PV Crystalox Solar PLC Annual Report and Accounts 2012

The key to solar power

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.

Overview of results

Revenues
€46.3m
2011: €210.4m

EBIT (earnings before interest and taxation)
€(110.1)m
2011: (67.5)m

Operating cash flow
€67.1m
2011: €1.6m

Net cash (cash less external loans)
€89.4m
2011: €22.6m

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Chairman's introduction

PV Crystalox Solar PLC has navigated another extraordinarily challenging year for the PV industry. Global overcapacity principally in China maintained intense pressure on pricing which continued to fall through the year across the whole PV value chain. Against this background, the Group has continued to work to protect shareholder value.

Following the conclusion of a strategic review in the latter part of 2012, the Board decided to carry out a radical restructuring in response to the adverse market conditions. The Group is adjusting its operations to align production with anticipated sustainable short-term market demand so that the ongoing business will be broadly cash neutral in 2013. As part of this programme the Group announced on 13 December 2012 the decision to discontinue its polysilicon production facility in Bitterfeld, Germany and substantially reduce its production output at its UK ingot and German wafer operations. Regrettably these actions are leading to significant job losses both in the UK and in Germany.

The Group has been operating in cash conservation mode since November 2011; consequently shipment volumes of 108MW and revenues of €46.3 million in 2012 were substantially lower than the 384MW and €210.4 million achieved in 2011. EBIT loss for the year was €110.1 million. Despite the benefit of a €90.6 million cash settlement received for the cancellation of a supply contract the Group suffered non-cash losses from inventory writedowns and onerous contract charges, totalling €83.5, million and impairment to fixed assets of €82.5 million. Net cash at the end of the year was €89.4 million as against €22.6 million at the beginning of the year.

I took over as Chairman in May 2012 following Maarten Henderson's decision to stand down at last year's Annual General Meeting. On behalf of the Board, I thank Maarten for his guidance and leadership as Chairman since our IPO in 2007.

Hubert Aulich, Director of German Operations, has informed the Board that he will retire from the Group on 31 May 2013 and accordingly will not seek re-election at this year's Annual General Meeting. Hubert has served the Board with distinction and I thank him for his very significant contribution to the development of the Group over the last eleven years.

In line with the recommendations of the UK Corporate Governance Code June 2010 concerning the annual re-election of directors, I confirm that all other directors are standing for re-election at this year's Annual General Meeting.

Given our strong net cash position and the challenging market expectations going forward, the Board has decided to return cash to shareholders. This will be implemented through an issue of B and C shares providing the shareholders with the option to take payments as either income or capital. This cash return will be accompanied by a share consolidation to maintain broad comparability of the share price and return per share of the ordinary shares before and after the creation of the B and C shares. The Board will be recommending that shareholders approve the necessary measures at a General Meeting to be held in Q2 2013 to achieve a cash return in June 2013.

The Board continues to believe that our cash conservation strategy is a necessary response to current market conditions, enabling us to protect shareholder value whilst preserving the Group's core production capabilities. The Board remains committed to the solar industry and believes that the medium-term outlook for solar installations remains positive.

John Sleeman
Chairman
20 March 2013

Experts in multicrystalline silicon wafers

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.

How we operate

Following our decision to stop production of polysilicon PV Crystalox Solar focuses on its core strengths in the ingot/wafer segments of the PV value chain. Our extensive experience in these areas gives us international recognition as a leading multicrystalline silicon wafer manufacturer.

Leading through experience and continual innovation

PV Crystalox Solar focuses on silicon processing technologies, areas in which we possess extensive expertise and experience.

1. Solar grade polysilicon

Internal – None following shutdown of production at Bitterfeld, Germany

External – 100% externally supplied polysilicon

Externally supplied polysilicon

2. Ingot production

Internal – 100% at Crystalox Limited

External – Nil

- 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

Crystalox Limited
Abingdon, UK

22 years

Manufacturing experience in the PV industry

750 MW

2013 production capacity

3. Block production

Internal – Crystalox Limited

External – Japanese subcontractors

- 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

Internal – PV Crystalox Solar Silicon GmbH

External – Japanese subcontractors

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

5. External sales

Internal – Crystalox Limited

PV Crystalox Solar Silicon GmbH

PV Crystalox Solar KK

- 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 Crystalox Solar Silicon GmbH
Erfurt, Germany

Crystalox Limited
Abingdon, UK

PV Crystalox Solar Silicon GmbH,
Erfurt, Germany

PV Crystalox Solar KK
Tokyo, Japan

Japanese subcontractors

Japanese subcontractors

The current market

Responding to a challenging market

Modest market growth is expected in 2013 with industry analysts IHS forecasting installations of 35GW up 9% on 2012. The dominance of Europe is expected to continue to decline as governments reduce incentives. Strong growth in China in particular, which is expected to overtake Germany as the largest market, and in Japan will ensure that Asia will become the most important region in the years ahead.

The market is expected to remain extremely challenging with continued pressure on pricing across the value chain. Spot wafer prices started to fall in April 2011 and decreased by 75% during the following 18 months. Accordingly, the Group has adjusted its operations to align with anticipated sustainable short-term market demand so that the ongoing business will be broadly cash neutral in 2013.

Formal anti-dumping investigations in USA, China and Europe

- Interim duties of 18–250% levied on Chinese cells in USA
- China launches investigation of polysilicon imports from Europe, USA and South Korea
- 20 European PV companies file complaint to EU commission accusing Chinese competitors of unfair trade prices

Global PV market in transition

- Incentives in key European markets declining but growth in Japan and China expected to compensate

Europe

- Germany installed 7.5GW in 2012. Monthly degressions aimed at restricting annual installations to 2.5–3.5GW
- In Italy PV incentives are expected to be phased out at the end of the current programme. Annual installations are anticipated to be 1GW thereafter

Japan

- JPY42 FIT agreed for fiscal 2012 installations and 10% reduction expected for 2013
- 5GW installations forecast for 2013

China

- PV installation targets raised to 21GW by 2015 and 50GW by 2020
- China expected to be largest global market in 2013

USA

- Grew by 76% to 3.3GW in 2012
- Over 5GW expected in 2013

Operational review

> "Following a strategic review of the business, we are in the process of carrying out a radical restructuring to align our operations with current market demand. While modest market growth is expected in 2013, the pricing environment remains very difficult."

Dr Iain Dorrity
Chief Executive Officer

Market overview

- 2012 global PV module installations of 32GW up from 28GW in 2011.
- Wafer pricing has fallen by 75% since April 2011.

Summary

Trading conditions during 2012 were extremely challenging due to the chronic overcapacity in the PV industry. The oversupply, which primarily originates from over investment in China which took place during 2010-2011, maintained the intense pressure on prices that has developed across the value chain during the last 18 months. Spot wafer prices started to fall in April 2011 and continued to decrease throughout 2012. Recent weeks have seen some stabilisation albeit at a level which is 75% below that seen in April 2011 and significantly below industry production costs.

Our wafer shipment volumes of 108MW in 2012 were significantly below the 384MW achieved in 2011 as production output was lowered as part of the Group's cash conservation strategy adopted at the end of 2011, in response to the difficult market conditions. At that time, production was suspended at our polysilicon facility in Bitterfeld and wafer production levels were significantly reduced.

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. Our focus during 2012 has been to secure sales to these long-term contract customers where it was possible to negotiate prices at a premium to spot prices. However the intensively competitive market environment has also placed our customers under severe financial pressure with several exiting the industry during 2012 either voluntarily or due to insolvency. In one case the Group was successful in negotiating compensation of approximately €91 million for the termination of a long-term wafer supply contract. We have been unable to reach a satisfactory agreement with two long-term contract customers who have been amongst the industry leaders in recent years and we are seeking resolution under the jurisdiction of the International Court of Arbitration. While successful judgements in the Group's favour are anticipated, the levels of compensation are not expected to be as significant. Furthermore there is increasing uncertainty as to whether either of these companies will have the financial resources to fully settle these claims.

Despite the very significant customer settlement the Group has incurred substantial losses as a result of inventory writedowns and impairment of assets necessitated by the weak market environment.

Market

Global PV installations in 2012 showed sequential growth and reached 32GW up from 28GW in 2011 according to market research firm IHS. However falling prices led to an 18% decline in industry revenues. Germany regained its position as the number one market with 7.5GW of installations which was broadly similar to that achieved in 2011. Overall Europe remained the dominant market but its share at 52% is declining as demand in Asia, particularly from China and Japan, increased.

Installations in China were boosted particularly in the second half of the year and more than doubled to reach over 4GW in 2012 as the government provided further support to its PV industry by raising the 2020 PV installation target from 20GW to 50GW. Japan has been suffering with power shortages since the Fukushima disaster and the Ministry of Economy, Trade, and Industry ("METI") announced a much anticipated PV feed-in-tariff programme in June 2012 valid for 20 years which has stimulated installations to 2.5GW. Overall the Japanese government has set a goal of achieving 28GW of cumulative PV installations by 2020.

Operational activity

- Cash conservation strategy continued throughout 2012.
- Restructuring announced late 2012 in response to adverse market conditions.
- Decision taken to:
  — discontinue polysilicon facility at Bitterfeld, Germany; and
  — reduce production at UK ingot and German wafer operations.
- Cash settlements from customers of €90.6m.
- Board decided to return cash to shareholders:
  — recommending shareholder approval for a cash return to be made in June 2013.

The dramatic decline in PV industry pricing has led to claims of unfair trade practices and the initiation of anti-dumping investigations in the USA, China and Europe.

In November 2012 the United States International Trade Commission ("USITC") unanimously finalised its initial finding that Chinese photovoltaic imports materially injured the USA industry. It found that Chinese producers/exporters have sold solar cells in the USA at dumping margins ranging from 18-250% and that they have received countervailing subsidies.

In July 2012 the Chinese Ministry of Commerce ("MOFCOM") began investigating claims of polysilicon dumping by US and South Korean companies and its scope was later extended to include European producers. A preliminary decision was expected in February 2013 but has now been postponed to a later date.

In early September 2012 the European Commission launched investigations into possible dumping of wafers, cells and modules by Chinese producers into the EU market and claims that Chinese imports also benefit from unfair government subsidies. Exports of PV products from China to the EU totalled €21 billion in 2011, making the case the largest unfair-trade probe ever started by the EU. The investigations are expected to take 15 months to complete although provisional duties may be imposed in May/June 2013 if there is sufficient evidence to support the complaints.

Operational review of 2012

On account of the depressed market prices and our cash conservation strategy wafer production output was reduced significantly during 2012 and we operated at around 14% of our maximum 750MW capacity. Although our long term wafer supply contracts provided some protection from the worst of the market pressures, the fall in average sales prices ("ASPs") and less than optimum production volumes adversely impacted our margins.

Operational review continued

"The Group continues to believe in the positive long-term outlook for the photovoltaic industry. The Board believes that the adjustment of operations to align with anticipated sustainable short-term demand will enable generation of positive cash flows during 2013 and leave the Group well positioned should the market begin to recover."

Operational review of 2012 continued

Polysilicon production remained suspended throughout the year at the Group's Bitterfeld facility as our reduced polysilicon requirements were more than satisfied by external suppliers and market pricing, which continued to fall throughout the year, remained below our cash costs.

In common with most, if not all, PV companies, the Group has long-term contractual commitments for the purchase of polysilicon at prices which are incompatible with current market prices for wafers. We were successful in negotiating significantly reduced pricing for deliveries in 2012. As a consequence of the reduced wafer production levels the Group has traded excess polysilicon during the first half of the year in order to avoid excess inventory levels.

The Board completed a strategic review of the business in the latter part of 2012 which took account of the adverse market conditions and the Group's strong net cash balance. As a result the Group will carry out a radical programme of restructuring while retaining its core production capabilities and also return excess cash to shareholders.

As part of this programme the Group has permanently closed its polysilicon production facility in Bitterfeld, Germany. In addition, production output will be reduced at its UK ingot and German wafer operations. Regrettably these actions will lead to very significant job losses both in the UK and in Germany.

Cash conservation focus in 2013

The Group will continue with its cash conservation strategy while current market conditions persist. The Group has adjusted its operations to align with anticipated sustainable short term market demand so that the ongoing business will be broadly cash neutral in 2013. Wafer production volumes have been halved from 2012 levels and we continue our focus on cost control and inventory management including trading of excess polysilicon where necessary.

The Group has long term contractual commitments for purchase of polysilicon but was successful during 2012 in reaching agreement with its suppliers to adjust volumes and prices. A positive outcome to negotiations has also been concluded for Q1 2013. Price reductions have also been negotiated with other key suppliers including wafering subcontractors which, in combination with the weaker Japanese Yen, will enable further reduction in direct wafer production costs in 2013.

Outlook

Modest market growth is expected in 2013 with industry analysts IHS forecasting installations of 35GW up 9% on 2012. The dominance of Europe is expected to continue to decline as governments reduce incentives. Strong growth in both China, which is expected to overtake Germany as the largest market, and Japan, will ensure that Asia will become the most important region in the year ahead.

The Group continues to believe in the positive long-term outlook for the photovoltaic industry but is mindful of the intensely competitive environment which is likely to persist in the short term and which has already led to many companies leaving the industry, either voluntarily or through insolvency. The Board believes that the adjustment of operations to align with anticipated sustainable short term demand will enable generation of positive cash flows during 2013 and leave the Group well positioned should the market begin to recover.

The market is expected to remain extremely challenging with continued pressure on pricing, although the first two months of 2013 have seen some modest improvement from the lows experienced in late 2012. The European Commission has indicated that it will announce its findings into claims of dumping of Chinese PV products in June 2013 and any decision to impose anti-dumping duties would be expected to provide some further support to pricing and boost demand for the Group's wafers.

Dr Iain Dorrity
Chief Executive Officer
20 March 2013

The Group will continue with its cash conservation strategy while current market conditions persist.

Cash conservation focus

The Group will continue with its cash conservation strategy while current market conditions persist.

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

Our long-term strategy	Current priorities	
Cash conservation	• Temporary reduction in production output; and • Retain operational capabilities.	• Trading excess polysilicon; and • Working capital management.
Continued focus on operating cost reductions	• Negotiate improved polysilicon pricing; • Restructuring operations; and • Other supplier price reductions.	• Production efficiencies; and • Higher yields.
Retaining flexibility of production	• Diversity in sourcing polysilicon supply.	• Geographical diversity in wafer production.
Focus on further developments of the leading silicon processing technology	• Working with customers to increase product quality and develop the next generation of wafer technology.	
Continued focus on major PV companies	• Enhanced relationships with existing customers; and • Developing new customers.	

Financial review

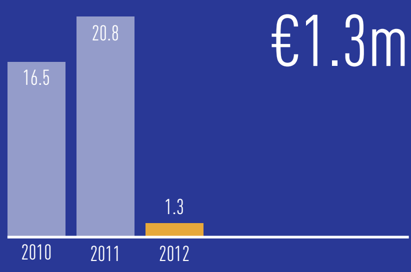
"The Board believes that its ongoing cash conservation strategy will enable the Group to sustain adequate cash resources for the foreseeable future."

Dr Peter Finnegan
Chief Financial Officer

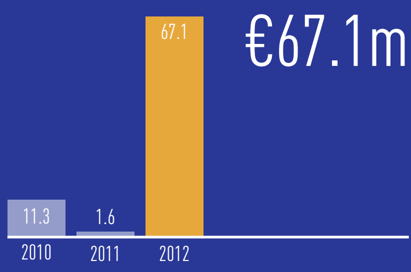
Summary of Financial review

- Cash settlements totalling €90.6 million received in connection with termination/variation of long-term customer contracts.
- In 2012 Group revenue decreased by 78.0% to €46.3 million mainly due to restricting sales to contracted customers rather than selling at below cash cost.
- Earnings after tax were a loss of €121.4 million producing earnings per share at a loss of €0.30.
- Net cash inflows of €67.1 million were generated from operating activities.
- The Group's net cash position at year end was €89.4 million.
- The base plans indicate that the Group will be able to operate within its net cash reserves for the foreseeable future.
- The main part of the loss in the year related to non-cash writedowns.
- An impairment charge has been recognised to reduce the carrying values of plant by €82.5 million.
- The Group wrote down its inventories by €41.5 million.
- An additional onerous contract charge of €42.0 million was recorded.

Capital expenditure (net of grants)



Operating cash flow



Net cash

In 2012 Group revenue decreased by 78.0% to €46.3 million (2011: €210.4 million). This fall was due to the Group's cash conservation strategy whereby wafer sales were in the main limited to contracted customers where a price could be obtained that was higher than the cash cost of production. Wafer shipments in the year were 108MW (2011: 384MW).

During the year the Group incurred an EBIT loss of €110.1 million (2011: loss of €67.5 million) driven primarily by non-cash writedowns. Firstly, the Group's production capital equipment was written down by €82.5 million. Secondly, the Group wrote down its inventories by €41.5 million and thirdly, the onerous contract provision in respect of long-term polysilicon supply agreements was increased by €42.0 million. Finally, there was a loss of €9 million in respect of the discontinued polysilicon operation and €22 million in respect of the fall in wafer volume and average selling prices. On the positive side there were cash settlements in respect of the cancellation of customer contracts of €90.6 million. In summary the Group generated €67.1 million additional net cash from operating activities in the year despite reporting an EBIT loss of €110.1 million.

Net interest expenses were €0.7 million (2011: income €0.5 million). The main reason that there is net interest expenses is the inclusion of a charge of €1.3 million in respect of unwinding the discount rate used in the calculation of the Group's onerous contract provision. The Group's net cash position at year end was €89.4 million (2011: €22.6 million). An income tax charge of €10.6 million (2011: credit of €6.2 million) is mainly due to the expected income tax credit of €29.1 million at the effective tax rate of 26.3% being more than offset by the writing-off of previously recognised tax losses and unrelieved 2012 tax losses of €40.4 million.

The loss attributed to the equity owners in the year was €122.7 million (2011: €55.7 million), which equates to a loss per share of €0.299 (2011: loss of €0.150).

The Group generated net cash inflows from operating activities of €67.1 million (2011: €1.6 million) and free cash inflow of €65.0 million (2011: outflow of €20.0 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 decreased by the absorption of €7.3 million into working capital (2011: €8.6 million). Lower sales in the year had released €21.9 million cash from debtors although this had been more than offset by an increase in inventories of €33.2 million partially offset by the non-cash writedowns of closing inventories.

There was no new capital expenditure authorised during the year due to the Group's cash conservation strategy although capital projects started in prior years have been completed. Consequently capital expenditure in the year was significantly lower at €1.3 million (2011: €21.9 million). No material investment grants were received in the year. Investment grants received in prior years were all in respect of the German operations as capital expenditure in the United Kingdom does not qualify for such grants.

A large proportion of the loans in the Group's Japanese subsidiary were repaid in the year. The loans had been taken out in Japanese Yen and had been utilised as a hedge against movements in the Japanese Yen and its effect on assets held in that currency (mainly debtors). As the Japanese debtor book was significantly lower, the loans as a form of natural hedge were no longer required to the same degree. In addition the loans had been secured against the Japanese Yen debtor book. Accordingly, €42.9 million of these Yen loans were repaid in the year (2011: €0.3 million).

"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."

Financial review continued

"The Group expects to reduce other costs through negotiation with suppliers and by achieving greater efficiencies within the Group's operations."

No dividends were paid in the year (2011: €8.1 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 including the continued decline in spot prices of wafers during 2012 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 2013.

The Group has three remaining long-term wafer supply contracts and accordingly these should give the Group the ability to sell wafers at prices that are above current market spot prices during 2013 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.

On the other hand, the Group has long-term contracts with two external suppliers for the purchase of polysilicon, our main raw material, for unexpired periods of between two and three years and for volumes in excess of current reduced production requirements. The Group's management has been successful in reaching accommodation with these suppliers to secure periodic contract amendments and adjust 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 2012 and the first quarter of 2013.

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. In line with the Group's strategy of retaining flexibility in production levels, production can be brought back on stream when market conditions allow. Following the fall in employment costs in 2012 resulting from the reduction in contract labour in Germany and redundancies in the United Kingdom, further cost savings will be obtained in 2013 as a result of the announced Group restructuring. 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 actions and based on the above 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 2012 there was a net cash balance of €89.4 million, comprising cash or cash equivalents of €94.7 million less short-term loans of €5.3 million. The current borrowings are in Japanese Yen and are subject to certain covenants on the Japanese subsidiary company (including interest cover, profitability and receivables cover). The Group's current plans are based on 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 2012. As a result of this assessment, an impairment charge has been recognised to reduce the carrying values of plant by €82.5 million (2011: €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.

The Group has impaired the majority of its production capital assets. The main impairment relates to the polysilicon plant at Bitterfeld, which on the grounds that its production has been discontinued, was impaired to its realisable value, accordingly the recoverable value of Bitterfeld plant is estimated to amount to €8.0 million. This has been derived from a detailed professional valuation of the individual assets.

The impairment charges in respect of plant and equipment has been made to writedown the value of such plant and equipment to realisable value. These writedowns have been accounted for in individual Group companies. Accordingly, any further potential writedowns are restricted to the remaining modest values and will thus be immaterial.

Other financial writedowns in the year

In addition to the above mentioned impairment of €82.5 million (2011: €27.9 million), the Group wrote down its inventories by €41.5 million (2011: €22.9 million) and made onerous contract charge and provisions of €42.0 million (€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 three 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
20 March 2013

Principal risks and uncertainties

During 2012 the Group was exposed to several risks that had been identified in the 2010 and 2011 Annual Reports. One of the key mitigating strategies was the continuation of the cash conservation measures and the Group restructure described in the Operational Review. The possibility remains that certain of the risks described below which the Group is 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 and 2012 we cooperated with our long-term contract customers and offered lower prices but at a premium to spot prices. However, during 2012 spot pricing remained below our production costs and so selling to customers without any contractual commitment was no longer attractive except to reduce inventory levels and free up cash.	• Limiting production to long term contracted customer demand where the price obtainable is above production cash costs. • Selling at spot price to reduce inventory and to release cash. • Lowering production costs. • We negotiate with our suppliers to achieve polysilicon prices at close to the spot price where possible. • Temporary reduction in ingot and wafer production. • Continuing cash conservation measures. • Restructuring Group operations. • Maintaining a strong balance sheet which gives the Group the strength to weather the ongoing price squeeze.
Contracted polysilicon feedstock continues to exceed our own internal requirements	The Group obtains polysilicon feedstock through long term contracts with two polysilicon feedstock suppliers. Due to our reduced wafer production output the contracted feedstock and is significantly in excess of the Group's requirements.	• Following suspension of our internal polysilicon production in December 2011 we are now in the process of closing that facility at Bitterfeld. • 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 and will continue to trade excess volumes of polysilicon feedstock.
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 wafer sales 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.	• Where possible 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. However the extremely challenging PV market has led to many customers exiting the industry either voluntarily or through insolvency. • We work with our customers to ensure that the quality, specifications and efficiency of our wafers are suitable for their current and future needs. • As pricing on the spot market has fallen below contract prices we cooperate with our long-term contract customers to offer lower prices but at a premium to spot prices.
PV market development is reliant on Government incentives, support and legislation	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 focus on supplying those major PV companies which are better equipped, therefore, to sell product into global 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.

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
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 and 2012. This reduction in module prices has led to a reduction in wafer prices. 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 the ongoing price squeeze. • Due to the expectation of continued low prices over the coming twelve months we are continuing our cash conservation strategy, are carrying out a radical organisational restructure and minimising production whilst maintaining core competencies to survive into the medium term.
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. • 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 balances in Japanese 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 and to retain core production capabilities	The Group sells wafers and excess polysilicon feedstock 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 or to retain core production capabilities.	• We are currently producing at levels considerably below capacity due to our cash conservation activities. • Ingot manufacturing is carried out in the United Kingdom where the Group has four separate sites available for production. • 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.
Imposition of trade barriers and restrictions may have a significant impact on the PV industry	The ongoing trade disputes between the United States, China and the European Union may have a significant impact on the solar industry. The USA has introduced anti-dumping duties and countervailing duties in relation to government subsidies that contravene international trade laws against Chinese imports. The Chinese Ministry of Commerce and the European Union have both initiated similar investigations, the results of which will be announced and any actions implemented in 2013.	• Any duties imposed on imports of Chinese PV products into Europe is expected to benefit the Group as demand for our wafers is likely to increase as a result.

Corporate social responsibility

"We recognise the need to establish, formalise and apply an environmental management system at each of our manufacturing sites. The Group has effective environmental management and health and safety systems in place, in support of, and to complement, its quality assurance systems."

Focused on effective environmental management

- We seek to eliminate and, where this is not practicable, to minimise negative environmental impacts.
- We comply with all statutory environmental legislation as a minimum and to aim to improve upon the standards set by the local regulatory authorities.
- We foster an informed and responsible approach to all environmental concerns and encourage the involvement of employees, customers and suppliers.

The environment

Our product

The Group is a leading 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, providing electricity for a known starting cost and with minimal maintenance. Depending on the system's location, it has been estimated that the total energy used in the production of a silicon solar system will be recovered within a period of two to three years.

Our focus on our environmental responsibilities is clearly evident, being a producer of wafers for the PV industry and providing for power generation, free of emissions.

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.

- At Crystalox in the United Kingdom, an automated water filtration system has been implemented that allows for recovery of 90% of process water used during the cutting and grinding of multicrystalline silicon blocks. Silicon fines are removed from the process water which is subsequently reconditioned to allow for recirculation thus significantly reducing waste water discharge volumes.

- Crystalox 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 the Erfurt based operation again received an award from the State of Thuringia in 2012 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.

- 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.

- During 2012 the operation at Erfurt has introduced an energy management programme and has received its certification for ISO 50001 Energy Management System. As a result of this we are able to reduce our total energy consumption per wafer by 20% compared to 2011.

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 continues 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 the Erfurt operation'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 projects have commenced 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.

During 2012 the plant was maintained in idle mode. This involved maintaining the plant and equipment at a high safety standard with a heightened focus on health and safety necessitating cover 24 hours per day and seven days per week. The production of solar-grade polysilicon at Bitterfeld necessitates a heightened focus on health and safety. Regular Hazard and Operability Studies ("HAZOP") meetings are held by the management with an external safety expert, where any issues are discussed and improvements defined. Bitterfeld's focus on safety and high standards was affirmed by a successful Safety Management System Audit in 2012.

The 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.

Corporate social responsibility continued

"The Group recognises that a key factor in its successful operations is its personnel. In spite of the headcount reductions at all sites, management's top priority has been to provide a safe and secure work environment for all."

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 UK ingot and German wafer operations and the Board suspended production 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.

In December 2012 the Board announced that following a strategic review of the business it would carry out a radical restructuring in response to the continuing challenging market conditions. The Group intends to adjust its operations to align with anticipated sustainable short term market demand while retaining its core production capabilities. As part of this programme the Group: i) will discontinue its polysilicon production facility in Bitterfeld, Germany; and ii) will reduce substantially its production output at its UK ingot and German wafer operations. Regrettably these actions will lead to very significant job losses both in the UK and in Germany.

The restructuring of the UK operation was completed by the end of January 2013 following a consultation process with the staff affected and the Crystalox Limited Employee Forum. The outcome was a 61% reduction in headcount. As at the date of this report negotiations are taking place with the Works Councils in Erfurt and Bitterfeld to agree the terms of the restructure.

Training

The Group recognises that a key factor in its successful operations is its personnel. In spite of the headcount reductions at all sites 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 2012 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 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 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.

During 2012 and the early part of 2013 Crystalox Limited has run a multi-module management development training programme for its managers. The Group believes that given the recent changes in production and headcount levels, difficult market conditions and continued period of uncertainty and challenges faced by the managers, there is a need for support and development to enable them to perform at the highest levels possible required to achieve the overall business objectives, in addition to providing them with the opportunity for personal development and growth.

In Germany the Group has been running an apprenticeship programme for a number of years. We currently have 16 young people in Erfurt and five young people in Bitterfeld enrolled in technical and administrative jobs. The intention of the programme was that after a three year period these apprentices would have the chance to become permanent members of staff. For some of the apprentices the programme enables them to continue with their studies to obtain a degree in Engineering. During 2012 one of our Erfurt apprentices won a scholarship from the government for his excellent exam results. Furthermore, we have been selected for an "Excellent Training Company" award from the local government. At Bitterfeld four apprentices completed their courses with excellent or very good results. In this difficult time we are committed to ensuring that the apprentices are able to complete their training, either within the Group or at a suitable alternative company.

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.

In the United Kingdom seven safety representatives were elected and appointed onto the Crystalox Health and Safety Committee. The newly appointed Safety Representatives undertook fully accredited IOSH (Institution of Occupational Safety & Health) training during the course of the year.

The total number of reported work-related accidents in the United Kingdom fell from 48 in 2011 to 31 in 2012 with a slight improvement seen in the accident ratio (accidents per employee per worked day) which fell from 0.00166 to 0.00163 which equates to over 600 days worked per accident occurrence.

There were no RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) related incidences to report in the United Kingdom in 2012.

At Bitterfeld there were two work related incidents resulting in three or more days absence in 2012 and two in 2011.

Our community

We have been running local events in Erfurt for several years to demonstrate the possibilities of solar electricity and again in 2012 we worked with the local power provider to carry out the annual solar car race programme with local students. The FIT which we receive from our 30KW solar system mounted to building in Erfurt, which feeds electricity directly into the local grid, is used to finance these projects.

A similar event was held in Bitterfeld during 2012 where PV Crystalox, along with another company from Bitterfeld, held a competition racing solar powered cars. Every student participating received two solar cells and a small electric motor. The student then participated in the solar car race where the goal was to build a vehicle, using the solar cells on a movable platform. The aim was to cover the distance as quickly as possible to the finish line. Two of our apprentices participated in the competition and won the competition in their age group.

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 chairman of the cluster board 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.

Directors

John Sleeman
Chairman

Dr Hubert Aulich
Executive Director, German Operations

Dr Iain Dorrity
Chief Executive Officer

Dr Peter Finnegan
Chief Financial Officer

Michael Parker
Non-executive Director

John Sleeman Chairman

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.

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.

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.

Dr Peter Finnegan Chief Financial Officer

Peter Finnegan has a Doctorate in Corporate Finance from Henley Business School, an MBA from Manchester Business School, is a Fellow of the Chartered Institute of Management Accountants and is a Chartered Global Management Accountant. 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) Ltd. He was appointed to the Board of Crystalox Solar Ltd in 1994 and was a director of Crystalox Ltd 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.

Michael Parker Non-executive Director

Michael Parker was born in Liverpool and received a Bachelor's degree in Chemical Engineering from the University of Manchester and an MBA from the Manchester Business School. Michael began his career with Dow in 1968. During his career with the company he worked in the US, UK, Switzerland and Hong Kong. He became President and Chief Executive Officer of The Dow Chemical Company in Midland, Michigan, USA in 2000 and a member of the company's Board of Directors from 1995 to 2003. He was appointed group chief executive of BNFL (British Nuclear Fuels) in August 2003; at the end of June 2009 he finished this role following the successful dismantling and privatisation of the company. Michael joined the Invensys Board as a non-executive director in 2006 and subsequently became the senior independent director. Until November 2012 Michael was chairman of Liverpool's new economic development and regeneration company, Liverpool Vision, having been appointed as chairman designate in October 2007. Michael will remain very much involved in Liverpool; chair of BioCampus Board for Royal Liverpool Hospital.

He is a non-executive director at PV Crystalox Solar and SNC-Lavalin as well as being a Trustee of the Royal Society for Prevention of Accidents ("RoSPA"). In 2011 Michael was appointed as chairman of Street League, a national charity that utilises football to engage with inactive 16-25 year olds. He is also the chair of the Energy Institute Strategy Review Group.

Michael is also a member of the Manchester Business School Advisory Board.

Corporate governance statement

Introduction from the Chairman

John Sleeman
Chairman
20 March 2013

Dear Shareholder

The Board is mindful of its responsibilities to the Company's shareholders and key stakeholders to ensure the Company has the right people, systems and processes in place to manage risk and deliver the Group's agreed strategy. As Chairman, I am responsible for ensuring that the Board operates effectively with well-informed directors asking the right questions and setting the right tone from the top.

This Corporate Governance Statement describes our approach to governance and highlights a number of the actions we have taken during the year including the following:

Board balance and independence
Following the decision by Maarten Henderson not to stand for re-election at the 2012 AGM the Board has consisted of two non-executive directors and three executive directors. Only Michael Parker is deemed to be independent in accordance with the UK Corporate Governance Code. Further details are on pages 20 to 21.

The Board has discussed its composition which is not compliant. Hubert Aulich has indicated that he will stand down at the 2013 AGM and his position as an executive director on the Board will not be replaced. Following the 2013 AGM this will give a Board composition of the Chairman, two executive directors and one independent non-executive director. It is clear that another independent non-executive director is required to be compliant with the UK Corporate Governance Code. The Board believes that until there is more certainty about the long term future for the Group the present composition is the most appropriate. At the point when there is more certainty the nomination committee will be instructed to lead the search for a new non-executive director.

Compliance
Since January 2012 the Company was considered to be a smaller company under the UK Corporate Governance Code as it was below the FTSE 350 throughout 2011 and 2012. As a smaller company the Company was fully compliant until 24 May 2012 when Maarten Henderson stood down from the Board and its committees. From 24 May 2012 onwards the Company did not comply with certain provisions relating to board and committee composition. These are detailed on pages 23 to 24.

Performance evaluation
I led the 2012 internal Board effectiveness review supported by the Group Secretary. The review found that the Board is operating effectively. We intend to conduct an external review next year.

The performance of the individual directors was evaluated and my performance was evaluated by the Senior Independent Director and the Chief Executive Officer.

The performance of the Board, its committees, the individual directors and the Chairman were all found to be effective. Further details are on page 25.

Compliance

Throughout the year ended 31 December 2012, the Group complied with the provisions set out in the UK Corporate Governance Code except that the Group did not comply with certain provisions relating to board and committee composition following the resignation of Maarten Henderson on 24 May 2012, namely Sections B.1.2, B.2.1, C.3.1 and D.2.1.

Under the UK Corporate Governance Code the Company has been considered to be a smaller company since the start of 2012 as it was below the FTSE 350 throughout the year and the year immediately prior to the reporting year. As a smaller company the Company was fully compliant with the Code until 24 May 2012 when Maarten Henderson stood down from the Board and its committees.

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 Group did not have a majority of independent non-executive directors at any point during 2012.
- As a smaller company the Group was compliant until 24 May 2012 as there were two independent non-executive directors on the Board in addition to three executive directors and a non-executive Chairman who was deemed to be independent on appointment.
- From 24 May 2012 the Group was not compliant as there was only one independent non-executive director on the Board.

The Board do not consider the current structure to be ideal. The Board believes that until there is more certainty about the long term future for the Group that the present composition is the most appropriate. At the point when there is more certainty the nomination committee will be instructed to lead the search for a new independent non-executive director.

Section B.2.1 states that a majority of members of the nomination committee should be independent non-executive directors.

- All non-executive directors are members of the nomination committee.
- The Group was compliant until 24 May 2012 as there were two independent non-executive directors on the committee and a non-executive Chairman who was deemed to be independent on appointment.
- From 24 May 2012 the Group was not compliant as, with one independent non-executive director and a non-executive Chairman who was deemed to be independent on appointment, there was not a majority of independent non-executive directors on the committee.

The Board does not consider the current structure to be ideal. The Board believes that until there is more certainty about the long term future for the Group that the present composition is the most appropriate. At the point when there is more certainty the nomination committee will be instructed to lead the search for a new independent non-executive director who, once appointed, will join the committee.

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 non-executive directors are members of the audit committee, however the Group did not have at least three independent non-executive directors at any point during 2012.
- As a smaller company the Group was compliant until 24 May 2012 as there were two independent non-executive directors on the committee and a non-executive Chairman who was deemed to be independent on appointment.
- From 24 May 2012 the Group was not compliant as there was only one independent non-executive director and a non-executive Chairman who was deemed to be independent on appointment on the committee.

The Board does not consider the current structure to be ideal. The Board believes that until there is more certainty about the long term future for the Group that the present composition is the most appropriate. At the point when there is more certainty the nomination committee will be instructed to lead the search for a new independent non-executive director who, once appointed, will join the committee.

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 non-executive directors are members of the audit committee however the Group did not have at least three independent non-executive directors at any point during 2012.
- As a smaller company the Group was compliant until 24 May 2012 as there were two independent non-executive directors on the committee and a non-executive Chairman who was deemed to be independent on appointment.
- From 24 May 2012 the Group was not compliant as there was only one independent non-executive director and a non-executive Chairman who was deemed to be independent on appointment on the committee.

The Board does not consider the current structure to be ideal. The Board believes that until there is more certainty about the long term future for the Group that the present composition is the most appropriate. At the point when there is more certainty the nomination committee will be instructed to lead the search for a new independent non-executive director who, once appointed, will join the committee.

Corporate governance statement continued

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 26 to 37.

Board balance and independence
Until 24 May 2012 the Board comprised the non-executive Chairman, who was deemed to be independent on appointment, two independent non-executive directors and three executive directors. Following the AGM on 24 May 2012 the Board comprises the non-executive Chairman, who was deemed to be independent on appointment, one independent non-executive director 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. Michael Parker 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 20 and 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.

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 AGM. John Sleeman was 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 26 and 27.

Board meetings
The Board meets at least six times per annum and at other times according to business requirements. During 2012 there were 14 meetings, including four meetings in June, July, September and October 2012, 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 2012 the number of Board and committee meetings with individual attendances was as below.

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.

Board meeting attendance

	Board	Audit	Remuneration	Nomination
Hubert Aulich	14	3	2	2
Iain Dorrity	14	3	2	2
Peter Finnegan	14	3	2	2
Maarten Henderson*	5	1	2	1
Michael Parker*	14	3	2	2
John Sleeman*	14	3	2	2

* Non-executive directors.

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, John Sleeman, 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. 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 had originally intended to carry out an external review for this Annual Report. The Board decided that, in view of the cash conservation measures being taken throughout the organisation, the external review would be postponed until the Group enters a more normal trading environment. As a result an internal evaluation was undertaken this year.

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 the Chief Executive Officer evaluated the performance of the Chairman and concluded that the Chairman operated effectively in his role.

As was highlighted above, the Board carried out an internal evaluation of its effectiveness by a process which involved the completion of a detailed questionnaire, the compilation of a report based on the answers and a structured discussion on the report at a board meeting in February 2013. The process was led by the Chairman with the assistance of the Group Secretary. The discussion focused 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 which were operating effectively but where changes could be made to improve longer-term effectiveness. These areas identified in the review are to be addressed in 2013 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 2013. 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 the committees were operating effectively but 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 and reported the views of these shareholders to the Board. All directors receive copies of analysts' reports on the Group 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 November 2012 and a trading update in December 2012.

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.

Corporate governance statement continued

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 37 and those of the auditors on page 38. A statement on going concern appears on pages 12 and 13.

Remuneration committee
The Directors' Remuneration Report and details of the activities of the remuneration committee are on pages 32 to 36. 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 is chaired by John Sleeman. It is appointed by the Board and is made up of at least two members, where a majority of the members shall be non-executive directors. The board shall appoint the committee chairman who should be either the Chairman of the Board or an independent non-executive director. Until May 2012 the committee was made up of three members, the two independent non-executive directors, John Sleeman and Michael Parker, and Maarten Henderson, the Chairman of the Board. Since May 2012 the committee comprises John Sleeman, chairman of the committee, 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 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;
- 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 twice during the year. Details of attendance are shown in the Corporate Governance Statement on page 24.

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;
- recommending Michael Parker for the role of Senior Independent Director;
- membership of the audit and remuneration committees;
- 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.

Appointment of the new Chairman

John Sleeman was appointed initially as Interim Chairman following the AGM on 24 May 2012 at which Maarten Henderson stood down as Chairman. The Board discussed its composition and the need to appoint a permanent chairman at a meeting in August 2012. It decided that until there was more certainty about the long term future for the Group it was inappropriate to change the size of the Board. As a result the Board resolved to appoint John Sleeman as Chairman without searching for or considering any external candidates.

Audit committee

The audit committee of the Board is chaired by Michael Parker and is to be made up of a minimum of two members where a majority of the members shall be non-executive directors, at least one of whom shall have recent and relevant financial experience. The audit committee chairman shall be an independent non-executive director. Until May 2012 the committee was 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. Since May 2012 the committee comprises Michael Parker, chairman of the committee, and John Sleeman. 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. The Board considers John Sleeman has 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 auditors 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.

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.

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 24.

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 auditors' letter of engagement;
- approval of non-audit work to be undertaken by the auditors;
- 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 of the terms of reference of the audit committee and the whistleblower policy.

Internal controls and risk management systems

The Board has overall responsibility 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.

Corporate governance statement continued

Internal controls and risk management systems continued

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.

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 2012 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 2013.

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 2013 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
20 March 2013

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 2012.

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 of the Notes to the Company Financial Statements. 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.

Results for the year

The Consolidated Statement of Comprehensive Income for the year ended 31 December 2012 is shown on page 39. The Consolidated Statement of Changes in Equity for the year is shown on page 41 and segmental information is shown in note 8 on page 53.

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 2012. No dividends were paid in respect of 2011.

Return of cash to shareholders

Subject to shareholders' approval the directors will be recommending a return of cash to shareholders using a B/C share scheme which allows shareholders the option to receive either a capital or income return.

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 2012 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 8, the Financial Review on pages 10 to 13 and the description of the Principal Risks and Uncertainties on pages 14 to 15. 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 8.

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;
- 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 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:

	2012	2011
Megawatt peak output equivalent	**108MW**	384MW
Revenue	**€46.3m**	€210.4m
EBIT	**€(110.1)m**	€(67.5)m
Net cash from operating activities	**€67.1m**	€1.6m
Free cash flow*	**€65.0m**	€(20.0)m
Net cash	**€89.4m**	€22.6m
EBIT margin (excluding currency gains)	**(242.9)%**	(32.8)%
Basic earnings per share ("EPS") (Euro cents)	**(29.9)**	(15.0)

* 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 16 to 19.

Directors

The directors who served throughout the year to 31 December 2012 are:

Until 24 May 2012	
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.

Directors' report continued

Directors continued

From 24 May 2012 (roles as at 31 December 2012)

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
Michael Parker*	Senior Independent Director Member of the nomination committee Chairman of the remuneration committee Chairman of the audit committee
John Sleeman*	Chairman Chairman of the nomination committee Member of the remuneration committee Member of the audit committee

* Non-executive directors.

Maarten Henderson resigned from the Board as Chairman following the 2012 AGM on 24 May 2012. Following his resignation John Sleeman took over as Interim Chairman. His position as Chairman was confirmed in August 2012.

Biographical details of the directors are set out on pages 20 and 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.

The Board of Directors believe that the annual re-election of directors in line with the United Kingdom Corporate Governance Code (June 2010) ("UK Corporate Governance Code") is in the best interests of the Company. As a result all Directors have stood for annual re-election since the 2011 AGM. Accordingly, at the 2013 AGM all directors will retire and, being eligible, Iain Dorrity, Peter Finnegan, Michael Parker and John Sleeman will offer themselves for re-election. Hubert Aulich has announced his intention to retire at the end of May 2013 and is not standing 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 36.

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 7 March 2013 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	67,450,934	16.19
Dr Iain Dorrity	44,085,974	10.58
Barry Garrard	41,881,642	10.05
Stuart Oldham	26,718,750	6.41
Morgan Stanley Securities Ltd	15,710,786	3.77
TD Direct Investing	14,230,625	3.41
Graham Young	14,037,110	3.37
Miton Capital Partners Ltd	12,680,000	3.04

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 third party 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 28.

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.

Share capital continued

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 2012 AGM to allot further shares up to a maximum of £2,778,169, which was approximately 33% of the issued share capital on 20 April 2012, 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 20 April 2012 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 2013 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 2012 AGM to make market purchases of up to 41,672,533 of its own ordinary shares. This authority will expire at the 2013 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 13.

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 €1,000 (2011: €3,150). It is the Group's policy not to make general political donations. No political donations were made in the period (2011: €nil).

Research and development

The Group spent €2.2 million (2011: €6.4 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.

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.

Financial risk management

The Group's financial risk management policy is set out in note 30 to the consolidated financial statements.

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 auditors are 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 auditors are 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 23 May 2013 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
20 March 2013

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 23 May 2013.

Composition of the remuneration committee

The remuneration committee of the Board is chaired by Michael Parker and is to be made up of a minimum of two non-executive directors. Up until 24 May 2012 the committee was made up of the three non-executive directors; Maarten Henderson, John Sleeman and Michael Parker. From 24 May 2012 the committee comprises Michael Parker, the committee chairman, and John Sleeman. 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 twice during the year. Details of attendance are shown in the Corporate Governance Statement on page 24.

During the year the main items considered were:

- to approve the remuneration proposals for salary and bonus payments to employees across the Group;
- the annual bonus scheme for executive directors;
- the annual bonus schemes for Group employees;
- the proposal to not issue an award under the performance share plan during the year;
- to introduce a retention bonus for certain Group employees;
- a review of directors' fees and remuneration;
- a remuneration committee effectiveness review;
- the development of an action plan to improve the areas identified in the remuneration committee review; and
- to review the terms of reference of the remuneration committee.

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.

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 23 May 2013.

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.

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.

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 2012 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 fees of John Sleeman following his appointment as Chairman and the fees of Michael Parker, the non-executive director, and were mindful of the increased responsibilities and time commitment required and 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 fees for John Sleeman would be increased to an annual rate of £70,000 effective from 1 June 2012 and that there would be no increase in the fees of Michael Parker. 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 (until 31 May 2012/from 1 June 2012)	**50,000/70,000**	50,000
Maarten Henderson until 30 June 2012	**100,000**	100,000
Michael Parker	**40,000**	40,000

Payable in Euros	**€**	€
Hubert Aulich[1]	**308,320**	228,536

1 During 2011 Hubert Aulich sacrificed part of his salary to allow for higher levels of pension contribution. His basic salary here is stated after the salary sacrifice. This salary sacrifice ended at the end of 2011 so during 2012 Hubert Aulich received £250,000 payable in Euros at the average exchange rate of €1.23328:£1.00.

Directors' remuneration report continued

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 2011

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

In 2012

- Due to the difficult trading conditions and the difficulty in setting meaningful performance targets, the remuneration committee recommended that no bonus scheme be offered to the executive directors.

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).

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%

No awards were made under the PSP in 2012 for performance in the period from 1 January 2012 to 31 December 2014.

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 had a proportion of his salary paid into a defined benefit scheme until December 2011 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 €	**Total 2012 €**	Total 2011 €
Maarten Henderson	61,664	—	**61,664**	115,275
Hubert Aulich	308,320	7,475	**315,795**	236,084
Iain Dorrity	369,984	11,814	**381,798**	356,165
Peter Finnegan	319,420	1,226	**320,646**	299,576
Michael Parker	49,331	—	**49,331**	46,110
John Sleeman	76,052	—	**76,052**	57,638
	1,184,771	20,515	**1,205,286**	1,110,848

The Company did not pay Maarten Henderson compensation for loss of office.

Peter Finnegan's fees/basic salary includes an amount of €11,100 relating to his car allowance.

Directors' share grants (audited)

The outstanding share grants relate to deferred shares issued 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, for a particular financial year, 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.

Date of grant	Vesting date	Expiry date[1]	Exercise price[1]	Number at 1 January 2012	Granted in year	Exercised in year	Lapsed in year	**Number at 31 December 2012**
Hubert Aulich								
25.03.10	25.03.13	—	—	19,108	—	—	—	**19,108**
24.03.11	24.03.14	—	—	112,007	—	—	—	**112,007**
Iain Dorrity								
25.03.10	25.03.13	—	—	22,929	—	—	—	**22,929**
24.03.11	24.03.14	—	—	134,409	—	—	—	**134,409**
Peter Finnegan								
25.03.10	25.03.13	—	—	19,108	—	—	—	**19,108**
24.03.11	24.03.14	—	—	112,007	—	—	—	**112,007**

1 Upon vesting the shares are transferred immediately to the directors for nil consideration.

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 were to be made.

Deferred shares awarded due to 2012 performance

No bonus is payable in relation to 2012 performance as no bonus scheme was in operation. Accordingly no awards of deferred shares are to be made.

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 2012 €**	Total 2011 €
Maarten Henderson	—	—	**—**	—
Hubert Aulich	—	—	**—**	28,275
Iain Dorrity	22,199	—	**22,199**	20,750
Peter Finnegan	18,499	—	**18,499**	17,290
Michael Parker	—	—	**—**	—
John Sleeman	—	—	**—**	—
	40,698	—	**40,698**	66,315

Directors' remuneration report continued

Increases in pension benefits as at 31 December 2012

	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
	2012 €	2011 €	**2012 €**	2011 €	**2012 €**	**2012 €**	**2012 €**
Hubert Aulich	**60,000**	60,000	**959,763**	903,010	**56,753**	**—**	**56,753**

Hubert Aulich's contributions in the financial year were €nil (2011: €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 2012 of those directors who were in office during the year are detailed below. The table below 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		PSP awards		Deferred shares	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011	**31 December 2012**	31 December 2011
Hubert Aulich	**11,355,469**	11,355,469	**515,464**	515,464	**131,115**	131,115
Iain Dorrity	**44,085,974**	44,085,974	**773,196**	773,196	**157,338**	157,338
Peter Finnegan	**2,671,912**	2,671,912	**515,464**	515,464	**131,115**	131,115
Maarten Henderson	**nil**	nil	**nil**	nil	**nil**	nil
Michael Parker	**nil**	nil	**nil**	nil	**nil**	nil
John Sleeman	**nil**	nil	**nil**	nil	**nil**	nil

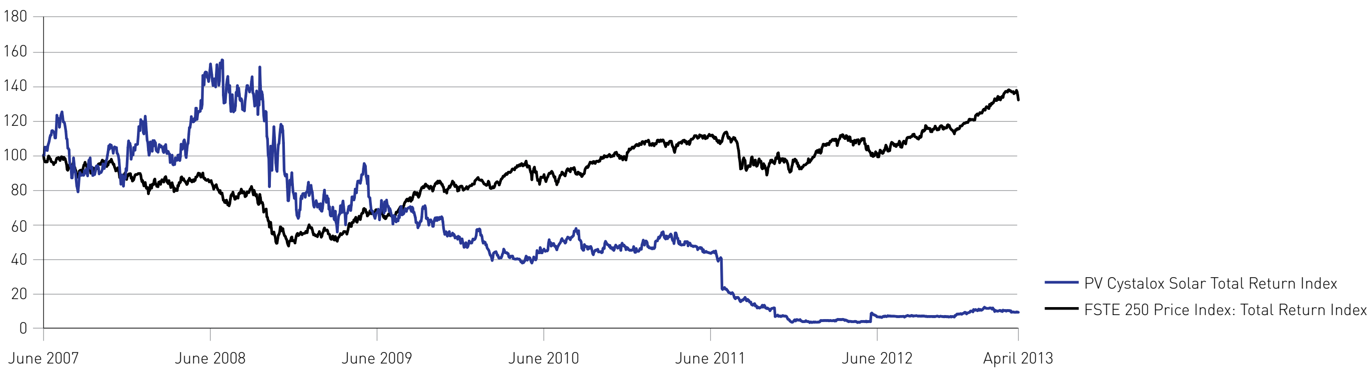
The closing mid-market price of a PV Crystalox Solar PLC share on 31 December 2012 was 11.50 pence and the price range during the year was 3.55 pence to 12.00 pence.

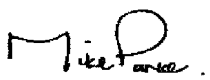
Between 1 January 2013 and 9 March 2013 (the latest date for which it was practical to obtain the information) there were no changes to the beneficial interest of the directors in the ordinary shares of the Company.

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 2012. 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.





Michael Parker
Chairman of the remuneration committee
20 March 2013

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 and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 the Company and of the profit or loss of the Group for that period. 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; and
- state whether IFRS as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively.

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 the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and 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 IFRS 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
20 March 2013

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 2012 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 37, 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 (UK 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 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 2012 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 matter 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.

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.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on pages 12 to 13, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK 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 2012 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
20 March 2013

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 Total €'000	2011 Total €'000
Revenues	8	**46,324**	210,400
Other income	2	**109,479**	5,605
Cost of material and services			
Cost of material	3	**(126,199)**	(193,150)
Cost of services	3	**(4,518)**	(18,699)
Personnel expenses			
Wages and salaries	4	**(12,501)**	(14,460)
Social security costs	4	**(1,871)**	(2,247)
Pension costs	4	**(597)**	(527)
Employee share schemes	4	**(319)**	(238)
Restructuring costs	4	**(4,877)**	(393)
Depreciation and impairment of property, plant and equipment and amortisation of intangible assets		**(99,438)**	(43,981)
Other expenses	5	**(18,017)**	(11,284)
Currency gains and losses	30	**2,435**	1,438
Loss before interest and taxes ("EBIT")		**(110,099)**	(67,536)
Finance income	6	**820**	855
Finance cost	6	**(1,515)**	(404)
Loss before taxes ("EBT")		**(110,794)**	(67,085)
Income taxes	7	**(10,607)**	6,192
Loss attributable to equity owners of the parent		**(121,401)**	(60,893)
Other comprehensive income			
Exchange differences on translating foreign operations	30	**(1,258)**	5,206
Total comprehensive income			
Attributable to equity owners of the parent		**(122,659)**	(55,687)
Basic and diluted loss per share in Euro cents	9	**(29.9)**	(15.0)

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

Consolidated balance sheet
as at 31 December 2012

	Notes	2012 €'000	2011 €'000
Intangible assets	15	**116**	508
Property, plant and equipment	16	**10,806**	107,914
Pension surplus	27	**41**	157
Other long-term assets	17	**23,432**	32,797
Deferred tax asset	18	**190**	19,320
Total non-current assets		**34,585**	160,696
Cash and cash equivalents	10	**94,680**	71,664
Trade accounts receivable	11	**10,333**	32,319
Inventories	12	**38,426**	48,497
Prepaid expenses and other assets	13	**14,060**	29,620
Current tax assets	14	**1,365**	9,815
Total current assets		**158,864**	191,915
Total assets		**193,449**	352,611
Loans payable	19	**5,284**	49,046
Trade accounts payable	20	**6,701**	8,803
Deferred revenue	26	**3,348**	10,082
Accrued expenses	21	**25,006**	6,589
Provisions	22	**23,559**	7,973
Deferred grants and subsidies	23	**210**	2,831
Current tax liabilities	24	**13**	399
Other current liabilities	25	**529**	753
Total current liabilities		**64,650**	86,476
Deferred revenue	26	**—**	8,039
Accrued expenses	21	**142**	131
Deferred grants and subsidies	23	**—**	22,426
Deferred tax liability	18	**—**	8,183
Provisions	22	**33,763**	10,122
Other long-term liabilities		**43**	43
Total non-current liabilities		**33,948**	48,944
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		**819**	500
Reverse acquisition reserve		**(3,601)**	(3,601)
Retained earnings		**36,693**	158,094
Currency translation adjustment		**(18,359)**	(17,101)
Total equity		**94,851**	217,191
Total liabilities and equity		**193,449**	352,611

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
20 March 2013

Company number
06019466

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Notes	Share capital €'000	Share premium €'000	Shares held by the EBT €'000	Share-based payment reserve €'000	Reverse acquisition reserve €'000	Retained earnings €'000	Currency translation adjustment €'000	Total equity €'000
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	35	—	—	—	—	—	(8,120)	—	(8,120)
Share-based payment charge	29	—	—	—	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
As at 1 January 2012		12,332	75,607	(8,640)	500	(3,601)	158,094	(17,101)	217,191
Dividends paid in the year	35	—	—	—	—	—	—	—	—
Share-based payment charge	29	—	—	—	319	—	—	—	319
Transactions with owners		—	—	—	319	—	—	—	319
Loss for the year		—	—	—	—	—	(121,401)	—	(121,401)
Currency translation adjustment		—	—	—	—	—	—	(1,258)	(1,258)
Total comprehensive income		—	—	—	—	—	(121,401)	(1,258)	(122,659)
As at 31 December 2012		**12,332**	**75,607**	**(8,640)**	**819**	**(3,601)**	**36,693**	**(18,359)**	**94,851**

Consolidated cash flow statement
for the year ended 31 December 2012

	Notes	2012 €'000	2011 €'000
Earnings before taxes		**(110,794)**	(67,085)
Adjustments for:			
Net interest expense/(income)	6	**695**	(451)
Depreciation and amortisation	15,16	**16,834**	16,107
Impairment charge	15,16	**82,604**	27,874
Inventory writedown	12	**41,507**	22,866
Charge for retirement benefit obligation and share-based payments	27,29	**435**	19
Increase in provisions	22	**35,581**	18,910
Derecognition of grants and subsidies		**5,812**	—
Loss from the disposal of property, plant and equipment and intangibles		**114**	249
Losses in foreign currency exchange		**500**	2,784
Change in deferred grants and subsidies		**(9,026)**	(2,862)
		64,262	18,411
Changes in working capital			
Increase in inventories	12	**(33,176)**	(19,117)
Decrease in accounts receivables	11,13	**21,946**	26,734
Decrease in accounts payables and deferred income	20,21	**(21,087)**	(17,088)
Decrease in other assets	17	**25,278**	976
Decrease in other liabilities	25	**(222)**	(151)
		57,001	9,765
Income taxes received/(paid)	14	**9,248**	(9,063)
Interest received		**820**	855
Net cash from operating activities		**67,069**	1,557
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment		**25**	60
Proceeds from investment grants and subsidies	23	**4**	1,097
Payments to acquire property, plant and equipment and intangibles	15,16	**(1,286)**	(21,867)
Net cash used in investing activities		**(1,257)**	(20,710)
Cash flow from financing activities			
Repayment of bank and other borrowings	19	**(43,350)**	(3,101)
Dividends paid	35	**—**	(8,120)
Interest paid	6	**(190)**	(404)
Net cash used in financing activities		**(43,540)**	(11,625)
Net change in cash and cash equivalents available		**22,272**	(30,778)
Effects of foreign exchange rate changes on cash and cash equivalents		**744**	1,142
Cash and cash equivalents at beginning of the year		**71,664**	101,300
Cash and cash equivalents at end of the year		**94,680**	71,664

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

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 profit and loss.

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 2012 were approved by the Board of Directors on 20 March 2013.

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 charged 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, taxes, share-based payment 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 the Group 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 non-financial 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.

Following the announcement on 13 December 2012 that the Group will discontinue its polysilicon production facility, the plant has therefore been written down to scrap value.

Having considered the current and, lack of certainty of, future profitability of other Group companies, the majority of all other property, plant and equipment has also been written down to scrap value.

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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

1. Group accounting policies continued

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.

Due to the lack of certainty around future profits, the majority of deferred tax assets have been expensed in the year's income statement.

Deferred tax assets at 31 December 2012 totalled €0.2 million (2011: €19.3 million) (see note 18).

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 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 €52.0 million (2011: €17.9 million) 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 – inventory valuation

Given the 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 2013.

Basis of consolidation

The Group financial statements consolidate those of the Group and its subsidiary undertakings drawn up to 31 December 2012. 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.

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 non-controlling interests have 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 including the continued decline in spot prices of wafers during 2012 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 2013.

The Group has three remaining long-term wafer supply contracts and accordingly these should give the ability to sell wafers at prices that are above current market spot prices during 2013 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.

On the other hand, the Group has long-term contracts with two external suppliers for purchase of polysilicon, our main raw material, for unexpired periods of between two and three years and for volumes in excess of current reduced production requirements. The Group's management has been successful in reaching accommodation with these suppliers to secure periodic contract amendments and adjust 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 2012 and the first quarter of 2013.

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. In line with the Group's strategy of retaining flexibility in production levels, production can be brought back on stream when market conditions allow. Following the fall in employment costs in 2012 resulting from the reduction in contract labour in Germany and redundancies in the United Kingdom, further cost savings will be obtained in 2013 as a result of the announced Group restructuring. 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 2012 there was a net cash balance of €89.4 million, comprising cash or cash equivalents of €94.7 million and short-term loans of €5.3 million. The borrowings are in Japanese Yen and security/comfort is given to the lender by the Japanese accounts receivable. 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 2012

- Amendment to IFRS 7, 'Financial instruments: Transfers of financial assets' (effective 1 July 2011)

The above has not made a 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.

- Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income (effective 1 July 2012)
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2013)
- Amendment to IAS 19, 'Employee benefits' (effective 1 January 2013)
- Amendment to IFRS 1, 'First time adoption', on government loans (effective 1 January 2013)
- Amendment to IFRS 1 on hyperinflation and fixed dates (effective 1 January 2013)
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting (effective 1 January 2013)
- Annual improvements 2011 (effective 1 January 2013)
- IFRIC 20, 'Stripping costs in the production phase of a surface mine' (effective 1 January 2013)
- IFRS 13, 'Fair value measurement' (effective 1 January 2013)
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2014)
- IFRS 11, 'Joint arrangements' (effective 1 January 2014)
- IFRS 12, 'Disclosures of interests in other entities' (effective 1 January 2014)
- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting (effective 1 January 2014)
- IAS 27 (revised 2011), 'Separate financial statements' (1 January 2014)
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2014)
- IFRS 9, 'Financial instruments' (effective 1 January 2015)

Intangible assets

Intangible assets are stated at cost net of accumulated amortisation. The Group's policy is to write off the difference between the cost of intangible assets systematically over their estimated useful life. Amortisation of intangible assets is recorded under "Depreciation and impairment of property plant and equipment and amortisation of 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).

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

1. Group accounting policies continued

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 non-financial 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. The asset is subsequently reviewed for possible reversal of the impairment at each reporting date.

The total amount of such impairments, included in the Statement of Comprehensive Income, for this year is an impairment charge of €82.6 million (2011: €27.9 million).

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.

1. Group accounting policies continued

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. 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

- short-term borrowing, overdrafts and 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 net of any advance payment held by the Group where a right of offset exists; 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 the Consolidated Statement of Comprehensive Income on the accruals basis, using the effective interest method.

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 contingent liabilities 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.

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

1. Group accounting policies continued

Public grants and subsidies
As the German operations are located in a region designated for economic development, the Group received both investment subsidies and investment grants. Government grants and subsidies relating to capital expenditure were credited to the "Deferred grants and subsidies" account and 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, were credited to the Consolidated Statement of Comprehensive Income in the same year as the related expenditure.

In relation to the impairment of the Bitterfeld plant and wafering facility in Erfurt, grants and subsidies have been released in the same ratio. Furthermore, based on the assumption that the agreed number of employees will not be employed by the end of 2013, management expect that a significant portion of the received grants and subsidies will require to be paid back, the cost of so doing has been accrued. Only a part of the repayable grants and subsidies have been released already in previous years. This portion has to be derecognised and is presented in note 5.

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, discounted to present value. The resulting charge upon the discounting being unwound is recorded as a finance cost.

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.

Finance income and costs
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.

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.

Due to the current volatility in the PV industry and any (previously) unusual charges being in keeping with those of other similar companies, the directors' believe that separate disclosure would not therefore be beneficial.

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 incurred.

1. Group accounting policies continued

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 IFRS 2, '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.

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

	2012 €'000	2011 €'000
Recognition of accrued grants and subsidies for investments	**9,026**	2,862
Customer payment upon cancellation of contract	**90,633**	—
Customer deposit realised as income on cancellation of contract	**8,067**	951
Research and development grants	**548**	666
Sale of non-silicon product	**24**	457
Refunds	**505**	200
Insurance claims	**326**	94
Miscellaneous	**350**	375
	109,479	5,605

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

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.

	2012 €'000	2011 €'000
Cost of raw materials, supplies and purchased merchandise	**42,595**	159,144
Change in finished goods and work in progress	**1,101**	1,770
Own work capitalised	**(967)**	(11,499)
Inventory writedowns	**41,507**	22,866
Onerous contract charge	**41,963**	20,869
Cost of materials	**126,199**	193,150

	2012 €'000	2011 €'000
Cost of purchased services	**4,518**	18,699
Cost of services	**4,518**	18,699

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

4. Personnel expenses

	2012 €'000	2011 €'000
Wages and salaries	**12,501**	14,460
Social security	**1,871**	2,247
Pension costs	**597**	527
Employee share schemes	**319**	238
Restructuring costs	**4,877**	393
	20,165	17,865

Included within pension costs are €179k (2011: €nil) relating to actuarial losses on defined benefit pension obligations.

Employees

The Group employed a monthly average of 311 employees during the year ended 31 December 2012 (2011: 385).

	2012 Number	2011 Number
Germany	**217**	247
United Kingdom	**87**	130
Japan	**7**	8
	311	385

	2012 Number	2011 Number
Production	**196**	255
Administration	**115**	130
	311	385

The Group employed 299 employees at 31 December 2012 (31 December 2011: 361).

The remuneration of the Board of Directors, including appropriations to pension accruals, is shown in the Directors' Remuneration Report on pages 32 to 36.

5. Other expenses

	2012 €'000	2011 €'000
Derecognition of previously recognised grants and subsidies and interest thereon	**5,812**	—
Land and building operating lease charges	**2,694**	2,813
Repairs and maintenance	**282**	1,079
Selling expenses	**30**	68
Technical consulting, research and development	**302**	710
External professional services	**3,498**	2,795
Insurance premiums	**716**	775
Travel and advertising expenses	**414**	546
Bad debts	**772**	—
Expensed supply deposit	**2,332**	—
Staff related costs	**356**	1,007
Other	**809**	1,491
	18,017	11,284

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

	2012 €'000	2011 €'000
Fees payable to the Company's auditors and their associates for the audit of the parent company and consolidated financial statements	**86**	81
Fees payable to the Company's auditors and their associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	**185**	140
– Audit-related assurance services	**3**	—
– Other assurance services	**60**	—
– Tax compliance services	**10**	—
	344	221

Other assurance services relate to the provision of comfort letters regarding the Group's creditors.

6. Finance income and costs

Finance income and costs are derived/incurred on financial assets/liabilities and recognised under the effective interest method.

The resulting charge upon unwinding the discount charge on provisions is recorded as a finance cost.

	2012 Total €'000	2011 Total €'000
Finance income	**820**	855
Finance expense:		
Expense of Group borrowings	**(190)**	(404)
Expense of unwinding provision discounting charge	**(1,325)**	—
Finance expense	**(1,515)**	(404)

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

7. Income taxes

	2012 Total €'000	2011 Total €'000
Current tax:		
Current tax on profit/(loss) for the year	**142**	(6,591)
Adjustments in respect of prior years	**(817)**	(81)
Total current tax	**(675)**	(6,672)
Deferred tax (note 18):		
Origination and reversal of temporary differences	**(2)**	(9,162)
Impact of change in tax rate	**—**	552
Derecognition of previously recognised tax losses	**11,284**	9,090
Total deferred tax	**11,282**	480
Total tax credit/(charge)	**10,607**	(6,192)

The total tax rate for the German companies is 31.575% (2011: 30.5%) in Erfurt and 29.125% (2011: 28.4%) in Bitterfeld. The effective total tax rate in the United Kingdom was 24.5% (2011: 26.5%) and the total tax rate in Japan was 39.91% (2011: 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 26% to 24% with effect from 1 April 2012. Accordingly, profits in the United Kingdom were taxed at an effective rate of 24.5%. Legislation to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012, substantively enacted on 3 July 2012, and consequently deferred tax balances have been remeasured. 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 rate is increasing for Erfurt, to 32.275% in 2013. The Bitterfeld and Japanese rates will be unchanged.

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

	2012 €'000	2011 €'000
Loss before tax	**(110,794)**	(67,085)
Expected income tax expense at effective tax rate 26.3% (2011: 30.0%)	**(29,139)**	(20,100)
Taxation on dividend income	**—**	178
Income not subject to tax	**(27)**	(126)
Tax for profit in stock eliminations	**—**	2,610
Derecognition of previously recognised tax losses	**11,284**	9,090
Unrelieved tax losses	**29,094**	1,972
Adjustments in respect of prior year	**(817)**	(337)
Movement in deferred tax rate	**—**	552
Over provision of deferred tax in prior years	**—**	(170)
Expenses not deductible for tax	**170**	145
Other tax effects	**42**	(6)
Total tax credit/(charge)	**10,607**	(6,192)

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 the production and supply of one product, 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 IFRS 8 is therefore not made.

Geographical information 2012

	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	**17,086**	**—**	**—**	**7,945**	**21,293**	**—**	**—**	**46,324**
By country from which derived	**17,086**	**13,199**	**7,668**	**3,488**	**15**	**4,868**	**—**	**46,324**
Non-current assets*								
By entity's country of domicile	**440**	**—**	**—**	**9,445**	**24,469**	**—**	**—**	**34,354**

* 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. 17,049 (Japan); and
2. 13,178 (China).

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).

9. Loss per share

Net loss 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.

	2012	2011
Basic shares (average)	**405,891,335**	405,891,335
Basic loss per share (Euro cents)	**(29.9)**	(15.0)
Diluted shares (average)	**405,891,335**	405,891,335
Diluted loss per share (Euro cents)	**(29.9)**	(15.0)

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

	2012	2011
Shares in issue (see note 28)	**416,725,335**	416,725,335
Weighted average number of EBT shares held	**(10,834,000)**	(10,834,000)
Weighted average number of shares for basic EPS calculation	**405,891,335**	405,891,335
Dilutive share options	**—**	—
Weighted average number of shares for fully diluted EPS calculation	**405,891,335**	405,891,335

For the year ended 31 December 2012, 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 2012, there were 3,482,022 share options outstanding that could potentially have a dilutive impact in the future but were anti-dilutive in 2012.

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

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

	As at 31 December	
	2012 €'000	2011 €'000
Cash at bank and in hand	**33,322**	24,536
Short-term bank deposits	**61,358**	47,128
	94,680	71,664

11. Trade accounts receivable

	As at 31 December	
	2012 €'000	2011 €'000
Japan	**9,459**	25,043
Germany	**711**	2,920
United Kingdom	**163**	4,356
	10,333	32,319

All receivables have short-term maturity. During the year, receivables of €771,648 (2011: €nil) were written off.

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	
	2012 €'000	2011 €'000
Not more than three months	**252**	2,667
Three months–six months	**—**	—
Six months–nine months	**147**	—

These amounts represent the Group's maximum exposure to 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".

	As at 31 December	
	2012 €'000	2011 €'000
Finished products	**18,674**	18,139
Work in progress	**6,413**	8,902
Raw materials	**13,339**	21,456
	38,426	48,497

Inventory writedowns of €41.5 million in 2012 are included in cost of materials (2011: €22.9 million).

13. Prepaid expenses and other assets

	As at 31 December	
	2012 €'000	2011 €'000
Subsidies and grants due relating to Bitterfeld	**—**	542
Other subsidies due	**394**	387
VAT	**1,316**	10,144
Prepaid expenses	**11,444**	15,599
Energy tax claims	**149**	2,342
Other current assets	**757**	606
	14,060	29,620

Prepaid expenses primarily comprise polysilicon feedstock deposits.

14. Current tax assets

	As at 31 December	
	2012 €'000	2011 €'000
Income tax recoverable	**1,365**	9,815
	1,365	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 2012	1,587	10	1,597
Additions	27	—	27
Reclassification	10	(10)	—
Disposals	(63)	—	(63)
Net effect of foreign currency movements	(35)	—	(35)
At 31 December 2012	**1,526**	**—**	**1,526**
Accumulated amortisation			
At 1 January 2012	1,089	—	1,089
Charge for the year	215	—	215
Impairment	132	—	132
Disposals	(2)	—	(2)
Net effect of foreign currency movements	(24)	—	(24)
At 31 December 2012	**1,410**	**—**	**1,410**
Net book amount			
At 31 December 2012	**116**	**—**	**116**
At 31 December 2011	498	10	508

	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

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

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 2012	12,944	175,175	7,105	8,142	203,366
Additions	4	141	32	1,082	1,259
Reclassification	—	8,250	4	(8,254)	—
Disposals	—	(27)	(163)	—	(190)
Net effect of foreign currency movements	7	1,056	(6)	171	1,228
At 31 December 2012	**12,955**	**184,595**	**6,972**	**1,141**	**205,663**
Accumulated depreciation					
At 1 January 2012	1,363	90,827	3,262	—	95,452
Charge for the year	409	15,483	727	—	16,619
Impairment	10,536	68,209	2,685	1,042	82,472
On disposals	—	(27)	(85)	—	(112)
Net effect of foreign currency movements	4	457	(35)	—	426
At 31 December 2012	**12,312**	**174,949**	**6,554**	**1,042**	**194,857**
Net book amount					
At 31 December 2012	**643**	**9,646**	**418**	**99**	**10,806**
At 31 December 2011	11,581	84,348	3,843	8,142	107,914

Assets under construction relate to future plant and machinery. Capital commitments at 31 December 2012 relating to this amounted to €0.1 million (2011: €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 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
Accumulated 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 related to future plant and machinery. Capital commitments at 31 December 2011 relating to this amounted to €1.5 million.

16. Property, plant and equipment continued

Impairment

On 31 December 2012 the Group had invested approximately €100 million in its polysilicon plant at Bitterfeld and had received grants in respect of this investment of €23 million. Over investment (mainly in China) in the photovoltaic industry has led to huge overcapacity. This overcapacity has caused large falls in the pricing across the PV value-chain in all areas including polysilicon. Taking into account the current pricing of Tier 1 polysilicon and the inability of the Bitterfeld plant to compete at anything close to these prices, executive management has made the decision to discontinue the plant. Therefore, an impairment test on the investment at Bitterfeld has been carried out. The recoverable value of the Bitterfeld plant on a discontinued basis has been derived from an estimate of the scrap/resale value of the constituent parts of the plant. Accordingly, the remaining value of the plant has been written off in the year and the investment in the Bitterfeld is now fully impaired.

17. Other long-term assets

	As at 31 December	
	2012 €'000	2011 €'000
Polysilicon feedstock deposits	**23,098**	30,148
Silicon tetrachloride deposits (for Bitterfeld)	**—**	2,291
Prepaid expenses	**76**	66
Other assets	**258**	292
	23,432	32,797

18. Deferred taxes

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

Analysis of deferred tax assets and liabilities:

	2012 €'000	2011 €'000
Tax loss carried forward	**190**	10,950
Impairment losses	**—**	8,118
Other	**—**	252
Deferred tax asset	**190**	19,320
Elimination of intra-company losses	**—**	(7,986)
Other	**—**	(197)
Deferred tax liability	**—**	(8,183)
Total deferred taxes	**190**	11,137

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 2012 there were unrecognised potential deferred tax assets in respect of losses of €50.6 million (2011: €11.4 million).

The gross movement on the deferred income tax account is as follows:

	2012 €'000	2011 €'000
At 1 January	**11,137**	11,255
Exchange differences	**335**	362
Derecognition of deferred tax assets	**(11,284)**	(9,090)
Income statement charge	**2**	8,610
At 31 December	**190**	11,137

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

18. Deferred taxes continued

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Elimination of intra-company losses	Other	Total
At 1 January 2011	—	825	825
Charged/(credited) to the income statement	7,713	(628)	7,085
Exchange differences	273	—	273
At 31 December 2011	7,986	197	8,183
Credited to the income statement	(8,251)	(197)	(8,448)
Exchange differences	265	—	265
At 31 December 2012	**—**	**—**	**—**

Deferred tax assets	Elimination of intra-company gains	Tax losses	Impairment losses	Other	Total
At 1 January 2011	2,610	9,090	—	380	12,080
(Credited)/charged to the income statement	(2,610)	1,498	7,845	(128)	6,605
Exchange differences	—	362	273	—	635
At 31 December 2011	—	10,950	8,118	252	19,320
Credited to the income statement	—	(11,094)	(8,384)	(252)	(19,730)
Exchange differences	—	334	266	—	600
At 31 December 2012	**—**	**190**	**—**	**—**	**190**

No provision has been made for taxation that would arise in the event of foreign subsidiaries distributing their reserves as management are able to control the timing of such distributions. The aggregate unrecognised deferred tax liability in respect of such unremitted earnings is €943,156 (2011: €2,565,495).

19. Loans payable

Underwriter	As at 31 December **2012 €'000**	2011 €'000	Maturity	Interest rate
Sumitomo Mitsui Banking Corporation ("SMBC")	**5,284**	21,945	01/13	0.78%
Mizuho Bank	**—**	9,975	02–03/12	0.78%
Barclays Bank	**—**	14,133	02/12	1.34%
Bank of Tokyo Mitsubishi UFJ	**—**	2,993	01/12	0.67%
	5,284	49,046		

All current loans are in Japanese Yen.

Security for the loan with Barclays Bank was provided by Sterling cash cover. This facility is no longer required and was not renewed.

The loans from Mizuho Bank and Bank of Tokyo Mitsubishi UFJ are no longer required and were not renewed.

Security/comfort for the SMBC loans is provided by the Japanese accounts receivable, details of which can be found in note 11. This facility has been reduced upon renewal in line with the lower receivables.

20. Trade accounts payable

	As at 31 December **2012 €'000**	2011 €'000
Japan	**2,141**	3,850
United Kingdom	**3,527**	2,887
Germany	**1,033**	2,066
	6,701	8,803

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

21. Accrued expenses

	2012 €'000	2011 €'000
Rents and ancillary rent costs	**343**	280
Repayment of grants and subsidies including interest thereon	**21,302**	—
Contract volume penalties	**1,529**	3,850
Other accrued expenses	**1,832**	2,459
Current accruals	**25,006**	6,589
Non-current accruals	**142**	131
Total accruals	**25,148**	6,720

22. Provisions

Movement in provisions is shown below:

	Warranty provisions €'000	Restructuring costs €'000	Onerous contract provision €'000	Total €'000
Provisions brought forward	236	—	17,859	18,095
Unwinding of discount factor	—	—	1,325	1,325
(Credited)/charged to the income statement	(177)	5,242	41,963	47,028
Exchange differences	—	—	(2,088)	(2,088)
Utilised	(26)	—	(7,012)	(7,038)
Provisions carried forward	33	5,242	52,047	57,322

	Warranty provisions €'000	Restructuring costs €'000	Onerous contract provision €'000	Total €'000
Short-term element	33	5,242	18,284	23,559
Long-term element	—	—	33,763	33,763
Provisions carried forward	33	5,242	52,047	57,322

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

Restructuring cost provision is for the costs of the announced Group restructure.

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 one and three 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 planned reduction in headcount for 2013 has triggered repayment of certain grants, which are now presented as accruals (see note 21).

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

	As at 31 December	
	2012 €'000	2011 €'000
Investment subsidies	**—**	12,746
Investment grants	**210**	12,511
	210	25,257
Current portion	**210**	2,831
Non-current portion	**—**	22,426
	210	25,257

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24. Current tax liabilities

	As at 31 December	
	2012 €'000	2011 €'000
United Kingdom	**—**	—
Germany	**13**	325
Japan	**—**	74
	13	399

Current 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	
	2012 €'000	2011 €'000
VAT liability	**99**	598
Payroll liabilities	**170**	70
Other liabilities	**260**	85
	529	753

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 2012, such deposits amounted to €3.3 million from one customer (2011: €18.1 million from three customers).

	As at 31 December	
	2012 €'000	2011 €'000
Current	**3,348**	10,082
Non-current	**—**	8,039
	3,348	18,121

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

	2012 €'000	2011 €'000
Allotted, called up and fully paid		
416,725,335 ordinary shares of 2 pence each	**12,332**	12,332

At 31 December 2012, 10,834,000 shares were held by the EBT (2011: 10,834,000). The market value of these shares was €1,524k (2011: €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.

No awards were made during 2012.

On 26 May 2011 awards over up to 3,038,454 ordinary shares were granted to key senior employees including 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.

PV Crystalox Solar PLC Executive Directors Deferred Share Plan ("EDDSP")

At the AGM on 28 May 2009 a bonus plan (with deferred share element) for executive directors was approved by the Company's shareholders in the context of bringing the arrangements more in line with market practice and aligning executive directors' pay more closely with the interests of the Company's shareholders. Half of each bonus was to be payable in cash and the other half deferred and payable in shares under the EDDSP which vests three years after the award date. Awards of deferred shares under the EDDSP are to be satisfied on vesting by the transfer of shares from the existing PV Crystalox Solar PLC Employee Benefit Trust.

No awards were made during 2012. On 24 March 2011 awards over 358,423 shares were made to executive directors.

PV Crystalox Solar PLC Long-Term Incentive Plan ("LTIP")

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 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.

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 UK 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 2012 awards over 1,000 shares were forfeited by employees leaving the Group. During 2011 awards of 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 €319,000 (2011: €238,000) related to equity-settled share-based payment transactions during the year.

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29. Share-based payment plans continued
The number of share options and weighted average exercise price ("WAEP") for each of the schemes is set out as follows:

	PSP* Number	EDDSP* Number	PSA* Number	MVO Number	MVO WAEP price Pence	SIP* Number
Share grants and options outstanding at 1 January 2011	—	61,145	28,500	1,600,000	79.7	37,000
Share grants and options granted during the year	3,038,454	358,523	—	—	—	—
Share grants and options forfeited during the year	—	—	(1,000)	—	—	(3,500)
Share grants vested during the year	—	—	(27,500)	—	—	(8,500)
Options exercised during the year	—	—	—	—	—	—
Share grants and options outstanding at 31 December 2011	3,038,454	419,568	—	1,600,000	79.7	25,000
Exercisable at 31 December 2011	—	—	—	200,000	100.0	—
Share grants and options granted during the year	—	—	—	—	—	—
Share grants and options forfeited during the year	—	—	—	—	—	(1,000)
Share grants vested during the year	—	—	—	—	—	—
Options exercised during the year	—	—	—	—	—	—
Share grants and options outstanding at 31 December 2012	**3,038,454**	**419,568**	**—**	**1,600,000**	**79.7**	**24,000**
Exercisable at 31 December 2012	**—**	**—**	**—**	**1,600,000**	**79.7**	**—**

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

No share options were exercised during the year and no options were exercised in 2011.

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 period.

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 2012 36.8% of the sales are related to the largest customer (2011: 30.9%). The number of customers accounting for approximately 95% of the annual revenue decreased from twelve in 2011 to seven in 2012. 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 due to the consideration given to the institution in which it is deposited and the setting of counterparty limits.

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 2012, about €17.1 million (2011: €60.8 million) of the Group's sales was generated in Japanese Yen. Expenses of €12.7 million (2011: €89.5 million) were invoiced in Japanese Yen and were allocated to cost of materials and other operating expenses.

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 to a small extent 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	102.664	113.542
Sterling: Euro	1.23328	1.22340

30. Risk management continued

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 relatively small proportion of overall costs are in Sterling, being mainly related to personnel costs, overheads and utilities (most of the raw materials are purchased in Euros and Japanese Yen). 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, to a certain extent, 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 Group's 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 2012 the Japanese Yen/Euro exchange rate decreased 13.26% (2011: increased 7.24%). The impact of this decrease on the Consolidated Statement of Comprehensive Income was to decrease sales revenues by approximately 4.9% (2011: increase 2.1%) and decrease the cost of materials and services by approximately 1.4% (2011: increase 3.9%).

For each 1% increase in the Japanese Yen/Euro exchange rate profits would decrease by approximately €298,000 (2011: decrease by €677,000). 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 partially offset asset balances held in that currency. Therefore, based on Japanese Yen asset balances on 31 December 2012, each 1% movement in the Japanese Yen/Euro exchange rate would have an immaterial effect on the currency translation adjustment.

During 2012 the net gain on foreign currency adjustments was €2.4 million (2011: loss of €1.4 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:

	2012 million	2011 million
Revaluation of cash balances	**0.4**	0.3
Revaluation of Group loans/inter-company account	**(0.5)**	(2.8)
Revaluation of Group raw material deposits	**(1.0)**	(0.4)
Accounts receivable/accounts payable revaluation	**1.1**	0.6
Revaluation of customer/suppliers deposits	**0.3**	3.7
Revaluation of balance sheet provisions	**2.1**	—
Total currency gain	**2.4**	1.4

In addition to the above, upon translation of net assets in the consolidation, there was a negative impact in 2012 of €1.3 million (2011: positive €5.2 million) recording as a currency translation adjustment which is shown in the Consolidated Statement of Comprehensive Income as other comprehensive income.

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 of €5.3 million at the end of 2012 are in Japanese Yen (2011: €49.0 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 2012 the Group borrowings in Japanese Yen were €5.3 million (2011: €49.0 million) at an interest rate of approximately 0.78% (2011: average rate 0.97%). For each 1% rise in the Japanese Yen interest rates Group interest costs would increase by approximately €53,000 (2011: €490,000). Accordingly, Group profits and equity would fall or rise (after corporation tax in Japan) by approximately €26,500 (2011: €245,000).

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.

The Group had a significant net cash balance at the end of 2012 of €89.4 million (2011: €22.6 million) and places these cash funds on deposit with various quality banks subject to a counter party limit of €15 million. Accordingly, there is an interest rate risk in respect of interest receivable which amounted to €0.8 million in the year (2011: €0.9 million). Therefore, even if average interest rates applicable to our cash deposits fell to zero there would be limited effect on Group profits.

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

30. Risk management continued

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 two years 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 involved 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 at prices that are higher than those available at the spot market price. 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 2014. 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.

On 31 December 2012 the Group had a net cash balance of €89.4 million and this together with cash flow projections from the cash conservation plan indicate, assuming the projections are broadly correct, that the Group will have adequate cash reserves until at least twelve months beyond the signing of the accounts.

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.

Financial assets and liabilities

	Book value €'000	Loan and receivables €'000	Amortised cost €'000	Non-financial €'000	Total €'000
2012					
Assets:					
Cash and cash equivalents	94,680	94,680	—	—	94,680
Accounts receivable	10,333	10,333	—	—	10,333
Prepaid expenses and other assets	14,060	1,151	—	12,909	14,060
Miscellaneous non-financial assets	74,376	—	—	74,376	74,376
Total	**193,449**	**106,164**	**—**	**87,285**	**193,449**
Liabilities:					
Loans payable short-term	(5,284)	—	(5,284)	—	(5,284)
Accounts payable trade	(6,701)	—	(6,701)	—	(6,701)
Accrued expenses	(25,148)	—	(22,831)	(2,317)	(25,148)
Provisions	(57,322)	—	—	(57,322)	(57,322)
Miscellaneous current liabilities	(529)	—	—	(529)	(529)
Miscellaneous long-term liabilities	(43)	—	(43)	—	(43)
Miscellaneous non-financial liabilities	(3,571)	—	—	(3,571)	(3,571)
Total	**(98,598)**	**—**	**(34,859)**	**(63,739)**	**(98,598)**
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	993	—	28,627	29,620
Miscellaneous non-financial assets	219,008	—	—	219,008	219,008
Total	352,611	104,976	—	247,635	352,611
Liabilities:					
Loans payable short-term	(49,046)	—	(49,046)	—	(49,046)
Accounts payable trade	(8,803)	—	(8,803)	—	(8,803)
Accrued expenses	(6,720)	—	(3,850)	(2,870)	(6,720)
Provisions	(18,095)	—	—	(18,095)	(18,095)
Miscellaneous current liabilities	(753)	—	—	(753)	(753)
Miscellaneous long-term liabilities	(43)	—	(43)	—	(43)
Miscellaneous non-financial liabilities	(51,960)	—	—	(51,960)	(51,960)
Total	(135,420)	—	(61,742)	(73,678)	(135,420)

30. Risk management continued

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and other stakeholders and to maintain an optimal capital structure that strikes the appropriate balance between risk and the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group from time to time uses debt as a natural hedging instrument, where amounts are borrowed in the same foreign currency as it holds assets (for instance debtors) denominated in the same foreign currency. However, these borrowings have always been lower than the balance of cash and cash equivalents in any period. Accordingly, the Group has maintained a net cash positive position. This is a different approach to others in the photovoltaic industry where being heavily indebted (particularly in China) has become the norm. The directors believe that the Group's policy of not carrying any net debt has significantly reduced the Group's risk, which is particularly important during the current extremely difficult market conditions.

The Group's capital (plus its cash and cash equivalents) is set out in the following table. The Group is not subject to any externally imposed capital requirements.

	2012 €'000	2011 €'000
Bank and other borrowings – current (see note 19)	**5,284**	49,046
Less cash and cash equivalents (see note 10)	**94,680**	71,664
Total net cash	**89,396**	22,618
Total equity	**94,851**	217,191

The Group has no net borrowings and therefore has negligible gearing. Accordingly, the leverage ratio has no meaning and has not been calculated.

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 held at fair value.

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 2013 or beyond are pending at the time of approval of these financial statements.

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	
	2012 €'000	2011 €'000
Less than one year	**1,854**	1,947
Two to five years	**2,969**	4,281
Longer than five years	**1,578**	2,050
	6,401	8,278

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 €0.1 million had been made on 31 December 2012 (2011: €1.5 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 36.

35. Dividends

No dividends were paid in 2012 (2011: €8,120,249, €0.02 per share).

36. Post balance sheet events

There are no significant post balance sheet events.

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 2012 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 Statement of Directors' Responsibilities set out on page 37, 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 (UK 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 financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012;
- 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 matter 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 2012.

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
20 March 2013

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.

Profit and losses of the parent company
The Company has taken advantage of Section 408 of the Companies Act 2006 excluding it from presenting a company only statement of profit and loss and related notes.

Cash flow statement
The Company has taken advantage of the exemption from the requirement to produce a cash flow statement. A consolidated cash flow statement is included in the PV Crystalox Solar PLC Group accounts.

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.

Fixed Asset Investments
Fixed asset investments are included at cost and reviewed annually for impairment. Consistent with their assessment for note 8 of the PV Crystalox Solar PLC Group financial statements, the directors consider the Group to form one income generating unit. Therefore, the impairment assessment is performed for whole investment balance rather than individually.

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 and loss account. 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.

Share-based payment
The Company issues equity-settled share-based payments to certain employees of the Group. 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 estimate of the number of shares that will eventually vest. 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 profit and loss account in respect of share-based payments are credited to the share-based payment reserve. Costs incurred by the issue of equity-settled share-based awards to the employees of subsidiaries are recharged to the relevant company.

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 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Investments	1	**54,908**	54,908
Current assets			
Debtors	2	**952**	20,345
Cash at bank and in hand		**19,075**	40
Creditors: amounts falling due within one year	4	**(337)**	(353)
Net current assets		**19,690**	20,032
Total assets less current liabilities		**74,598**	74,940
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		**950**	624
Profit and loss account	7	**20,415**	21,083
Shareholders' funds	8	**74,598**	74,940

The financial statements were approved and authorised for issue by the Board of Directors and signed on its behalf by:

Dr Peter Finnegan
Director
20 March 2013

Company number
06019466

Notes to the company financial statements
for the year ended 31 December 2012

1. Investments
Shares in subsidiary undertakings

	£'000
Cost and net book value	
At 1 January 2012	54,908
At 31 December 2012	**54,908**

At 31 December 2012 the Company held 100% of the allotted ordinary share capital of the following undertakings:

Subsidiary	Country of incorporation	Activity	Proportion held %
PV Crystalox Solar GmbH	Germany	Holding company	100
Crystalox Solar Limited	UK	Holding company	100*
Crystalox Limited	UK	Trading company	100*
PV Crystalox Solar KK	Japan	Trading company	100*
PV Crystalox Solar Silicon GmbH	Germany	Trading company	100

* Held indirectly through subsidiary companies.

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

The directors believe that the carrying value of the investments is supported by their underlying net assets.

2. Debtors

	2012 £'000	2011 £'000
Amounts owed by Group undertakings	**926**	20,299
Other debtors	**18**	42
Prepayments and accrued income	**8**	4
	952	20,345

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.

	2012 Number	2011 Number
Shares held by the EBT	**10,834,000**	10,834,000

4. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Accruals and deferred income	**337**	353
	337	353

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.

6. Called up share capital

	2012 £'000	2011 £'000
Allotted, called up and fully paid		
416,725,335 ordinary shares of 2 pence each	**8,335**	8,335

As detailed in note 3, at 31 December 2012 10,834,000 of the Company's shares were owned by the EBT (2011: 10,834,000).

Notes to the company financial statements continued
for the year ended 31 December 2012

7. Profit and loss account

	2012 £'000	2011 £'000
Balance brought forward	**21,083**	19,362
(Loss)/profit for the financial year	**(668)**	8,815
Equity dividends paid	**—**	(7,094)
Balance carried forward	**20,415**	21,083

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 2012 £'000	Total 2011 £'000
Opening shareholders' funds	8,335	51,248	(6,350)	624	21,083	**74,940**	72,819
Profit for the financial year	—	—	—	—	(668)	**(668)**	8,815
Equity dividends paid	—	—	—	—	—	**—**	(7,094)
Employee share option schemes	—	—	—	326	—	**326**	400
Closing shareholders' funds	**8,335**	**51,248**	**(6,350)**	**950**	**20,415**	**74,598**	**74,940**

9. Share-based payment plans

The Company 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 Company 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.

No awards were made during 2012.

On 26 May 2011 awards over up to 3,038,454 ordinary shares were granted to key senior employees including 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 31 December 2013.

PV Crystalox Solar PLC Executive Directors Deferred Share Plan ("EDDSP")

At the AGM on 28 May 2009 a bonus plan (with deferred share element) for executive directors was approved by the Company's shareholders in the context of bringing the arrangements more in line with market practice and aligning executive directors' pay more closely with the interests of the Company's shareholders. Half of each bonus was to be payable in cash and the other half deferred and payable in shares under the EDDSP which vests three years after the award date. Awards of deferred shares under the EDDSP are to be satisfied on vesting by the transfer of shares from the existing PV Crystalox Solar PLC Employee Benefit Trust.

No awards were made during 2012. On 24 March 2011 awards over 358,423 shares were made to executive directors.

PV Crystalox Solar PLC Long-Term Incentive Plan ("LTIP")

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 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.

9. 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 UK 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 2012 awards over 1,000 shares were forfeited by employees leaving the Group. During 2011 awards of 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 Company recognised total expenses before tax of £246,016 (2011: £186,981) 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	EDDSP* Number	PSA* Number	MVO Number	MVO WAEP price Pence	SIP* Number
Share grants and options outstanding at 1 January 2011	—	61,145	28,500	1,600,000	79.7	37,000
Share grants and options granted during the year	3,038,454	358,523	—	—	—	—
Share grants and options forfeited during the year	—	—	(1,000)	—	—	(3,500)
Share grants vested during the year	—	—	(27,500)	—	—	(8,500)
Options exercised during the year	—	—	—	—	—	—
Share grants and options outstanding at 31 December 2011	3,038,454	419,568	—	1,600,000	79.7	25,000
Exercisable at 31 December 2011	—	—	—	200,000	100.0	—
Share grants and options granted during the year	—	—	—	—	—	—
Share grants and options forfeited during the year	—	—	—	—	—	(1,000)
Share grants vested during the year	—	—	—	—	—	—
Options exercised during the year	—	—	—	—	—	—
Share grants and options outstanding at 31 December 2012	**3,038,454**	**419,568**	**—**	**1,600,000**	**79.7**	**24,000**
Exercisable at 31 December 2012	**—**	**—**	**—**	**1,600,000**	**79.7**	**—**

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

No share options were exercised during the year and no options were exercised in 2011.

10. Auditors' remuneration

	2012 £'000	2011 £'000
Audit fee in respect of the separate financial statements of the Company	**12**	12

The disclosure of fees payable to the auditors and their associates for other (non-audit) services has not been made because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

11. Dividends paid

No dividends were paid in 2012 (2011: £7,094,397 – 1.75 pence per share, being the 2010 final dividend).

12. Dividends received

No dividends were received in 2012 (2011: £9,739,244 – £1.30 per share).

13. Capital commitments

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

14. Post balance sheet events

On 28 February 2013, the Company received a dividend of €14.0 million from PV Crystalox Solar GmbH.

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