant financial reporting issues and accounting policies and disclosures in financial reports;
- reviewing the effectiveness of the Group's internal control procedures and risk management systems;
- reviewing the Group's arrangements for whistleblowing, detecting fraud and preventing bribery;
- reviewing the requirement for an internal audit function;
- overseeing the Board's relationship with the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process; and
- making recommendations to the Board on the appointment or re-appointment of the Group's external auditors.

Independence of the external auditors

The Group's external auditors are PricewaterhouseCoopers LLP ("PwC") and the Committee operates a policy to safeguard the independence and objectivity of the external auditors. This policy requires approval of non-audit services provided by the external auditors in advance, with the requirement that on an annual basis the total fees for non-audit services do not exceed the total annual fees for audit services; sets out certain disclosure requirements by the external auditors to the Committee; places restrictions on the employment of the external auditors' former employees; and partner rotation. During the year, the Committee reviewed the processes that the external auditors have in place to safeguard their independence and received a letter from them confirming that, in their opinion, they remained independent.

A breakdown of the fees paid to the external auditors in respect of audit and non-audit related work is included in Note 5 of the financial statements. Having undertaken a review of the non-audit related services provided during the year, the Committee is satisfied that these services did not prejudice the external auditors' independence.

Work undertaken during the year

The audit committee met three times during the year. Details of attendance are shown in the Corporate Governance Statement on page 27.

During the year the main items considered were:

- discussions with the auditors on the audit approach and strategy, the audit process, key issues arising out of the audit and discussions on the Audit Report;
- approval of the audit fees and the auditor's letter of engagement;
- considering the independence and objectivity of the external auditors;
- reviewing the internal controls and risk management systems in operation within the Group;
- consideration of the requirement for the Group to have an internal audit function;
- detailed reviews of the Group's preliminary announcement, Annual Report, Interim Reports and interim management statements;
- the audit committee effectiveness review; and
- a review and recommendation of changes to the terms of reference of the audit committee to the Board.

Internal controls and risk management systems

The Board has overall responsibly for the Group's system of internal control and risk management systems and for reviewing its effectiveness. The Board delegates to executive management the responsibility for designing, operating and monitoring both the systems and the maintenance of effective internal control in each of the Group's operating subsidiaries. The internal controls and risk management systems are designed to meet the particular needs of the Group and the risks to which it is exposed and are designed to manage rather than eliminate risk. Accordingly they can provide only reasonable and not absolute assurance against material misstatement, losses, fraud or breaches of laws or regulations.

Executive management is responsible for establishing and maintaining adequate internal control and risk management systems relating to the financial reporting process and the Group's process for the preparation of consolidated accounts. The systems and controls in place include policies and procedures that relate to the maintenance of records that accurately and fairly reflect transactions and accurately record and control the Group's assets; provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS"); require representatives of the operating subsidiaries to confirm that their reported information gives a true and fair view of the state of affairs of the subsidiary and the results for the period; and review and reconcile reported results.

Internal controls and risk management systems continued

The key procedures, which exist to provide effective internal controls and risk management systems, are as follows:

- clear limits of authority;
- a comprehensive system for consolidating financial results from Group companies and reporting these financial results to the Board;
- annual revenue, cash flow and capital forecasts reviewed regularly during the year, monthly monitoring of management accounts and capital expenditure reported to the Board and monthly comparisons with forecasts;
- financial controls and procedures;
- clear guidelines for the authorisation of significant transactions including capital expenditure and disposals under defined levels of authority;
- regular meetings of the executive directors;
- an audit committee, which approves audit plans and published financial information and reviews reports from external auditors arising from the audit and deals with significant control matters raised;
- regular Board meetings to monitor continuously any areas of concern;
- annual review of risks and internal controls; and
- annual review of compliance with the Code.

The Board has reviewed the operation and effectiveness of the Group's system of internal control, including financial, operational and compliance controls and risk management systems which were in place during the financial year ended 31 December 2011 and the period up to the date of approval of the financial statements. The Group Secretary, who is a Chartered Accountant, led the review. The review was summarised into a report which was discussed by the audit committee and the Board in March 2012.

The Board confirmed that no significant weaknesses were identified in relation to the review conducted during the year. It did identify some areas where changes could be made to improve longer-term effectiveness and actions are to be undertaken during 2012 to improve these controls.

The Board confirms that the an ongoing process for identifying, evaluating and managing the significant risks faced by the Group is regularly reviewed by the Board in accordance with the Turnbull Guidance on internal control.

The Board has considered the need for an internal audit function but has decided that the size of the Group does not justify it at present. The Board will keep the decision under annual review.

By order of the Board

Matthew Wethey
Group Secretary
27 March 2012

Directors' remuneration report

This report contains the information required by the Companies Act 2006 and the relevant parts of the Listing Rules of the United Kingdom Listing Authority and Schedule D to the United Kingdom Corporate Governance Code (June 2010).

The information contained in this report is not subject to audit except where specified.

In accordance with the requirements of the Companies Act 2006, a resolution to approve this report will be proposed at the AGM to be held on 24 May 2012.

Composition of the remuneration committee

The remuneration committee of the Board is chaired by John Sleeman and is to be made up of a minimum of two non-executive directors. The committee is made up of the three non-executive directors; Maarten Henderson, John Sleeman and Michael Parker. The Chief Executive Officer, the Chief Financial Officer, other directors and external advisors may be invited to attend meetings as and when appropriate. The Group Secretary acts as the Secretary to the remuneration committee. The terms of reference of the remuneration committee are available to members of the public upon request and are available on the Group's website at www.pvcrystalox.com. The remuneration committee meets not less than twice a year and is required to report formally to the Board on its proceedings. None of the members of the committee has any personal financial interest in the matters to be decided, potential conflicts of interest or any day-to-day involvement in running the business. No director takes part in discussions relating to his own remuneration and benefits.

Terms of reference of the remuneration committee

The main duties of the remuneration committee are to:

- determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive Officer, the Chairman, the executive directors, the Company Secretary and such other members of the executive management as it is designated to consider. The remuneration of non-executive directors shall be a matter for the Chairman and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
- in determining such policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the United Kingdom Corporate Governance Code and associated guidance. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group;
- review the ongoing appropriateness and relevance of the remuneration policy;
- approve the design of, and determine targets for, any performance related pay schemes operated by the Group and approve the total annual payments made under such schemes;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors and other senior executives and the performance targets to be used;
- determine the policy for, and scope of, pension arrangements for each executive director and other senior executives;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- within the terms of the agreed policy and in consultation with the Chairman and/or the Chief Executive Officer as appropriate, determine the total individual remuneration package of each executive director and other senior executives including bonuses, incentive payments and share options or other share awards;
- review and note annually the remuneration trends across the Company or Group;
- oversee any major changes in employee benefits structures throughout the Company or Group;
- agree the policy for authorising claims for expenses from the Chief Executive Officer and the Chairman;
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee; and
- obtain reliable, up-to-date information about remuneration in other companies. To help it fulfil its obligations the committee shall have full authority to commission or purchase any reports or surveys or information which it deems necessary, within any budgetary restraints imposed by the board.

Remuneration committee process

The remuneration committee met four times during the year. Details of attendance are shown in the Corporate Governance Statement on page 27.

During the year the main items considered were:

- discussions concerning the introduction of a performance share plan and setting the performance criteria, working with KPMG LLP as consultants to the committee;
- proposals to introduce a deferred share scheme for certain Group employees;
- to obtain approval for a company share option plan for employees excluding executive directors from HMRC;
- to review and approve awards made under the employee share schemes;
- to introduce a retention bonus for certain Group employees;
- the annual bonus scheme for executive directors;
- the annual bonus schemes for Group employees;
- a review of directors' fees and remuneration;
- to approve the remuneration proposals for salary and bonus payments to employees across the Group;
- a remuneration committee effectiveness review;
- the development of an action plan to improve the areas identified in the remuneration committee review; and
- to review and recommend changes to the terms of reference of the remuneration committee to the Board.

Terms of employment

Hubert Aulich, Iain Dorrity and Peter Finnegan have rolling service contracts dated 21 May 2007. Each executive director's employment is terminable on twelve months' notice by the executive director or twelve months' notice by the Company. The Company may elect to terminate the employment of an executive director by making a payment equal to twelve months' basic salary, Company pension contributions and contractual benefits. No payment is due to be made in these circumstances for any element of bonus not declared before notice of termination of employment is given.

The Company does not have a minimum shareholding guideline for executive directors as the current executive directors all have shareholdings many times in excess of their annual salary which aligns the executives' and shareholders' interests. The committee intends to review the need for a formal guideline for executive directors in the future.

Executive directors' contracts of service, which include details of remuneration, are available for inspection at the Company's registered address and will be available for inspection at the AGM to be held on 24 May 2012.

Remuneration policy

The Company's remuneration policy is to provide executive remuneration packages that attract, motivate and retain high calibre individuals needed to maintain the Group's position as a market leader, to deliver outstanding operational performance, to deliver excellent financial performance and to enhance shareholder value. To achieve this policy the packages must:

- be competitive;
- encourage a focus on long-term, sustained performance;
- be fair and transparent;
- be consistent across the Group; and
- be aligned to shareholders' interests.

The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the committee.

There are five elements of the current remuneration package for executive directors and senior management:

- basic annual salary;
- benefits-in-kind;
- annual bonus payments, which cannot exceed 100% of salary;
- long-term incentives; and
- pension arrangements.

Directors' remuneration report continued

Remuneration policy continued
The committee takes into account the general pay and employment conditions of other employees of the Group when determining executive directors' remuneration for the relevant financial year. This includes taking account of the levels of base salary increase for employees below executive level when reviewing executive base salaries and ensuring that the same principles apply in setting performance targets for executives' incentives as for other employees of the Group.

The committee believes that it is appropriate for the Group to introduce a long-term incentive scheme in 2011, which incentivises executives and senior management to deliver long-term sustained improvement in financial performance and shareholders' returns. Such schemes are typical in other quoted companies and the remuneration committee believes that the introduction of such a scheme is required to achieve the objectives of the remuneration policy. The committee engaged KPMG LLP as consultants during 2010 and 2011 to assist in the creation of such a scheme. The outcome of this collaboration is a performance share plan under which conditional awards of whole free shares are to be granted which vest three years after grant and are subject to continued employment and performance conditions. The performance conditions proposed are Total Shareholder Return ("TSR") and EPS growth.

The performance share plan was approved by shareholders at the 2011 AGM, held on 26 May 2011.

Basic salary
An executive director's basic salary reflects the market value of the individual, his or her skills, experience and performance. Basic salaries are reviewed by the committee annually prior to the start of the salary year, and on the occasion when an individual changes position or responsibility. In deciding appropriate remuneration levels, the committee considers the Group as a whole and relies on objective research which gives up to date information on a comparator group of listed companies of similar size and complexity.

During 2011 basic salaries of the executive directors were reviewed along with the salaries of all other Group employees.

The remuneration committee discussed the review for the executive directors and were mindful that there was a pay freeze throughout the Group due to the difficult trading environment. As a result of these discussions, the committee agreed to recommend to the Board that there would be no increase in the remuneration of the executive directors. On the recommendation of the remuneration committee, the Board decided to maintain the salaries that have been effective since 1 July 2008. Salaries agreed in Sterling and Euros are shown below.

Chairman and non-executive directors
Maarten Henderson and John Sleeman were appointed on 11 June 2007 and Mike Parker was appointed on 1 January 2010. All appointments are based on an initial term of three years with a six month notice period. Continuation of each appointment is contingent on satisfactory performance and re-election at Annual General Meetings of the Company.

Fees payable to the Chairman and the non-executive directors are reviewed annually by the Board and are set at a level to retain individuals with the necessary experience and ability to make a substantial contribution to the Group. The fees are intended to reflect the time commitment and responsibilities of the roles of the individual non-executive directors. The Chairman and non-executive directors do not receive any other benefits in addition to their fees and they do not participate in the Group's bonus schemes, pension schemes or share incentives.

The Board discussed the reviews for the Chairman and non-executive directors and were mindful that there was a pay freeze throughout the Group due to the difficult trading environment. As a result of these discussions the Board agreed that there would be no increase in the fees of the Chairman and non-executive directors. The Board decided to maintain the fees that have been effective since 1 July 2008. Fees agreed in Sterling are shown below:

Annual basic salaries and fees of the directors

Payable in Sterling	**2012 annual rate £**	2011 annual rate £
Iain Dorrity	**300,000**	300,000
Peter Finnegan	**250,000**	250,000
John Sleeman	**50,000**	50,000
Maarten Henderson	**100,000**	100,000
Michael Parker	**40,000**	40,000

Payable in Euros	**€**	€
Hubert Aulich*	**228,536**	219,095

* Hubert Aulich sacrifices part of his salary to allow for higher levels of pension contribution. His basic salary here is stated after the salary sacrifice.

Benefits-in-kind
Executive directors receive either a Company expensed motor vehicle commensurate with their seniority or a monthly car allowance. All other benefits-in-kind are available to all employees dependent upon local conditions in their country of employment.

Annual bonus payment

An executive director may receive by way of further remuneration a bonus in accordance with their contract of service. There is no contractual right to receive a bonus until it is declared in writing in respect of the financial year to which it relates and such bonus whether declared or not shall not be payable unless the executive director is employed on the date of payment.

For bonus purposes an "Adjusted Base Salary" is used which is the annual basic salary of the executive director with the exception of Hubert Aulich. His annual basic salary is deemed to be the same as that of Peter Finnegan. This adjustment is required as Hubert Aulich sacrifices part of his basic salary to allow for higher level of pension contributions.

The bonus scheme allows the executive directors to receive a maximum bonus of 100% of Adjusted Base Salary, based:

In 2010

- upon the Group's earnings, subject to a maximum of 50% of Adjusted Base Salary; and
- upon an increase in earnings per share, subject to a maximum of 50% of Adjusted Base Salary.

In 2011

- upon the Group's earnings, subject to a maximum of 100% of Adjusted Base Salary.

Half of each bonus will be payable in cash and the other half deferred and payable in shares under the Executive Directors' Deferred Share Plan which will vest three years after the award date.

Awards of deferred shares under the Executive Directors' Deferred Share Plan will be satisfied on vesting by the transfer of shares from the existing PV Crystalox Solar PLC Employee Benefit Trust. The trust has already acquired and will, from time to time, continue to acquire shares that will be available for award to employees (including executive directors).

Bonus in respect of 2010 performance payable in 2011

Group earnings target

The annual bonus scheme based on the Group's earnings allowed a bonus of up to a maximum of 50% of the Adjusted Base Salary to be paid to the executive directors. The following conditions were used to calculate the bonus based on the Group's earnings (profit attributable to equity holders of the parent) in 2010 which was payable following the release of the Group's audited results in 2011:

- a bonus of 30% of Adjusted Base Salary for achieving a target of €16.3 million;
- a maximum payout of 50% of Adjusted Base Salary for achieving a target of €21.3 million;
- no payout for a performance of less than €16.3 million; and
- payout between earnings of €16.3 million and €21.3 million to be in the proportion 0.4% of Adjusted Base Salary for bonus purposes per €100,000 of additional earnings over €16.3 million.

The Group's earnings for 2010 were €23.3 million so this element of the annual bonus paid out at the maximum 50% of Adjusted Base Salary.

EPS growth target

The other part of the annual bonus scheme allowed a bonus of up to a maximum of 50% of the Adjusted Base Salary to be paid to the executive based on the Group's earnings per share growth. The payout is calculated according to the following formula:

Earnings per share growth % over prior year	Bonus % of salary
>10%	50%
>9% to 10%	45%
>8% to 9%	40%
>7% to 8%	35%
>6% to 7%	30%
>5% to 6%	25%
>4% to 5%	20%
>3% to 4%	15%
>2% to 3%	10%
>1% to 2%	5%
>0% to 1%	0%

Basic earnings per share was €0.057 in 2010 and €0.072 in 2009. As there was a reduction in EPS there was no payout in relation to this target for 2010.

Directors' remuneration report continued

Bonus in respect of 2011 performance payable in 2012

Group earnings target

The bonus will be based solely on Group Earnings such that a bonus of 60% of basic salary for bonus purposes is payable for achieving the 2011 target of €31.0 million and a maximum payout of 100% is payable for achieving the 2011 target plus €10 million (€41.0 million).

- A bonus of 10% is payable for achieving 2011 target less €5 million (€26.0 million).
- No payout for Group Earnings of less than €26.0 million.
- Payout between earnings of €26.0 million and €31.0 million to be in the proportion 1.0% of basic salary for bonus purposes per €100,000 of additional earnings over €26.0 million.
- Payout between earnings of €31.0 million and €41.0 million to be in the proportion 0.4% of basic salary for bonus purposes per €100,000 of additional earnings over €31.0 million.

The Group's Earnings for 2011 earnings were a loss of €60.9 million so there was no payout in relation to this element of the annual bonus.

Performance share plan

The first awards under the performance share plan ("PSP") covering the performance period ending on 31 December 2013 were made on 26 May 2011 following the approval of the scheme by shareholders at the AGM on that date.

Under the PSP participants are to receive awards over shares with a value equal to a percentage of basic salary at the date of the award as follows.

Participant	Award % of salary
Chief Executive Officer	125%
Other Executive Directors	100%

The payout under the scheme is based on achievement of performance targets for achieving growth in both TSR and EPS in accordance with the following matrix.

TSR growth	<10%	10%–20%	>20%–30%	>30%–40%	>40%
EPS, Euro cents					
<10.1	0%	10%	20%	30%	40%
10.1–10.9	10%	20%	30%	40%	50%
>10.9–11.7	20%	30%	40%	50%	60%
>11.7–12.5	30%	40%	50%	60%	70%
>12.5–13.4	40%	50%	60%	70%	80%
>13.4	50%	60%	70%	80%	100%

Pension arrangements

The executive directors' contracts of service set out their basic salaries from which contributions can be made into the Crystalox Group Personal Pension Scheme or such other pension plan suitable to the executive and his country of residence. Iain Dorrity and Peter Finnegan are entitled to a Company contribution of 6% of basic salary and paid directly to a defined contribution scheme (the Crystalox Group Personal Pension Scheme). Hubert Aulich has a proportion of his salary paid into a defined benefit scheme as set out overleaf.

Directors' remuneration payable (audited)

Hubert Aulich has a proportion of salary paid into his pension scheme and his bonus is capped at 50% of his salary including the amount sacrificed for pension. The payment was subject to currency movements.

	Fees/basic salary €	Benefits-in-kind €	Annual bonuses (in respect of 2011 payable in cash 2012)[1] €	Annual bonuses (in respect of 2011 payable in deferred shares in 2012)[1] €	**Total 2011 €**	Total 2010 €
Maarten Henderson	115,275	—	—	—	**115,275**	116,605
Hubert Aulich	228,536	7,548	—	—	**236,084**	381,210
Iain Dorrity	345,825	10,340	—	—	**356,165**	533,945
Peter Finnegan	298,562	1,014	—	—	**299,576**	448,790
Michael Parker	46,110	—	—	—	**46,110**	46,642
John Sleeman	57,638	—	—	—	**57,638**	58,303
	1,091,946	18,902	—	—	**1,110,848**	1,585,495

1 The annual bonus amount reflects both the cash element of the bonus which is to be paid in 2012 and represents 50% of the value of the bonus and the remaining 50% which is payable in shares under the Executive Directors' Deferred Share Plan which will vest three years after the award date.

The above amounts were subject to social security taxes paid by the Group as follows:

	Total 2011 €	Total 2010 €
Fees, salaries, bonuses and benefits	**1,110,848**	1,585,495
Social security	**102,847**	158,678
	1,213,695	1,744,173

Directors' share grants (audited)

In accordance with the Group's policy since 2010, 50% of a participant's gross bonus is payable in deferred shares under the Executive Directors' Deferred Share Plan. Under the rules of this plan the number of shares is calculated by reference to 50% of a participant's gross bonus divided by the average of the middle market quotations on the five consecutive dealing days immediately following the date on which the results are announced. The shares granted in the year relate to the 2010 bonus.

Deferred shares awarded due to 2010 performance

	Date of grant	Normal vesting date	Number of shares awarded[1]	Price at grant[2] p	Value at grant €
Maarten Henderson	—	—	—	—	—
Hubert Aulich	24.03.11	24.03.14	112,007	55.80p	72,878
Iain Dorrity	24.03.11	24.03.14	134,409	55.80p	87,454
Peter Finnegan	24.03.11	24.03.14	112,007	55.80p	72,878
Michael Parker	—	—	—	—	—
John Sleeman	—	—	—	—	—
			358,423		233,210

1 The number of shares to be awarded is dependent on the price at grant.

2 The price is based on the average of the middle market quotations on the five consecutive dealing days immediately following the date on which the results are announced.

Deferred shares awarded due to 2011 performance

No bonus is payable in relation to 2011 performance due to failure to achieve targets. Accordingly no awards of deferred shares are to be made.

Directors' remuneration report continued

Performance share plan

Maximum awards for performance period ending in 2013

	Date of grant	Number of shares awarded in year	Price at grant p
Maarten Henderson	—	—	—
Hubert Aulich	26.05.11	515,464	48.50p
Iain Dorrity	26.05.11	773,196	48.50p
Peter Finnegan	26.05.11	515,464	48.50p
Michael Parker	—	—	—
John Sleeman	—	—	—
		1,804,124	

Directors' pension (audited)

	Contributions to defined contribution scheme €	Contributions to defined benefit scheme €	**Total 2011 €**	Total 2010 €
Maarten Henderson	—	—	**—**	—
Hubert Aulich	—	28,275	**28,275**	72,741
Iain Dorrity	20,750	—	**20,750**	20,989
Peter Finnegan	17,290	—	**17,290**	17,490
Michael Parker	—	—	**—**	—
John Sleeman	—	—	**—**	—
	38,040	28,275	**66,315**	110,220

Increases in pension benefits as 31 December 2011

	Accrued pension		Transfer value of accrued benefits		Change in transfer value less directors' contributions	Additional accrued benefits earned in the year	Transfer value of increase in accrued benefits less directors' contributions
	2011	2010	**2011**	2010	2011	2011	2011
	€	€	**€**	€	€	€	€
Hubert Aulich	**60,000**	60,000	**903,010**	765,485	137,525	—	137,525

Hubert Aulich's contributions in the financial year were €nil (2010: €nil).

Remuneration policy for non-executive directors

The non-executive directors have specific terms of engagement and their remuneration is determined by the Board based on independent surveys of fees paid to non-executive directors of similar companies. Non-executive directors are not eligible to join the Company's share schemes or pension schemes.

Directors' interests in shares of the company

The interests in the ordinary share capital of the Company as at 31 December 2011 of those directors who were in office during the year are detailed below. The table details separately beneficial interests and share options issued to the directors under the Performance Share Plan and the Executive Director's Deferred Share Plan.

	Shares held at 31 Dec 2011	Shares held at 31 Dec 2010	**PSP awards 31 Dec 2011**	PSP awards 31 Dec 2010	**Deferred Shares 31 Dec 2011**	Deferred Shares 31 Dec 2010
Hubert Aulich	**11,355,469**	11,355,469	**515,464**	Nil	**131,115**	19,108
Iain Dorrity	**44,085,974**	44,085,974	**773,196**	Nil	**157,338**	22,929
Peter Finnegan	**2,671,912**	2,671,912	**515,464**	Nil	**131,115**	19,108
Maarten Henderson	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil
Michael Parker	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil
John Sleeman	**Nil**	Nil	**Nil**	Nil	**Nil**	Nil

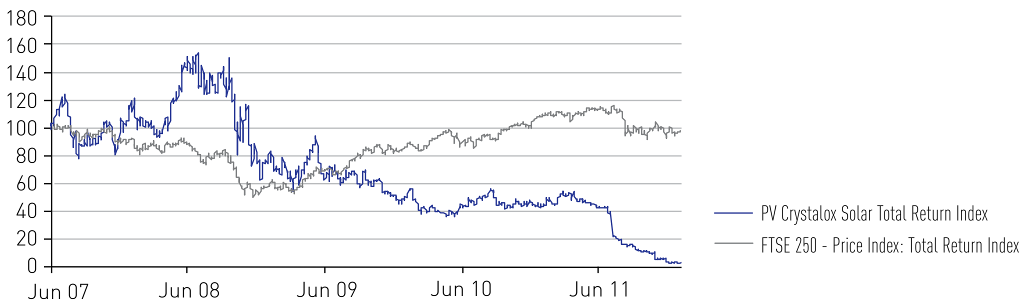
The closing mid-market price of a PV Crystalox Solar PLC share on 30 December 2011 was 4.37 pence and the price range during the year was 3.90 pence to 61.43 pence.

Between 1 January 2012 and 9 March 2012 (the latest date for which it was practical to obtain the information) there were no changes to the beneficial interest of the directors in the ordinary shares of the Company.

Shareholder return

Performance graph (unaudited)

The graph below shows the TSR performance from 6 June 2007 when the Group listed on the London Stock Exchange to 31 December 2011. This is compared against the TSR performance of the FTSE 250 index. The Group was a member of the FTSE 250 index between September 2007 and March 2010. The graph is based upon £100 being invested in the shares of PV Crystalox Solar PLC in June 2007 if all dividends had been reinvested and the comparative figures for the FTSE 250 index again assuming that dividends were reinvested. The data has been sourced from Thomson Datastream.



John Sleeman
Chairman of the Remuneration Committee
27 March 2012

Statement of directors' responsibilities
in respect of the directors' report and the financial statements

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for the year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Directors section confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

Dr Peter Finnegan
Chief Financial Officer
27 March 2012

Independent auditors' report
to the members of PV Crystalox Solar PLC

We have audited the Group financial statements of PV Crystalox Solar PLC for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 40, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 26 to 31 with respect to internal control and risk management systems and in the Directors' Report set out on pages 22 to 25 with respect to share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on pages 13 and 14, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the United Kingdom Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of PV Crystalox Solar PLC for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 March 2012

Consolidated statement of comprehensive income
for the year ended 31 December 2011

	Notes	2011 Before exceptional items €'000	2011 Exceptional items (note 35) €'000	2011 Total €'000	2010 Total €'000
Revenues	8	**210,400**	**—**	**210,400**	252,559
Other income	2	**5,605**	**—**	**5,605**	3,459
Cost of material and services					
Cost of material	3	**(149,415)**	**(43,735)**	**(193,150)**	(162,272)
Cost of services	3	**(18,699)**	**—**	**(18,699)**	(20,479)
Personnel expenses					
Wages and salaries	4	**(14,805)**	**—**	**(14,805)**	(13,660)
Social security costs	4	**(2,295)**	**—**	**(2,295)**	(2,090)
Pension costs	4	**(527)**	**—**	**(527)**	(476)
Employee share schemes	4	**(238)**	**—**	**(238)**	(1,047)
Depreciation and impairment of property, plant and equipment and intangible assets		**(16,107)**	**(27,874)**	**(43,981)**	(13,096)
Other expenses	5	**(11,284)**	**—**	**(11,284)**	(8,373)
Currency gains and losses	30	**1,438**	**—**	**1,438**	(1,176)
Earnings before interest and taxes ("EBIT")		**4,073**	**(71,609)**	**(67,536)**	33,349
Interest income	6	**855**	**—**	**855**	1,061
Interest expense	6	**(404)**	**—**	**(404)**	(684)
Earnings before taxes ("EBT")		**4,524**	**(71,609)**	**(67,085)**	33,726
Income taxes	7	**(13,598)**	**19,790**	**6,192**	(10,462)
Loss attributable to equity holders of the parent		**(9,074)**	**(51,819)**	**(60,893)**	23,264
Other comprehensive income					
Exchange differences on translating foreign operations	30	**5,206**	**—**	**5,206**	12,551
Total comprehensive income					
Attributable to equity holders of the parent		**(3,868)**	**(51,819)**	**(55,687)**	35,815
Basic and diluted (loss)/earnings in Euro cents	9			**(15.0)**	5.7

All of the activities of the Group are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Consolidated balance sheet
as at 31 December 2011

	Notes	2011 €'000	2010 €'000
Intangible assets	15	**508**	668
Property, plant and equipment	16	**107,914**	129,509
Pension surplus	27	**157**	—
Other long-term assets	17	**32,797**	36,757
Deferred tax asset	18	**19,320**	12,080
Total non-current assets		**160,696**	179,014
Cash and cash equivalents	10	**71,664**	101,300
Trade accounts receivable	11	**32,319**	55,807
Inventories	12	**48,497**	50,813
Prepaid expenses and other assets	13	**29,620**	24,929
Current tax assets	14	**9,815**	—
Total current assets		**191,915**	232,849
Total assets		**352,611**	411,863
Loans payable	19	**49,046**	46,462
Trade accounts payable	20	**8,803**	23,129
Deferred revenue	26	**10,082**	10,084
Accrued expenses	21	**6,589**	4,837
Provisions	22	**7,973**	315
Deferred grants and subsidies	23	**2,831**	2,867
Income tax payable	24	**399**	6,764
Other current liabilities	25	**753**	900
Total current liabilities		**86,476**	95,358
Deferred revenue	26	**8,039**	10,562
Accrued expenses	21	**131**	98
Pension benefit obligation	27	**—**	62
Deferred grants and subsidies	23	**22,426**	24,156
Deferred tax liability	18	**8,183**	825
Provisions	22	**10,122**	—
Other long-term liabilities		**43**	42
Total non-current liabilities		**48,944**	35,745
Share capital	28	**12,332**	12,332
Share premium		**75,607**	75,607
Shares held by the EBT		**(8,640)**	(8,640)
Share-based payment reserve		**500**	262
Reverse acquisition reserve		**(3,601)**	(3,601)
Retained earnings		**158,094**	227,107
Currency translation adjustment		**(17,101)**	(22,307)
Total shareholders' equity		**217,191**	280,760
Total liabilities and shareholders' equity		**352,611**	411,863

The accompanying notes form an integral part of these statements.

Approved and authorised for issue by the Board of Directors and signed on its behalf by:

Dr Peter Finnegan
Chief Financial Officer
27 March 2012

Company number
06019466

Consolidated statement of changes in equity
for the year ended 31 December 2011

	Share capital €'000	Share premium €'000	Shares held by the EBT €'000	Share-based payment reserve €'000	Reverse acquisition reserve €'000	Retained profit €'000	Currency translation adjustment €'000	Total equity €'000
As at 1 January 2010	12,332	75,607	(5,642)	2,021	(3,601)	214,301	(34,858)	260,160
Dividends paid in the year	—	—	—	—	—	(12,139)	—	(12,139)
Share based payment charge	—	—	—	(1,759)	—	—	—	(1,759)
Gain on sale of shares by the EBT	—	—	(2,998)	—	—	1,681	—	(1,317)
Transactions with owners	—	—	(2,998)	(1,759)	—	(10,458)	—	(15,215)
Profit for the year	—	—	—	—	—	23,264	—	23,264
Currency translation adjustment	—	—	—	—	—	—	12,551	12,551
Total comprehensive income	—	—	—	—	—	23,264	12,551	35,815
As at 31 December 2010	12,332	75,607	(8,640)	262	(3,601)	227,107	(22,307)	280,760
As at 1 January 2011	12,332	75,607	(8,640)	262	(3,601)	227,107	(22,307)	280,760
Dividends paid in the year	—	—	—	—	—	(8,120)	—	(8,120)
Share based payment charge	—	—	—	238	—	—	—	238
Transactions with owners	—	—	—	238	—	(8,120)	—	(7,882)
Loss for the year	—	—	—	—	—	(60,893)	—	(60,893)
Currency translation adjustment	—	—	—	—	—	—	5,206	5,206
Total comprehensive income	—	—	—	—	—	(60,893)	5,206	(55,687)
As at 31 December 2011	**12,332**	**75,607**	**(8,640)**	**500**	**(3,601)**	**158,094**	**(17,101)**	**217,191**

Consolidated cash flow statement
for the year ended 31 December 2011

	2011 €'000	2010 €'000
Earnings before taxes	**(67,085)**	33,726
Adjustments for:		
Net interest income	**(451)**	(377)
Depreciation and amortisation	**16,107**	13,096
Impairment charge	**27,874**	—
Inventory writedown	**22,866**	—
Charge for retirement benefit obligation and share based payments	**19**	(129)
Charge for provisions	**17,019**	849
Loss from the disposal of property, plant and equipment and intangibles	**249**	60
Unrealised losses/(gains) in foreign currency exchange	**2,784**	(2,938)
Change in deferred income	**(2,862)**	(2,755)
	16,520	41,532
Changes in working capital		
Increase in inventories	**(19,117)**	(12,633)
Decrease in accounts receivables	**26,734**	6,349
(Decrease)/increase in accounts payables and advance payments	**(15,197)**	4,863
Decrease/(increase) in other assets	**976**	(21,846)
Decrease in other liabilities	**(151)**	(260)
	9,765	18,005
Income taxes paid	**(9,063)**	(7,762)
Interest received	**855**	1,061
Net cash from operating activities	**1,557**	11,304
Cash flow from investing activities		
Proceeds from sale of property, plant and equipment	**60**	24
Proceeds from investment grants and subsidies	**1,097**	3,304
Payments to acquire property, plant and equipment	**(21,867)**	(19,871)
Net cash used in investing activities	**(20,710)**	(16,543)
Cash flow from financing activities		
(Repayment)/receipt of bank and other borrowings	**(317)**	11,141
Dividends paid	**(8,120)**	(12,139)
Interest paid	**(404)**	(684)
Losses in foreign currency exchange	**(2,784)**	—
Shares acquired by EBT	**—**	(4,266)
Net cash used in financing activities	**(11,625)**	(5,948)
Net change in cash and cash equivalents available	**(30,778)**	(11,184)
Effects of foreign exchange rate changes on cash and cash equivalents	**1,142**	12,083
Cash and cash equivalents at beginning of the year	**101,300**	100,404
Cash and cash equivalents at end of the year	**71,664**	101,300

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements
for the year ended 31 December 2011

1. Group accounting policies

Basis of preparation
The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial information has also been prepared under the historical cost convention except that it has been modified to include certain financial assets and liabilities (including derivatives) at their fair value through the Consolidated Statement of Comprehensive Income.

PV Crystalox Solar PLC is incorporated and domiciled in the United Kingdom.

The Company is listed on the London Stock Exchange.

The financial statements for the year ended 31 December 2011 were approved by the Board of Directors on 27 March 2012.

Functional and presentational currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent company is Sterling. The financial information has been presented in Euros, which is the Group's presentational currency. The Euro has been selected as the Group's presentational currency as this is the currency used in its significant contracts. The financial statements are presented in round thousands.

Foreign currency translation
Transactions in foreign currencies are translated into the functional currency of the respective entity at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the date the fair value was determined. Exchange gains and losses on monetary items are taken to EBIT.

The assets and liabilities of foreign operations are translated to Euros at foreign exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated into Euros at the average foreign exchange rates of the year that the transactions occurred in. In the Consolidated Financial Statements exchange rate differences arising on consolidation of the net investments in subsidiaries are recognised in other comprehensive income under "Currency translation adjustment".

Use of estimates and judgements – overview
The preparation of financial statements in conformity with adopted IFRS requires management to make judgements and estimates that affect the application of policies and reported amounts of assets, liabilities, income, expenses and contingent liabilities. Estimates and assumptions mainly relate to the useful life of non-current assets, the discounted cash flows used in impairment testing, the establishing of provisions for onerous contracts, litigation, pensions and other benefits, taxes and inventory valuations. Estimates are based on historical experience and other assumptions that are considered reasonable under the circumstances. Actual values may vary from the estimates. The estimates and the assumptions are under continuous review with particular attention paid to the life of material plant.

Critical accounting and valuation policies and methods are those that are both most important to the depiction of the Group's financial position, results of operations and cash flows and that require the application of subjective and complex judgements, often as a result of the need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent years. The critical accounting policies that we disclose will not necessarily result in material changes to our financial statements in any given year but rather contain a potential for material change. The main accounting and valuation policies used by the Group are outlined in the following notes. While not all of the significant accounting policies require subjective or complex judgements, the Group considers that the following accounting policies should be considered critical accounting policies.

Use of estimates – property, plant and equipment impairment
Property, plant and equipment are depreciated over their estimated useful lives. The estimated useful lives are based on estimates of the period during which the assets will generate revenue. The carrying amount of the Group's assets, other than inventories and deferred tax assets, are subject to regular impairment testing and are reviewed annually and upon indication of impairment. Having considered the impairment indicators relating to the assets of PV Crystalox Solar Silicon GmbH, a detailed review has been performed.

Management's expectations of the future cash flows of the currently closed plant showed that carrying value was in excess of net realisable amount. Consequently, included in the Statement of Comprehensive Income for this year is an impairment charge of €27.9 million (2010: €nil). The most important variable is the assumed future market price of polysilicon. Other variables are production/sales volumes, variable direct production cost per kg, personnel costs, other overhead cost, cash taxes, incremental working capital investment and replacement fixed capital investment.

Although we believe that our estimates of the relevant expected useful lives, our assumptions concerning the business environment and developments in our industry and our estimations of the discounted future cash flows are appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to additional impairment charges or allowances in the future or to valuation write backs should the expected trends reverse.

Use of estimates – deferred taxes
To compute provisions for taxes, estimates have to be applied. These estimates involve assessing the probability that deferred tax assets resulting from deductible temporary differences and tax losses can be utilised to offset taxable income in the future.

Deferred tax assets at 31 December 2011 totalled €19.32 million (2010: €12.08 million) (see note 18).

1. Group accounting policies continued

Use of estimates – provisions – onerous contract provisions

In keeping with normal practice in the industry at the time, the Group entered into long-term supply contracts for its raw material, polysilicon, with two major suppliers. Given the recent significant unexpected decline in market prices for polysilicon and silicon wafers, the resultant cost of polysilicon under these contracts means the Group is expecting losses on these contracts.

Consequently the financial statements include a provision of €17.9m (2010 €nil) for the discounted total of currently anticipated losses under these contracts.

Any further renegotiation of these contracts or improvement in market pricing would reduce this provided for loss.

Use of estimates – share-based payments

Share options granted to employees and share-based arrangements are valued at the date of grant or award using an appropriate option pricing model and are charged to operating profit over the performance or vesting period of the scheme. The annual charge is modified to take account of shares forfeited by employees who leave during the performance or vesting period and, in the case of non-market related performance conditions, where it becomes unlikely the options will vest.

The fair value of shares and share options granted are calculated using an appropriate option pricing model, e.g. the Black-Scholes model. Such models require the input of highly subjective assumptions, including volatility of share price.

Details of the inputs and how they were derived are included in note 29.

Use of estimates – inventory valuation

Given the recent significant unexpected decline in market prices for polysilicon and silicon wafers, the carrying amount of inventory has been reduced to net realisable value.

Net realisable value has been determined as estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Any improvement in anticipated selling prices would reduce the level of writedown necessary and would be taken as profit in 2012.

Basis of consolidation

The Group financial statements consolidate those of the Group and its subsidiary undertakings drawn up to 31 December 2011. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

The results of any subsidiary sold or acquired are included in the Consolidated Statement of Comprehensive Income up to, or from, the date control passes. Unrealised gains and losses on intra-group transactions are eliminated fully on consolidation.

Consolidation is conducted by eliminating the investment in the subsidiary with the parent's share of the net equity of the subsidiary.

The Group owns 100% of the voting rights in PV Crystalox Solar Kabushiki Kaisha. Non-controlling interests in equity of €43,400 are related to non-redeemable preferred stock, subject to a guaranteed annual dividend payment of €2,000. As the fair value of the resulting dividend liabilities reduces the equity portion to marginal amounts, all minority interest has been reclassified as liabilities.

On acquisition of a subsidiary, all of the subsidiary's separately identifiable assets and liabilities existing at the date of acquisition are recorded at their fair value reflecting their condition at that date. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. So far no acquisitions have taken place since inception of the Group.

Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group. All intra-group transactions, balances, income and expenses are eliminated upon consolidation.

Going concern

A description of the market conditions, the reduction in spot prices of wafers during 2011 and the Group's actions to conserve cash are included in the Operational Review.

As part of its normal business practice, the Group regularly prepares both annual and longer-term plans which are based on the directors' expectations concerning key assumptions. The assumptions around contracted sales volumes and prices and contracted purchase volumes and prices are based on management's expectations and are consistent with the Group's experience in the first part of 2012.

There are several long-term wafer supply contracts for unexpired periods of up to three years and accordingly the Group is able to sell wafers at prices that are above current market spot prices despite the difficult market environment. Wafer sales to customers without long-term contracts are assumed in the longer term plans at values close to spot prices. In addition the Group is negotiating compensation for the termination of certain wafer supply contracts and these are expected to generate a significant cash inflow within the next twelve months.

Likewise, the Group has long-term contracts with suppliers of our main raw material polysilicon for unexpired periods of between two and four years. Polysilicon used in the Group's wafer production comes from two external suppliers and from the Group's plant at Bitterfeld. The Group's management has been successful in working with these suppliers to secure periodic contract amendments through a combination of adjusted prices and adjusted volumes. As a result, these amendments have brought the terms more in line with current market pricing. To manage inventory levels the Group will sell excess polysilicon and has been successful in this respect during the first quarter of 2012.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

1. Group accounting policies continued

Going concern continued

The nature of the Group's operation means that it can vary production levels to match market requirements. As part of the cash conservation measures and the associated planning assumptions, production output has been reduced to match expected demand. At the same time production capacity has been retained. In line with the Group's strategy of retaining flexibility in production levels, production can be brought back on stream when market conditions allow. Employment costs have been reduced following the reduction in contract labour, redundancies in the United Kingdom and Government supported short-time working in Germany. The Group expects to reduce other costs through negotiation with suppliers and by achieving greater efficiencies within the Group's operations.

As a result of these modelling assumptions the base plans indicate that the Group will be able to operate within its net cash reserves for the foreseeable future.

On 31 December 2011 there was a net cash balance of €22.6 million, comprising cash or cash equivalents of €71.6 million and short-term loans of €49.0 million. The borrowings are in Japanese Yen and are subject to certain covenants on the Japanese subsidiary company (including interest cover, profitability, restrictions on Group dividends and debtor cover). The Group's plans are based upon remaining within its net cash balance and are not dependent upon these short-term borrowings.

Therefore, whilst any consideration of future matters involves making a judgement at a particular point in time about future events that are inherently uncertain, the Directors, after careful consideration and after making appropriate enquiries, are of the opinion that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements. Thus the Group continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Effects of new accounting pronouncements

Accounting standards in effect or applied for the first time in 2011

- IAS24 (revised) 'Related party disclosures' (effective for accounting periods starting on or after 1 January 2011). This revised standard clarifies the definition of a related party.
- Amendments to IAS32 'Financial instruments: Presentation' deals with accounting for rights issues.
- Amendments to IFRS1 'First time adoption' on financial instruments disclosures (effective for accounting periods starting on or after 1 January 2010). This amendment provides first time adopters with the same transition provisions regarding comparative information for the new three-level classification disclosures.
- Annual improvements to IFRSs 2010 (effective for accounting periods starting on or after 1 January 2011). This set of amendments includes changes to six standards and one IFRIC.
  - IFRS1 – First time Adoption
  - IFRS3 – Business Combinations
  - IFRS7 – Financial Instruments, Disclosure
  - IAS1 – Presentation of Financial Statements
  - IAS27 – Separate Financial Statements
  - IAS34 – Interim Financial Reporting
  - IFRIC13 – Customer Loyalty Programmes
- IFRIC19 'Extinguishing financial liabilities with equity investments' (effective for accounting periods starting on or after 1 July 2010) clarifies the accounting when an entity renegotiates the terms of its debt.
- Amendment to IFRIC14 'Prepayment of minimum funding requirement' (effective for accounting periods starting on or after 1 January 2011). Applies only to entities required to make minimum funding to defined benefit pension plans.

All of the above are expected to make no material difference to the financial statements.

In issue, but not yet effective

The following interpretations are in issue, but not yet effective. The Group does not believe that any will have a material impact on the Group's financial positions, results of operations or cash flows.

- Amendments to IFRS7 'Financial instruments: Disclosures' (effective for accounting periods starting on or after 1 July 2011)
- Amendments to IFRS1 'First time adoption' (effective for accounting periods starting on or after 1 July 2011)
- Amendment to IAS12 'Income taxes on deferred tax' (effective for accounting periods starting on or after 1 January 2012)
- Amendment to IAS19 'Employee Benefit' (effective for accounting periods starting on or after 1 July 2012)
- Amendment to IAS1 'Financial statement Presentation' (effective for accounting periods starting on or after 1 July 2012)
- IFRS 9 'Financial Instruments' classification and measurement' (effective for accounting periods starting on or after 1 January 2015)
- IFRS10 'Consolidated financial statements' (effective for accounting periods starting on or after 1 January 2013)
- IFRS11 'Joint Arrangements' (effective for accounting periods starting on or after 1 January 2013)
- IFRS12 'Disclosure of interest in other entities' (effective for accounting periods starting on or after 1 January 2013)
- IFRS13 'Fair Value Measurement' (effective for accounting periods starting on or after 1 January 2013)

1. Group accounting policies continued

Effects of new accounting pronouncements continued

In issue, but not yet effective continued

- IAS27 (revised 2011) 'Separate financial statements' (effective for accounting periods starting on or after 1 January 2013)
- IAS28 (revised 2011) 'Associates and joint ventures' (effective for accounting periods starting on or after 1 January 2013)

Intangible assets

Intangible assets are capitalised at cost and amortised over their useful life. Amortisation of intangible assets is recorded under 'Depreciation and impairment of property plant and equipment and intangible assets' in the Consolidated Statement of Comprehensive Income.

Acquired computer software licences and patents are capitalised on the basis of the costs incurred to purchase and bring into use the software.

The capitalised costs are written down using the straight-line method over the expected economic life of the patents and licenses (five years) or the software under development (three to five years).

Internally generated intangible assets – research and development expenditure

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognised in the Consolidated Statement of Comprehensive Income.

Internal development expenditure is charged to the Consolidated Statement of Comprehensive Income in the year in which it is incurred unless it meets the recognition criteria of IAS38 'Intangible Assets'. Technical and other uncertainties generally have the effect that such criteria are not met. However, expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products or processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of services and materials, direct labour and an appropriate proportion of overheads. Otherwise, development expenditure is recognised in the Consolidated Statement of Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefit of the specific asset to which it relates. All other expenditure is expensed as it occurs.

Only patents have been capitalised as development costs to date, as the future utilisation of other developments is not sufficiently determinable or certain.

Property, plant and equipment

Property, plant and equipment is stated at acquisition or construction cost, net of depreciation and provision for impairment. No depreciation is charged during the period of construction. The cost of own work capitalised is comprised of direct costs of material and manufacturing and directly attributable costs of manufacturing overheads. All allowable costs up until the point at which the asset is physically able to operate as intended by management are capitalised. The capitalised costs are written down using the straight-line method.

The Group's policy is to write off the difference between the cost of property, plant and equipment and its residual value systematically over its estimated useful life. Reviews of the estimated remaining lives and residual values of individual productive assets are made annually, taking commercial and technological obsolescence as well as normal wear and tear into account.

The total useful lives range from approximately 25 to 33 years for buildings, five to ten years for plant and machinery and up to 15 years for other furniture and equipment. No depreciation is provided on freehold land. Property, plant and equipment are reviewed for impairment at each balance sheet date or upon indication that the carrying value may not be recoverable.

The gain or loss arising on disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Income.

Impairment

The carrying amount of the Group's assets, other than inventories and deferred tax assets, is subject to impairment testing upon indication of impairment.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value in use based on an internal discounted cash flow evaluation.

Leased assets

Leases are categorised as per the requirements of IAS17. Where risks and rewards are transferred to the lessee, the lease is classified as a finance lease. All other leases are classed as operating leases.

Rentals under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are spread over the total period of the lease.

The obligations from operating lease contracts are disclosed among financial obligations.

For the reporting year, no assets were recorded under finance leases.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

1. Group accounting policies continued

Financial instruments continued

Financial instruments are recorded initially at fair value net of transaction costs if changes in value are not charged directly to the Consolidated Statement of Comprehensive Income. Subsequent measurement depends on the designation of the instrument, as follows:

Amortised cost

- fixed deposits, generally funds held with banks and short-term borrowings and overdrafts are classified as receivables and loans and held at amortised cost;
- long-term loans are held at amortised cost; and
- accounts payable which are not interest bearing are recognised initially at fair value and thereafter at amortised cost under the effective interest method.

Held for trading

- derivatives, if any, comprising interest rate swaps and foreign exchange contracts, are classified as held for trading. They are included at fair value, upon the valuation of the local bank.

Loans and receivables

- non-interest bearing accounts receivable are initially recorded at fair value and subsequently valued at amortised cost, less provisions for impairment. Any change in their value through impairment or reversal of impairment is recognised in profit or loss; and
- cash and cash equivalents comprise cash balances and call deposits with maturities of less than three months together with other short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Interest and other income resulting from financial assets are recognised in profit or loss when receivable, regardless of how the related carrying amount of the financial assets is measured.

Inventories

Inventories are stated at the lower of cost or net realisable value.

Acquisition costs for raw materials are usually determined by the weighted average method.

For finished goods and work in progress, cost of production includes directly attributable costs for material and manufacturing and an attributable proportion of manufacturing overhead expenses (including depreciation) based on normal levels of activity. Selling expenses and other overhead expenses are excluded. Interest is expensed as incurred and therefore not included. Net realisable value is determined as estimated selling price for silicon wafers or polysilicon less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Contingent liabilities

Provisions are made for legal disputes where there is an obligation at the balance sheet date, an adverse outcome is probable and associated costs can be estimated reliably. Where no obligation is present at the balance sheet date no provision is made, although, where material, the contingent liability will be disclosed in a note.

Current and deferred taxes

Current tax is the tax currently payable based on taxable profit for the year, including any under or over provisions from prior years.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the Consolidated Statement of Comprehensive Income, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Public grants and subsidies

As the German operations are located in a region designated for economic development, the Group receives both investment subsidies and investment grants. Government grants and subsidies relating to capital expenditure are credited to the "Deferred income" account and are released to the Consolidated Statement of Comprehensive Income by equal annual instalments over the expected useful lives of the relevant assets under 'Other income'.

Government grants of a revenue nature, mainly for research and development purposes, are credited to the Consolidated Statement of Comprehensive Income in the same year as the related expenditure.

All required conditions of these grants have been met and it is the Group's intention they will continue to be met.

Provisions

Provisions are formed where a third party obligation exists, which will lead to a probable future outflow of resources and where this outflow can be reliably estimated. Provisions are measured at the best estimate of the expenditure required to settle the obligation.

1. Group accounting policies continued

Accruals

Accruals are recognised when an obligation to meet an outflow of economic benefit in the future arises at the balance sheet date.

Accruals are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

Revenue recognition

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer. Ownership is considered to have transferred once products have been received by the customer unless shipping terms dictate any different. Revenues exclude intra-group sales and value added taxes and represent net invoice value less estimated rebates, returns and settlement discounts. The net invoice value is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied.

The Group has outsourced some elements of production to external companies. In cases in which the Group retains power of disposal over the product or product element, a sale is only recognised under IFRS when the final product is sold. The final product is deemed to have been sold when the risks and rewards of ownership have been transferred to a third party.

Interest income and expenses

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and dividend income and gains.

Interest income is recognised in the Consolidated statement of Comprehensive Income as it accrues, using the effective interest method.

Employee benefits

The Group operates a number of pension schemes. The schemes are funded through payments to insurance companies. The Group has both defined benefit and defined contribution plans.

Exceptional items

Exceptional items are those items that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Defined benefit pension plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Government bonds at the balance sheet date with a ten year maturity, adjusted for additional term to maturity of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to the Consolidated Statement of Comprehensive Income in the period in which they arise.

Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional to the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Defined contribution plan

For defined contribution plans, the Group pays contributions to pension insurance plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Employee benefit trust

All assets and liabilities of the Employee Benefit Trust ("EBT") have been consolidated in these financial statements as the Group has de facto control over the trust's net assets as the parent of its sponsoring company.

Deferred revenue and other long-term assets

As is common practice within the sector, the Group, where appropriate, both seeks to receive deposits from customers in advance of shipment and makes deposits in advance of supplies of silicon tetrachloride and polysilicon feedstock.

These deposits are held on the Balance Sheet and matched against revenue/cost as appropriate.

Deposits received from customers are not discounted, as the effect is not considered to be material.

Share-based payments

The Group has applied the requirements of IFRS2 (Share-based Payments). The Group issues equity-settled share-based payments to certain employees. These are measured at their fair value at the date of the grant using an appropriate option pricing model and are expensed over the vesting year, based on the Group's estimate of the number of shares that will eventually vest. Grants of shares made during 2008 and 2007 are not subject to performance criteria and were valued at the date of the grant at market value. During 2009 the Group granted share options to employees. During 2011 awards were granted under the Performance Share Plan to employees. The share options granted are subject to performance criteria required for the option to vest and are considered in the method of measuring fair value.

Charges made to the Consolidated Statement of Comprehensive Income in respect of share-based payments are credited to the share-based payment reserve.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

1. Group accounting policies continued

Shareholders' equity

Shareholders' equity is comprised of the following balances:

- share capital is comprised of 416,725,335 ordinary shares of 2 pence each, see note 28;
- share premium represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of share issue;
- investment in own shares is the Group's shares held by the EBT that are held in Trust for the benefit of employees;
- share-based payment reserve is the amount charged to the Consolidated Statement of Comprehensive Income in respect of shares already granted or options outstanding relative to the vesting date or option exercise date;
- reverse acquisition reserve is the difference between the value of the assets acquired and the consideration paid by way of a share for share exchange on 5 January 2007;
- retained earnings is the cumulative profit retained by the Group; and
- currency translation adjustment represents the differences arising from the currency translation of the net assets in subsidiaries.

2. Other income

	2011 €'000	2010 €'000
Recognition of accrued grants and subsidies for investments	**2,862**	2,755
Customer deposit realised as income on cancellation of contract	**951**	—
Research and development grants	**666**	211
Sale of non silicon product	**457**	—
Refunds	**200**	9
Insurance claims	**94**	8
Miscellaneous	**375**	476
	5,605	3,459

3. Cost of material and services

The cost of materials is attributable to the consumption of silicon, ingots, wafers, chemicals and other consumables as well as the purchase of merchandise.

	2011 €'000	2010 €'000
Cost of raw materials, supplies and purchased merchandise	**202,879**	167,081
Change in finished goods and work in progress	**1,770**	(2,807)
Own work capitalised	**(11,499)**	(2,002)
Cost of materials after exceptional items	**193,150**	162,272
Exceptional items, included in cost of material and services		
Inventory writedown	**22,866**	—
Onerous contract charge and provision	**20,869**	—
Cost of materials	**43,735**	—

	2011 €'000	2010 €'000
Cost of purchased services	**18,699**	20,479
Cost of services	**18,699**	20,479

Own work capitalised relates to the construction of production equipment including in particular crystallisation systems.

4. Personnel expenses

	2011 €'000	2010 €'000
Wages and salaries	**14,805**	13,660
Social security	**2,295**	2,090
Pension costs (see below)	**527**	476
Employee share schemes	**238**	1,047
	17,865	17,273

Pension costs

	2011 €'000	2010 €'000
Appropriation to pension accruals for defined benefit schemes	**68**	120
Early retirement settlements and pay	**3**	(8)
Contributions to defined contribution pension plans	**456**	364
	527	476

Employees

The Group employed a monthly average of 385 employees during the year ended 31 December 2011 (2010: 355).

	2011 Number	2010 Number
Germany	**247**	232
United Kingdom	**130**	115
Japan	**8**	8
	385	355

	2011 Number	2010 Number
Production	**255**	238
Administration	**130**	117
	385	355

2010 numbers have been reallocated using the same rationale as 2011 numbers.

The Group employed 361 employees at 31 December 2011.

The remuneration of the Board of Directors, including appropriations to pension accruals, is shown in the Directors' Remuneration Report on pages 32 to 39.

5. Other expenses

	2011 €'000	2010 €'000
Land and building operating lease charges	**1,394**	1,271
Other property related costs	**1,419**	1,260
Repairs and maintenance	**1,079**	249
Selling expenses	**68**	54
Technical consulting, research and development	**710**	576
External professional services	**2,795**	1,793
Insurance premiums	**775**	780
Travel and advertising expenses	**546**	581
Staff related costs	**1,007**	840
Other	**1,491**	969
	11,284	8,373

Selling expenses mainly include delivery costs and warranty provisions.

Technical consulting and research and development costs relate to expenditure in connection with silicon wafers and ingots.

In addition to those disclosed above, the Group undertakes considerable research and development in the field of continuous production process optimisation and improvement and adaptation of products to market requirements. These costs are an integral part of a highly technical production process.

The directors have estimated, on the basis of directly attributable costs and a general proportion of production and personnel costs, that the cost of research and development is approximately €6.4m for the year ended 31 December 2011 (2010: €11.1m).

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

5. Other expenses continued

Included within external professional services, within other expenses, are the following amounts which were paid to the Group's auditors:

	2011 €'000	2010 €'000
Fees payable to the Company's auditor for the audit of the Group's financial statements	**67**	74
Audit of parent company financial statements	**14**	15
Other services pursuant to legislation	**—**	16
The audit of the Company's subsidiaries pursuant to legislation	**140**	212
Tax services	**—**	47
	221	364

6. Interest income and expenses

Interest income and expense is derived/incurred on financial assets/liabilities and recognised under the effective interest method.

7. Income taxes

	2011 Before exceptional items €'000	2011 Exceptional items €'000	2011 Total €'000	2010 Total €'000
Current tax:				
Current tax on profit/(loss) for the year	**766**	**(7,357)**	**(6,591)**	13,217
Adjustments in respect of prior years	**(81)**	**—**	**(81)**	(22)
Total current tax	**685**	**(7,357)**	**(6,672)**	13,195
Deferred tax (note 18):				
Origin and reversal of temporary differences	**3,271**	**(12,433)**	**(9,162)**	(2,581)
Adjustments in respect of prior years	**—**	**—**	**—**	(152)
Impact of change in tax rate	**552**	**—**	**552**	—
Derecognition of previously recognised tax losses	**9,090**	**—**	**9,090**	—
Total deferred tax	**12,913**	**(12,433)**	**480**	(2,733)
Total tax charge	**13,598**	**(19,790)**	**(6,192)**	10,462

The total tax rate for the German companies is 30.5% (2010: 30.5%) in Erfurt and 28.4% (2010: 28.4%) in Bitterfeld. The effective total tax rate in the United Kingdom was 26.5% (2010: 28%) and the total tax rate in Japan was 42.1% (2010: 42.1%). These rates are based on the legal regulations applicable or adopted at the balance sheet date.

The standard rate of corporation tax in the United Kingdom changed from 28% to 26% with effect from 1 April 2011. Accordingly, profits in the United Kingdom were taxed at an effective rate of 26.5%. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011 and consequently deferred tax balances have been remeasured. Further legislation to reduce the main rate of corporation tax to 24% from 1 April 2012 was included in the Provisional Collection of Taxes Act 1968 ("PCTA") and further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. These further rate reductions had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. The impact of these further changes is not expected to be material.

The German rates are increasing, to 31.6% in Erfurt in 2012 and 29.1% in Bitterfeld in 2012.

7. Income taxes continued

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities as follows:

	2011 €'000	2010 €'000
(Loss)/profit before tax	**(67,085)**	33,726
Expected income tax expense at effective tax rate 30.0% (2010: 33.2%)	**(20,100)**	11,188
Taxation on dividend income	**178**	—
Income not subject to tax	**(126)**	(602)
Tax for profit in stock eliminations	**2,610**	(451)
Derecognition of previously recognised tax losses	**9,090**	—
Unrelieved tax losses	**1,972**	—
Over provision of current tax in prior year	**(337)**	—
Movement in deferred tax rate	**552**	—
Over provision of deferred tax in prior years	**(170)**	(176)
Expenses not deductible for tax	**145**	236
Accelerated capital allowances	**—**	276
Other tax effects	**(6)**	(9)
Total tax expense	**(6,192)**	10,462

8. Segment reporting

The chief operating decision-maker, who is responsible for allocating resources and assessing performance, has been identified as the executive board. The group is organised around one product, with all revenues derived from the production and supply of multicrystalline silicon wafers. Accordingly, the board reviews the performance of the group as a whole and there is only one operating segment. Disclosure of reportable segments under IFRS8 is therefore not made.

Geographical information 2011

	Japan €'000	China €'000	Rest of Asia €'000	Germany €'000	United Kingdom €'000	Rest of Europe €'000	USA €'000	Group €'000
Revenues								
By entity's country of domicile	**61,405**	**—**	**—**	**52,843**	**96,152**	**—**	**—**	**210,400**
By country from which derived	**61,368**	**67,195**	**40,806**	**33,601**	**102**	**255**	**7,073**	**210,400**
Non-current assets*								
By entity's country of domicile	**633**	**—**	**—**	**86,006**	**54,580**	**—**	**—**	**141,219**

* Excludes: financial instruments, deferred tax assets and post-employment benefit assets.

Two customers accounted for more than 10% of Group revenue each and sales to these customers are as follows (figures in €'000):

1. 64,962 (China); and
2. 43,305 (Japan).

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

8. Segment reporting continued
Geographical information 2010

	Japan €'000	China €'000	Rest of Asia €'000	Germany €'000	United Kingdom €'000	Rest of Europe €'000	USA €'000	Group €'000
Revenues								
By entity's country of domicile	85,463	—	—	67,694	99,402	—	—	252,559
By country from which derived	78,502	77,605	32,573	24,834	29	481	38,535	252,559
Non-current assets*								
By entity's country of domicile	705	—	—	117,736	48,493	—	—	166,934

* Excludes: financial instruments, deferred tax assets and post-employment benefit assets.

Four customers accounted for more than 10% of Group revenue each and sales to these customers are as follows (figures in €'000):

1. 74,888 (China);
2. 39,397 (Japan);
3. 38,633 (Japan); and
4. 33,040 (USA).

9. Net loss/earnings per share
Net loss/earnings per share is computed by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year.

Diluted net loss per share is computed by dividing the net loss for the period by the weighted-average number of Ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options.

	2011	2010
Basic shares (average)	**405,891,335**	404,939,862
Basic earnings per share (Euro cents)	**(15.0)**	5.7
Diluted shares (average)	**405,891,335**	405,029,507
Diluted earnings per share (Euro cents)	**(15.0)**	5.7

Basic shares and diluted shares for this calculation can be reconciled to the number of issued shares, see note 28, as follows:

	2011	2010
Shares in issue (see note 28)	**416,725,335**	416,725,335
Weighted average number of EBT shares held	**(10,834,000)**	(11,785,473)
Weighted average number of shares for basic EPS calculation	**405,891,335**	404,939,862
EBT shares, granted but not vested in 2010	**—**	89,645
Weighted average number of shares for fully diluted EPS calculation	**405,891,335**	405,029,507

For the year ended 31 December 2011, there were no differences in the weighted-average number of Ordinary shares used for basic and diluted net loss per Ordinary Share as the effect of all potentially dilutive Ordinary Shares outstanding was anti-dilutive. As at 31 December 2011, there were 3,458,022 share options outstanding that could potentially have a dilutive impact in the future but were anti-dilutive in 2011.

10. Cash and cash equivalents
All short-term deposits are interest bearing at the various rates applicable in the business locations of the Group.

11. Trade accounts receivable

	As at 31 December	
	2011 €'000	2010 €'000
Japan	**25,043**	31,567
Germany	**2,920**	8,546
United Kingdom	**4,356**	15,694
	32,319	55,807

All receivables have short-term maturity. No significant doubtful debt allowances were necessary during the year.

Some of the unimpaired trade receivables are past due at the reporting date. The age of financial assets past due but not impaired is as follows:

	As at 31 December	
	2011 €'000	2010 €'000
Not more than three months	**2,667**	4,058

These amounts represent the Group's maximum credit risk at the year end. No doubtful debt allowance is deemed necessary.

12. Inventories

Inventories include finished goods and work in progress (ingots and blocks), as well as production supplies. The change in inventories is included in the Consolidated Statement of Comprehensive Income in the line 'Cost of materials and services'.

	As at 31 December	
	2011 €'000	2010 €'000
Finished products	**18,139**	2,550
Work in progress	**8,902**	25,409
Raw materials	**21,456**	22,854
	48,497	50,813

Exceptional inventory writedowns of €22.9m in 2011 are included in cost of materials (2010: nil).

13. Prepaid expenses and other assets

	As at 31 December	
	2011 €'000	2010 €'000
Subsidies and grants due relating to Bitterfeld	**542**	3,259
Other subsidies due	**387**	1,065
VAT	**10,144**	9,187
Prepaid expenses	**15,599**	10,165
Energy tax claims	**2,342**	1,120
Other current assets	**606**	132
	29,620	24,929

Prepaid expenses primarily comprise polysilicon feedstock deposits.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

14. Current tax assets

	As at 31 December 2011 €'000	2010 €'000
Income tax recoverable	**9,815**	—
	9,815	—

Income tax recoverable relates to tax paid on prior year profits that is expected to be recovered against current year losses.

15. Intangible assets

	Patents and licences €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2011	1,521	4	1,525
Additions	71	8	79
Reclassification	—	(2)	(2)
Disposals	(25)	—	(25)
Net effect of foreign currency movements	20	—	20
At 31 December 2011	**1,587**	**10**	**1,597**
Depreciation			
At 1 January 2011	857	—	857
Charge for the year	237	—	237
Disposals	(20)	—	(20)
Net effect of foreign currency movements	15	—	15
At 31 December 2011	**1,089**	**—**	**1,089**
Net book amount			
At 31 December 2011	**498**	**10**	**508**
At 31 December 2010	664	4	668

	Patents and licences €'000	Software under development €'000	Total €'000
Cost			
At 1 January 2010	1,375	4	1,379
Additions	100	4	104
Reclassification	4	(4)	—
Disposals	(5)	—	(5)
Net effect of foreign currency movements	47	—	47
At 31 December 2010	**1,521**	**4**	**1,525**
Depreciation			
At 1 January 2010	591	—	591
Charge for the year	271	—	271
Disposals	(5)	—	(5)
At 31 December 2010	**857**	**—**	**857**
Net book amount			
At 31 December 2010	**664**	**4**	**668**
At 31 December 2009	784	4	788

16. Property, plant and equipment

	Freehold land and buildings €'000	Plant and machinery €'000	Other furniture and equipment €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2011	12,895	149,935	6,380	12,014	181,224
Additions	15	13,391	743	8,112	22,261
Reclassification	27	11,862	8	(11,895)	2
Disposals	—	(679)	(86)	(197)	(962)
Net effect of foreign currency movements	7	666	60	108	841
At 31 December 2011	**12,944**	**175,175**	**7,105**	**8,142**	**203,366**
Depreciation					
At 1 January 2011	952	48,209	2,554	—	51,715
Charge for the year	408	14,716	746	—	15,870
Impairment	—	27,874	—	—	27,874
On disposals	—	(590)	(69)	—	(659)
Net effect of foreign currency movements	3	618	31	—	652
At 31 December 2011	**1,363**	**90,827**	**3,262**	**—**	**95,452**
Net book amount					
At 31 December 2011	**11,581**	**84,348**	**3,843**	**8,142**	**107,914**
At 31 December 2010	11,943	101,726	3,826	12,014	129,509

Assets under construction relate to future plant and machinery. Capital commitments at 31 December 2011 relating to this amounted to €1.5 million.

	Freehold land and buildings €'000	Plant and machinery €'000	Other furniture and equipment €'000	Assets under construction €'000	Total €'000
Cost					
At 1 January 2010	12,490	142,308	4,752	823	160,373
Additions	369	5,814	1,595	11,989	19,767
Reclassification	21	734	38	(793)	—
Disposals	—	(194)	(86)	(40)	(320)
Net effect of foreign currency movements	15	1,273	81	35	1,404
At 31 December 2010	**12,895**	**149,935**	**6,380**	**12,014**	**181,224**
Depreciation					
At 1 January 2010	540	35,659	1,942	—	38,141
Charge for the year	406	11,779	650	—	12,835
On disposals	—	(159)	(78)	—	(237)
Net effect of foreign currency movements	6	930	40	—	976
At 31 December 2010	**952**	**48,209**	**2,554**	**—**	**51,715**
Net book amount					
At 31 December 2010	**11,943**	**101,726**	**3,826**	**12,014**	**129,509**
At 31 December 2009	11,950	106,649	2,810	823	122,232

Assets under construction related to future plant and machinery. Capital commitments at 31 December 2010 relating to this amounted to €17.5 million.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

16. Property, plant and equipment continued

Impairment

The Board has assessed the carrying values of the Group's property, plant and equipment for impairment as at 31 December 2011. As a result of this assessment, an impairment charge has been recognised to reduce the carrying values of plant by €27.9 million. The impairment charge has been recognised in the Income Statement. As an impairment of fixed assets it had no impact on the Group's cash flow.

On 31 December 2011 the Group had invested €100 million in its polysilicon plant at Bitterfeld and had received grants of €23 million. The current difficulties in the photovoltaic industry dictated that an impairment test should be carried out to determine whether the plant should be impaired. The recoverable value of Bitterfeld plant is estimated to amount to €47.9 million, based on an estimate of its value in use. This has been derived from a forecast of potential cash flows from the plant. These cash flows were discounted at a post tax cost of capital of 9.67%, which was determined by calculating the Group's cost of capital using the capital asset pricing model ("CAPM"). The resultant (discounted cash flow) analysis determined the net present value of the plant. The potential future cash flows have been estimated on the assumption that the plant is brought into production in the second half of 2012 and produces at full capacity thereafter. This analysis assumes that sales of polysilicon are at prices based on management's expectations backed up by the forecast from an external consultant that has a high level of experience of the photovoltaic industry. Plant running costs were obtained from the Group's internal planning system.

The level of impairment of the assets of our plant is predominantly dependent upon judgements used in arriving at future market prices, plant maintenance costs, future growth rates, the discount rate applied to cash flow projections and successfully operating the plant at Bitterfeld. The estimates and judgement used in the aforementioned assessment represents management's best estimate based on current experience and information available, which may be different from the actual results in the future due to changes in the Group's business and other external environment. Any significant changes in the market price of polysilicon, $/€ exchange rate, or plant maintenance costs might lead to further impairment of some or all of the capitalised assets.

The sensitivity of the valuation to these parameters is as follows:

- 5% increase/decrease in the sales price forecast decreases/increases the impairment by €14 million;
- 5% reduction/increase in the direct cost of production forecast decreases/increases the impairment by €9 million; and
- 1% change in the cost of capital changes the impairment by €6 million.

17. Other long-term assets

	As at 31 December	
	2011 €'000	2010 €'000
Polysilicon feedstock deposits	**30,148**	33,790
Silicon tetrachloride (for Bitterfeld)	**2,291**	2,583
Prepaid expenses	**66**	40
Other assets	**292**	344
	32,797	36,757

18. Deferred taxes

Deferred taxes are calculated at the local rates in accordance with IAS12 'Income Taxes'.

Analysis of deferred tax assets and liabilities:

	2011 €'000	2010 €'000
Elimination of intra-company gains	**—**	2,610
Tax loss carried forward	**10,950**	9,090
Deferred tax asset on consolidation	**8,118**	—
Other	**252**	380
Deferred tax asset	**19,320**	12,080
Deferred tax liability on consolidation	**(7,986)**	—
Other	**(197)**	(825)
Deferred tax liability	**(8,183)**	(825)
Total deferred taxes	**11,137**	11,255

Deferred tax assets arising as a result of losses are recognised where, based on the Group's budget, they are expected to be realised in the foreseeable future.

As at 31 December 2011 there were unrecognised potential deferred tax assets in respect of losses of €11.4m (2010: nil).

19. Loans payable

Underwriter	As at 31 December 2011 €'000	2010 €'000	Maturity	Interest rate
Sumitomo Mitsui Banking Corporation ("SMBC")	**21,945**	18,505	01/12	0.78%
Mizuho Bank	**9,975**	9,253	02–03/12	0.78%
Barclays Bank	**14,133**	18,704	02/12	1.34%
Bank of TokyoMitsubishi UFJ	**2,993**	—	01/12	0.67%
	49,046	46,462		

All current loans are in Japanese Yen.

Security for the loan with Barclays Bank was provided by Sterling cash cover. This facility was not renewed.

Security/comfort for all other loans is provided by the Japanese accounts receivable, details of which can be found in note 11. These facilities have been reduced upon renewal in line with the lower receivables.

20. Trade accounts payable

	As at 31 December 2011 €'000	2010 €'000
Japan	**3,850**	10,045
United Kingdom	**2,887**	8,295
Germany	**2,066**	4,789
	8,803	23,129

The book value of these payables is materially the same as the fair value.

21. Accrued expenses

	2011 €'000	2010 €'000
Rents and ancillary rent costs	**280**	638
Onerous contract charge	**3,850**	—
Other	**2,459**	4,199
Current accruals	**6,589**	4,837
Non-current accruals	**131**	98
Total accruals	**6,720**	4,935

22. Provisions

Movement in provisions is shown below:

	As at 31 December 2011 €'000	2010 €'000
Provisions brought forward	**315**	414
Charged to the Income Statement	**17,019**	—
Exchange differences	**840**	—
Utilised	**(79)**	(99)
Provisions carried forward	**18,095**	315

Notes to the consolidated financial statements continued

for the year ended 31 December 2011

22. Provisions continued

Provisions included overleaf are detailed below:

	As at 31 December	
	2011 €'000	2010 €'000
Warranty provisions	**236**	315
Onerous contract provision	**17,859**	—
	18,095	315

Warranty provisions unwind over a year from the date of sale, per the terms of the warranty agreement with customers.

The onerous contract provision is an allowance for the loss arising on the difference between raw material costs under these contracts and the anticipated selling price of the Group's end product. This is discussed further in note 1. This provision will unwind over the length of the contracts, between two and four years.

23. Deferred grants and subsidies

The grants from governmental institutions are bound to specific terms and conditions. The Group is obliged to observe retention periods of five years for the respective assets in the case of investment subsidies as well as of five years for assets under investment grants, and to retain a certain number of jobs created in conjunction with the underlying assets. In cases of breach of the terms, the grants received must be repaid. In the past, the grants received were subject to periodic audits, which were concluded without significant findings or adjustments.

The deferred grants and subsidies in the year under review consist of the following:

	As at 31 December	
	2011 €'000	2010 €'000
Investment subsidies	**12,746**	13,500
Investment grants	**12,511**	13,523
	25,257	27,023
Current portion	**2,831**	2,867
Non-current portion	**22,426**	24,156
	25,257	27,023

24. Income tax payable

	As at 31 December	
	2011 €'000	2010 €'000
United Kingdom	**—**	3,708
Germany	**325**	355
Japan	**74**	2,701
	399	6,764

Income tax liabilities comprise both corporation and other non-VAT tax liabilities, calculated or estimated by the Group companies as well as corresponding taxes payable abroad due to local tax laws, including probable amounts arising on completed or current tax audits.

25. Other current liabilities

	As at 31 December	
	2011 €'000	2010 €'000
VAT liability	**598**	—
Payroll liabilities	**70**	499
Other liabilities	**85**	401
	753	900

26. Deferred revenue

Where appropriate the Group enters into long-term contracts with its customers and may request payment deposits from them ahead of the supply of goods. At 31 December 2011, such deposits amounted to €18.121 million from three customers (2010: €20.646 million from four customers).

	As at 31 December	
	2011 €'000	2010 €'000
Current	**10,082**	10,084
Non-current	**8,039**	10,562
	18,121	20,646

27. Pension surplus/benefit

The obligation relates to fixed post retirement payments for two employees and includes benefits for surviving spouses granted in 2005. The plan will be fully funded upon retirement of the employees by insurance contracts held and paid in by the Group. In case of insolvency the benefits have been ceded to the employees directly. Therefore the fair value of the insurance contracts has been treated as a plan asset. The scheme is not significant to the Group.

28. Share capital

	2011 €'000	2010 €'000
Authorised share capital		
600,000,000 ordinary shares of 2 pence each	**17,756**	17,756
Allotted, called up and fully paid		
416,725,335 ordinary shares of 2 pence each	**12,332**	12,332

The market value of the shares held by the EBT at year end was €566k.

Summary of rights of share capital

The ordinary shares are entitled to receipt of dividends. On winding up, their rights are restricted to a repayment of the amount paid up to their share in any surplus assets arising. The ordinary shares have full voting rights.

29. Share-based payment plans

The Group established the PV Crystalox Solar PLC EBT on 18 January 2007, which has acquired, and may in the future acquire, the Company's ordinary shares for the benefit of the Group's employees.

The Group currently has three share incentive plans in operation which are satisfied by grants from the EBT.

PV Crystalox Solar PLC Performance Share Plan ("PSP")

This plan was approved by shareholders at the 2011 AGM under which awards are made to employees, including executive directors, consisting of a conditional right to receive shares in the Company. The awards will normally vest after the end of a three year performance period, to the extent that performance conditions are met.

On 26 May 2011 awards over up to 3,038,454 ordinary shares were granted to the three executive directors and other key employees. These awards are subject to achieving growth in both total shareholder return and earnings per share in the performance period ending on 31 December 2013.

PV Crystalox Solar PLC Long-Term Incentive Plan

This is a long-term incentive scheme under which awards are made to employees consisting of the right to acquire ordinary shares for a nominal price subject to the achievement of specified performance conditions at the end of the vesting period which is not less than three years from the date of grant. Under the LTIP it is possible for awards to be granted which are designated as a Performance Share Award, a Market Value Option or a Nil Cost Option. To date Performance Share Awards and Market Value Options have been granted.

Performance Share Award ("PSA")

A PSA is a conditional award of a specified number of ordinary shares which may be acquired for nil consideration. The PSAs granted to date have all been initial awards where there is no specified performance condition. The vesting period of each award is three years from the date of grant.

On 17 December 2007 awards over 2,175,000 ordinary shares of 2 pence were granted to key employees. In 2008 two employees that had been granted an aggregate amount of 150,000 shares each left the Group and in December 2010 one employee who had been granted an award of 50,000 shares left the Group and in accordance with the rules of the LTIP these grants were cancelled and the shares remain available within the EBT. On 17 December 2010 the options over the remaining 1,926,500 shares were exercised.

On 26 February 2008 awards were granted to employees of 500 shares each over a total of 33,000 ordinary shares of 2 pence each. During 2010 awards over 3,000 shares were forfeited by employees leaving the Group and awards over 1,500 shares were exercised by Group employees retiring. During 2011 awards over 1,000 shares were forfeited by employees leaving the Group and on 26 February 2011 the options over the remaining 27,500 shares were exercised.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

29. Share-based payment plans continued
Market Value Option ("MVO")
An MVO is an option with an exercise price per share equal to the market value of a share on the date of grant. The vesting period of each award is three years from the date of grant and the award must be exercised no later than ten years following the date of grant.

On 24 November 2008 an MVO over 200,000 ordinary shares of 2 pence each was granted to a senior employee and this option is exercisable from 24 November 2011 at £1.00 per share subject to an agreed performance criteria. This option is now exercisable at any time until 23 November 2018.

On 26 March 2009 an MVO over 200,000 ordinary shares of 2 pence each was granted to a senior employee and this option is exercisable from 26 March 2012 at 76 pence per share subject to an agreed performance criteria; and on 25 September 2009 MVO awards over 1,200,000 ordinary shares of 2 pence each were granted to key senior employees and these options are exercisable from 25 September 2012 at 76.9 pence per share subject to agreed performance criteria.

PV Crystalox Solar PLC Share Incentive Plan ("SIP")
The SIP is an employee share scheme approved by HM Revenue and Customs in accordance with the provisions of Schedule 8 to the Finance Act 2000. On 26 February 2008 awards were granted to United Kingdom employees of 500 shares each over a total of 37,000 ordinary shares of 2 pence. These 37,000 ordinary shares of 2 pence each were transferred from the EBT into the SIP. During 2011 awards over 3,500 shares were forfeited by employees leaving the Group and awards over 8,500 shares vested due to employees leaving the Group as good leavers due to redundancy or retirement.

The Group recognised total expenses before tax of €237,729 (2010: €1,047,000) related to equity-settled share-based payment transactions during the year.

The number of share options and weighted average exercise price ("WAEP") for each of the schemes is set out as follows:

	PSP* Number	PSA* Number	MVO Number	MVO WAEP price Pence	SIP* Number
Share grants and options outstanding at 1 January 2011	—	28,500	1,600,000	79.7	37,000
Share grants and options granted during the year	3,038,454	—	—	—	—
Share grants and options forfeited during the year	—	(1,000)	—	—	(3,500)
Options exercised during the year	—	(27,500)	—	—	(8,500)
Share grants and options outstanding at 31 December 2011	**3,038,454**	**—**	**1,600,000**	**79.7**	**25,000**
Exercisable at 31 December 2011		**—**	**200,000**	**100.0**	**—**
Share grants and options outstanding at 1 January 2010		2,008,000	1,600,000	79.7	37,000
Share grants and options granted during the year		—	—	—	—
Share grants and options forfeited during the year		(53,000)	—	—	—
Options exercised during the year		(1,926,500)	—	—	—
Share grants and options outstanding at 31 December 2010		28,500	1,600,000	79.7	37,000
Exercisable at 31 December 2010		—	—	—	—

* The weighted average exercise price for the PSP, PSA and SIP options is £nil.

At 31 December 2011 PSP awards will vest in 2014 following the determination by the remuneration committee of the extent to which the performance conditions have been met. MVO options are exercisable between three years and ten years after the date of grant, up to September 2019. SIP options are exercisable between three and five years after date of grant, up to February 2013.

The remaining weighted average remaining contractual life of options outstanding at 31 December 2011 is 7.58 years for MVO (2010: 8.58 years) and 1.16 years for SIP (2010: 2.16 years).

30. Risk management
The main risks arising from the Group's financial instruments are credit risk, exchange rate fluctuation risks, interest rate risk and liquidity risk. The Board reviews and determines policies for managing each of these risks and are, as such, summarised below. These policies have been consistently applied throughout the year.

Credit risk
The main credit risk arises from accounts receivable. All trade receivables are of a short-term nature, with maximum payment terms of 150 days, although the majority of customers currently have payment terms of 45 days. In order to manage credit risk, local management defines limits for customers based on a combination of payment history and customer reputation. Credit limits are reviewed by local management on a regular basis. As a supplier to some of the leading manufacturers of solar cells, the Group has a limited number of customers. In 2011 30.9% of the sales are related to the largest customer (2010: 29.7%). The number of customers accounting for approximately 95% of the annual revenue increased from ten in 2010 to twelve in 2011. Where appropriate, the Group requests payment or part payment in advance of shipment, which generally covers the cost of the goods. Different forms of retention of title are used for security depending on local restrictions prevalent on the respective markets. The maximum credit risk to the Group is the total of accounts receivable, details of which can be seen in note 11.

Cash is not considered to be a high credit risk and this is mitigated by the Group's policy of only selecting counterparties with a strong investment graded long-term credit rating, at least BB or equivalent, and assigning financial limits of €15 million to individual counterparties.

30. Risk management continued

Exchange rate fluctuation risks

A large portion of sales revenue is invoiced in foreign currencies, potentially exposing the Group to exchange rate risks. In the financial year 2011, about €60.8 million (2010: €78.0 million) of the Group's sales was generated in Japanese Yen. Expenses of €89.5 million (2010: €88.0 million) invoiced in Japanese Yen were allocated to cost of materials.

Significant cash funds are denominated in currencies other than the presentational currency of the Group. Excess cash funds not needed for local sourcing are exposed to exchange rate and associated interest fluctuation risks, particularly so in the United Kingdom. The exchange rate risk is based on assets held in currencies other than Euros.

The Group sells its products in a number of currencies (mainly Euros and Japanese Yen and to a lesser extent US Dollars) and also purchases goods and services in a number of currencies (mainly Euros, Japanese Yen, Sterling and US Dollars).

The following exchange rates were used to translate individual companies' financial information into the Group's presentational currency:

	Average rate	Year end rate
Euro: Japanese Yen	111.064	100.250
Sterling: Euro	1.15275	1.19360

Hedging strategy

The Group is largely naturally hedged at an operating level because it buys a significant proportion of its raw materials in Euros and Japanese Yen, operates its wafering factory within the Euro zone and pays for the sub-contracting of wafer production in Japan in Japanese Yen. However, the ingot manufacturing operation is within the United Kingdom and therefore a part of Group costs are in Sterling. In addition, the Group has a relatively large debtor book in Japan denominated in Japanese Yen and this is subjected to exchange rate fluctuation of that currency. The Group has Japanese Yen borrowings to hedge against downwards movement in the Japanese Yen/Euro exchange rate. This process continues to be under review.

After careful consideration and due to the satisfactory natural operating hedging position coupled with its policy of matching borrowings in Japanese Yen with Japanese Yen assets, the directors have adopted a long-term policy of setting off any downside risks of currency fluctuation against the associated upside risks.

During 2011 the Japanese Yen/Euro exchange rate decreased 7.24% (2010: increased 18.2%). The impact of this decrease on the Consolidated Statement of Comprehensive Income was to increase sales revenues by approximately 2.1% and increase the cost of materials and services by approximately 3.9% (2010: 12.1%).

For each 1% increase in the Japanese Yen/Euro exchange rate profits would decrease by approximately €677,000 (2010: decrease by €431,000). The effect of the movement in the Japanese Yen/Euro exchange rate on assets held in Japanese Yen has been considered. Group management has arranged borrowings in Japanese Yen so that these largely offset asset balances held in that currency. Therefore, based on Japanese Yen asset balances on 31 December 2011, each 1% movement in the Japanese Yen/Euro exchange rate would have an immaterial effect on the currency translation adjustment.

During 2011 the net gain on foreign currency adjustments was €1.4 million (2010: loss of €1.2 million). This gain was mainly related to the conversion of currency balances in respect of Group advances or loans, currency debtor/creditor balances, currency advance payments to raw material suppliers and currency cash balances. These can be broken down into the following broad categories:

	As at 31 December	
	2011 €'000	2010 €'000
Revaluation of cash balances	**265**	636
Revaluation of Group loans	**(2,784)**	(2,257)
Revaluation of Group raw material deposits	**(421)**	(1,729)
(Debtor)/creditor revaluation	**634**	(375)
Revaluation of customer/suppliers deposits	**3,744**	2,549
	1,438	(1,176)

In addition to the above, upon translation of net assets in the consolidation, there was a positive impact in 2011 of €5.2 million (2010: €12.6 million) recording as a currency translation adjustment which is shown in the Consolidated Statement of Comprehensive Income as other comprehensive income.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

30. Risk management continued

Interest rate risk

The Group is exposed to interest rate fluctuation risks, since the Group's loan agreements largely are subject to variable interest rates. All variable interest rate loans are of a short-term nature with a maturity of less than twelve months. The borrowings €49.0 million at the end of 2011 are in Japanese Yen (2010: €46.5 million). Accordingly, there is a downside risk that Japanese Yen interest rates may increase substantially from the current relatively low levels. However, the Group has a regular strong Japanese Yen income sufficient to repay the loans (if Group management wished to do so) within a twelve month time scale.

On 31 December 2011 the Group borrowings in Japanese Yen were €49.0 million (2010: €46.5 million) at an average interest rate of approximately 0.97% (2010: 0.97%). For each 1% rise in the Japanese Yen interest rates Group interest costs would increase by approximately €490,000 (2010: €465,000). Accordingly, Group profits and equity would fall or rise (after corporation tax in Japan) by approximately €245,000 (2010: €233,000).

Further sensitivity analysis of the accruals and loans outstanding at the year end has not been disclosed as these are virtually all current and paid in line with standard payment terms.

The Group's borrowings in Japanese Yen are also current and have no set repayment plan being secured on the Japanese receivables book. The interest on this loan is paid monthly in arrears.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its exposure to liquidity risk by regularly reviewing net debt and forecast cash flows to ensure that current cash resources are available to meet its business objectives. The Group is exposed to the worldwide photovoltaic market and due to current overcapacity this market has suffered large decreases in pricing over the previous twelve months and market pricing of the group's main product (silicon wafers) remain under pressure. Against this difficult market background, Group management has put in place a Cash Conservation Plan, which involves putting in place various measures so that the Group optimises its cash position whilst these conditions persist. Various measures have been taken to reduce production to a level that allows contracted customers to be supplied, whilst not supplying product at below marginal cost. At the same time production capacity has been maintained so that this can be utilised when market conditions allow. The cash conservation plan covers the period until 31 December 2015. Due to changing market and economic conditions, the expenses and liabilities actually arising from this plan in the future may differ materially from the estimates made on the basis of these actuarial assumptions.

As at 31 December 2011 the Group had a net cash balance of €22.6 million and this together with cash flow projections from the cash conservation plan indicate that, assuming the projections are broadly correct, the Group will have adequate cash reserves until at least the end of 2015.

The Group also regularly monitors its compliance with its debt covenants. During the financial year, all covenants have been complied with. The Group has borrowing facilities in Japanese Yen which are available to be drawn.

30. Risk management continued
Financial assets and liabilities

	Book value €'000	Loan and receivables €'000	Amortised cost €'000	Non-financial €'000	Total €'000
2011					
Assets:					
Cash and cash equivalents	71,664	71,664	—	—	71,664
Accounts receivable	32,319	32,319	—	—	32,319
Prepaid expenses and other assets	29,620	14,021	—	15,599	29,620
Misc non-financial assets	219,008	—	—	219,008	219,008
Total	**352,611**	**118,004**	**—**	**234,607**	**352,611**
Liabilities:					
Loans payable short-term	(49,046)	—	(49,046)	—	(49,046)
Accounts payable trade	(8,803)	—	(8,803)	—	(8,803)
Accrued expenses	(6,589)	—	(6,589)	—	(6,589)
Provisions	(18,095)	—	—	(18,095)	(18,095)
Misc current liabilities	(753)	—	(753)	—	(753)
Misc long-term liabilities	(43)	—	(43)	—	(43)
Misc non-financial liabilities	(52,091)	—	—	(52,091)	(52,091)
Total	**(135,420)**	**—**	**(65,234)**	**(70,186)**	**(135,420)**
2010					
Assets:					
Cash and cash equivalents	101,300	101,300	—	—	101,300
Accounts receivable	55,807	55,807	—	—	55,807
Prepaid expenses and other assets	24,929	14,764	—	10,165	24,929
Misc non-financial assets	229,827	—	—	229,827	229,827
Total	**411,863**	**171,871**	**—**	**239,992**	**411,863**
Liabilities:					
Loans payable short-term	(46,462)	—	(46,462)	—	(46,462)
Accounts payable trade	(23,129)	—	(23,129)	—	(23,129)
Accrued expenses	(4,935)	—	(4,935)	—	(4,935)
Provisions	(315)	—	—	(315)	(315)
Misc current liabilities	(900)	—	(900)	—	(900)
Misc long-term liabilities	(42)	—	(42)	—	(42)
Misc non-financial liabilities	(55,320)	—	—	(55,320)	(55,320)
Total	**(131,103)**	**—**	**(75,468)**	**(55,635)**	**(131,103)**

31. Calculation of fair value
There are no publicly traded financial instruments (e.g. publicly traded derivatives and securities held for trading and available for sale securities) nor any other financial instruments.

32. Contingent liabilities
The Group did not assume any contingent liabilities for third parties. No material litigation or risks from violation of third parties' rights or laws that could materialise in 2012 or beyond are pending at the time of approval of these financial statements.

Notes to the consolidated financial statements continued
for the year ended 31 December 2011

33. Other financial obligations

Lease agreements (operating leases)

The leases primarily relate to rented buildings and have terms of no more than ten years. Financial obligations resulting from operating leases become due as follows:

	As at 31 December	
	2011 €'000	2010 €'000
Less than one year	**1,947**	1,716
Two to five years	**4,281**	4,939
Longer than five years	**2,050**	2,504
	8,278	9,159

The land and buildings used by the Group, with the exception of land with an area of approximately 31,000m^2 in the Chemical Park at Bitterfeld, are rented. The contracts have durations of up to ten years. In some cases there are options to extend the rental period.

Equipment purchase commitments

Orders to the amount of €1.5 million had been made on 31 December 2011 (2010: €17.5 million).

34. Related party disclosures

Related parties as defined by IAS24 comprise the senior executives of the Group and also companies that these persons could have a material influence on as related parties as well as other group companies. During the reporting year, none of the shareholders had control over or a material influence in the parent Company.

Transactions between the Company and its subsidiaries have been eliminated on consolidation.

The remuneration of the directors, who are the key management personnel of the Group, is set out in the audited part of the Directors' Remuneration Report on pages 32 to 39.

35. Exceptional items

The following are considered to be exceptional items.

	2011 €'000
Onerous contract provision (note 22)	**17,019**
Onerous contract charge (note 21)	**3,850**
Inventory writedown (note 3)	**22,866**
Total exceptional items included in cost of materials (note 3)	**43,735**
Impairment (note 16)	**27,874**
Total exceptional items	**71,609**

Onerous contract charge and provision

In keeping with normal practice in the industry at the time, the Group entered into long term supply contracts for its raw material, polysilicon, with two major suppliers. Given the recent significant unexpected decline in market prices for polysilicon and silicon wafers, the resultant cost of polysilicon under these contracts means the Group is expecting losses on these contracts.

In addition, the charge includes a contractual penalty relating to minimum quantities which the Group's management are in the process of negotiating.

Inventory writedown

Inventory has been written down to the lower of cost or net realisable value. Net realisable value has been calculated as anticipated sales price less costs to completion.

Impairment

An impairment was recognised for the Group's currently closed polysilicon production facility following management's impairment review which showed the carrying value was in excess of the present value of expected future cash flows.

36. Dividends

Dividends were paid in 2011 of €8,120,249 (€0.02 per share) and in 2010 of €12,139,150 (€0.03 per share).

37. Post balance sheet events

In the opinion of management, the following are the significant post balance sheet events.

Two of the Group's customers gave notice in 2012 to cancel their wafer supply contracts. Claims against both customers have been submitted to the International Chamber of Commerce. There is no resultant asset or liability included in the financial statements.

The Group has negotiated in 2012 deferrals of volume and reductions in cost from its suppliers of polysilicon. Further negotiations are ongoing and management expect to continue to come to mutually beneficial agreements with its suppliers.

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Statement of directors' responsibilities
to the members of PV Crystalox Solar PLC

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the Directors section confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

P Finnegan

Dr Peter Finnegan
Director
27 March 2012

Independent auditors' report
to the members of PV Crystalox Solar PLC

We have audited the parent company financial statements of PV Crystalox Solar PLC for the year ended 31 December 2011 which comprise the Accounting Policies, the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 69, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of PV Crystalox Solar PLC for the year ended 31 December 2011.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 March 2012

Accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The Group accounts have complied with the statutory obligation to disclose non-audit remuneration.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 applicable accounting standards in the United Kingdom.

Profit and recognised gains and losses of the company

The company has taken advantage of Section 408 of the Companies Act 2006 excluding it from preparing a company only profit and loss account and related notes. The Company has also taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate statement of recognised gains and losses.

Cash flow statement

The Company has taken advantage of the exemption under the terms of FRS 1 (revised 1996) from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in the PV Crystalox Solar PLC Group accounts.

Fixed Asset Investments

Fixed Asset Investments are included at cost and reviewed annually for impairment.

Employment Benefit Trust ("EBT")

All assets and liabilities of the EBT have been included in these financial statements as the Company has de facto control over the Trust's net assets as its sponsoring company.

Financial instruments – classification as equity or financial liability

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the profit or loss. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

Transactions in foreign currencies during the year are recorded at the foreign exchange rate ruling at that date.

Company balance sheet
as at 31 December 2011

	Notes	2011 £'000	2010 £'000
Fixed assets			
Investments	1	**54,908**	54,908
Current assets			
Debtors	2	**20,345**	18,277
Cash at bank and in hand		**40**	—
Creditors: amounts falling due within one year	4	**(353)**	(366)
Net current assets		**20,032**	17,911
Total assets less current liabilities		**74,940**	72,819
Capital and reserves			
Called up equity share capital	6	**8,335**	8,335
Share premium account		**51,248**	51,248
Investment in own shares		**(6,350)**	(6,350)
Share-based payment reserve		**624**	224
Profit and loss account	7	**21,083**	19,362
Shareholders' funds	8	**74,940**	72,819

These financial statements were approved and authorised for issue by the directors on 27 March 2012 and are signed on their behalf by:

Dr Peter Finnegan
Director

Company Number
06019466

Notes to the company financial statements
for the year ended 31 December 2011

1. Investments
Shares in subsidiary undertakings

	£'000
Cost and net book value	
At 1 January 2011	54,908
At 31 December 2011	**54,908**

At 31 December 2010 the Company held more than 20% of the allotted share capital of the following undertakings:

Subsidiary	Country of incorporation	Class of share capital held	Proportion held %
PV Crystalox Solar GmbH	Germany	Ordinary	100
PV Silicon Forschungs und Produktions GmbH	Germany	Ordinary	100
Crystalox Solar Limited	UK	Ordinary	100
Crystalox Limited	UK	Ordinary	100
PV Crystalox Solar KK	Japan	Ordinary	100
PV Crystalox Solar Silicon GmbH	Germany	Ordinary	100

These subsidiaries are consolidated in the Group financial statements included in this document.

2. Debtors

	2011 £'000	2010 £'000
Amounts owed by Group undertakings	**20,299**	18,268
Other debtors	**42**	5
Prepayments and accrued income	**4**	4
	20,345	18,277

Amounts owed by Group undertakings are unsecured at varying rates of interest and are repayable on demand.

3. Employee Benefit Trust
The Company established the EBT, a Jersey-based Employee Benefit Trust, on 18 January 2007, which has acquired, and may in the future acquire, the Company's ordinary shares for the benefit of the Group's employees. A number of share grants were made to key employees on 17 December 2007. A share incentive plan has been established to enable the grant of 500 shares each to all employees in January 2008.

	2011 Number	2010 Number
Shares held by the EBT	**10,834,000**	6,349,644

4. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank and other borrowings	**—**	28
Taxation and social security	**—**	27
Accruals and deferred income	**353**	311
	353	366

5. Related party transactions
The Company has taken advantage of the FRS 8 exemption to disclose transactions with other wholly owned members of its Group.

Transactions with key management personnel are disclosed in the Group accounts.

Notes to the company financial statements continued
for the year ended 31 December 2011

6. Called up share capital

	2011 £'000	2010 £'000
Authorised share capital		
600,000,000 ordinary shares of 2 pence each	**12,000**	12,000
Allotted, called up and fully paid		
416,725,335 ordinary shares of 2 pence each	**8,335**	8,335

7. Profit and loss account

	2011 £'000	2010 £'000
Balance brought forward	**19,362**	28,607
Loss for the financial year	**(924)**	(327)
Gain on sale of EBT shares	**—**	1,427
Equity dividends received	**9,739**	—
Equity dividends paid	**(7,094)**	(10,345)
Balance carried forward	**21,083**	19,362

8. Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium £'000	EBT £'000	Share-based payment reserve £'000	Profit and loss reserve £'000	Total 2011 £'000	Total 2010 £'000
At 1 January 2011	8,335	51,248	(6,350)	224	19,362	**72,819**	86,303
Profit for the financial year	—	—	—	—	(924)	**(924)**	1,100
Equity dividends paid	—	—	—	—	(7,094)	**(7,094)**	(10,345)
Equity dividends received	—	—	—	—	9,739	**9,739**	—
Employee share option schemes	—	—	—	400	—	**400**	(4,239)
Closing shareholders' funds	**8,335**	**51,248**	**(6,350)**	**624**	**21,083**	**74,940**	**72,819**

9. Share-based payment plans

The Company currently has one share incentive plan in operation which is satisfied by grants from the EBT.

PV Crystalox Solar PLC Performance Share Plan ("PSP")

This plan was approved by shareholders at the 2011 AGM under which awards are made to employees, including executive directors, consisting of a conditional right to receive shares in the Company. The awards will normally vest after the end of a three year performance period, to the extent that performance conditions are met.

On 26 May 2011 awards over up to 1,804,124 ordinary shares were granted to the three executive directors. These awards are subject to achieving growth in both total shareholder return and earnings per share in the performance period ending on 31 December 2013.

The Company recognised total expenses before tax of £87,500 (2010: £nil) related to equity-settled share-based payment transactions during the year.

The number of share options and weighted average exercise price ("WAEP") is set out as follows:

	PSP* Number
Share grants and options outstanding at 1 January 2011	—
Share grants and options granted during the year	1,804,124
Share grants and options forfeited during the year	—
Options exercised during the year	—
Share grants and options outstanding at 31 December 2011	**1,804,124**
Exercisable at 31 December 2011	**—**
Share grants and options outstanding at 1 January 2010	—
Share grants and options granted during the year	—
Share grants and options forfeited during the year	—
Share grants vested during the year	—
Options exercised during the year	—
Share grants and options outstanding at 31 December 2010	—
Exercisable at 31 December 2010	—

* The weighted average exercise price for the PSP is £nil.

At 31 December 2011 PSP awards will vest in 2014 following the determination by the remuneration committee of the extent to which the performance conditions have been met.

10. Dividends paid

Dividends were paid in 2011 of £7,094,397 (1.75 pence per share, being the 2010 final dividend) and in 2010 of £10,344,053 (2.56 pence per share, comprising 1.68 pence per share being the 2009 final dividend and 0.88 pence per share being the 2010 interim dividend).

11. Dividends received

Dividends were received in 2011 of £9,739,244 (£1.30 per share) and in 2010 of £nil.

12. Capital commitments

There were no amounts contracted for but not provided in the financial statements.

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