



**HALF-YEAR REPORT 2011-2012**

SOITEC

*Société anonyme* with share capital of €12 210 579.20

Headquarters: Parc Technologique des Fontaines – Chemin des Franques – 38190 Bernin

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## **HALF-YEAR FINANCIAL REPORT**

**2011-2012**

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## 1. PERSONS RESPONSIBLE

Person responsible for the half-year financial report

André-Jacques Auberton-Hervé, Chairman and Chief Executive Officer.

Statement by the person responsible for the half-year financial report

To the best of my knowledge, the condensed financial statements for the interim period have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and results of operations of the Company and the undertakings in the consolidation taken as a whole, and the interim management report for the six-month period includes a fair review of the major events that occurred during the first six months of the financial year, their impact on the financial statements and the principal related party transactions, together with a description of the principal risks and uncertainties that they face in the remaining six months of the financial year.

15 November 2011

André-Jacques Auberton-Hervé  
Chairman and Chief Executive Officer

## 2. STATUTORY AUDITORS

Statutory Auditors

Cabinet Muraz Pavillet represented by Jean-Marc Pavillet

3, chemin du Vieux Chêne - 38240 Meylan

- Date of initial appointment: 27 February 1992

- Appointment renewed on: 7 July 2010

- Expiry date of current appointment: Ordinary General Meeting convened to approve the financial statements for the financial year ending 31 March 2016.

PricewaterhouseCoopers Audit represented by Philippe Willemin

63, rue de Villiers – 92208 Neuilly sur Seine

- Date of initial appointment: 7 July 2010

- Expiry date of current appointment: Ordinary General Meeting convened to approve the financial statements for the financial year ending 31 March 2016.

Alternate Statutory Auditors

René-Charles Perrot (alternate to Cabinet Muraz Pavillet)

65, boulevard des Alpes - 38240 Meylan

- Date of initial appointment: 27 February 1992

- Appointment renewed on: 7 July 2010

- Expiry date of current appointment: Ordinary General Meeting convened to approve the financial statements for the financial year ending 31 March 2016.

Yves Nicolas (alternate to PricewaterhouseCoopers Audit)

63, rue de Villiers – 92208 Neuilly sur Seine

- Date of initial appointment: 7 July 2010

- Expiry date of current appointment: Ordinary General Meeting convened to approve the financial statements for the financial year ending 31 March 2016.

### 3. RISK FACTORS

The main risks and uncertainties which the Group could face in the coming six months until the end of the 2011-2012 fiscal year have not significantly changed compared to those identified in Chapter 4 “Risk Factors”, appearing on pages 7 to 13 of the Company’s Reference Document that was filed with the French *Autorité des marchés financiers* on June 10, 2011 under number D. 11-0565.

The risk factors and their handling by the Group that are describe in this Chapter relate notably to :

- the cyclical aspect of the semiconductor and the uncertainty on the evolution of demand on the short-term, linked to the impossibility by the Group to quantify the final markets of its key clients;
- the important part of fixed costs in the operating expenses and the difficulty for the Group to reduce them in the case of a negative evolution of demand on the short term;
- the insolvability risk from a client;
- the recentness of concentrator photovoltaic technology; the length of the development cycle for the production of solar energy using concentrator photovoltaic technology and the growth management of this activity;
- the absence, to this day, of administrative authorizations for the solar power plants projects using concentrator photovoltaic technology;
- the dependency of solar energy production activities using concentrator photovoltaic technology towards the existence of financing sources for the Group and its clients;
- the negative evolution of the dollar exchange rate against the euro, the near-totality of the Group’s sales being made in dollars where an important part of its production costs and structural costs are made in euro;
- the legal risks linked with the protection of patents and other industrial property rights of the Group;
- the importance of R&D efforts that have to be undertaken by the Group;
- the use, within the industrial processes put in place by the Group, of chemical products whose treatment and elimination can be dangerous for the safety of persons and the environment;
- the dependency towards the key clients of the Group, the 3 first clients representing 78% of the Electronics division’s sales; and
- the dependency towards key members of the executive team.

This half-year financial report includes certain assumptions and expectations which, by their very nature, may not prove accurate. The main risks and uncertainties mentioned above could adversely affect the businesses, financial position, income of the Group or its share price, notably during the remaining six months of the fiscal year.

Certain other risks and uncertainties which have yet to be identified or are considered immaterial by Soitec could also have an adverse impact, notably during the remaining six months of the fiscal year.

#### 4. FINANCIAL COMMENTARY ABOUT THE CONSOLIDATED RESULTS

This half-year financial report should be read in conjunction with the condensed consolidated financial statements for the half-year ended September 30, 2011, and the Company's Registration Document for fiscal year 2010-2011 filed with the *Autorité des Marchés Financiers* - AMF (French securities regulator) on June 10, 2011 under number D. 11-0565

##### **The Group's position and business activities**

The Group's overall business expanded by 18.4% during the first half of the 2010-2011 financial year, with sales rising to €162.6 million from €137.3 million in the first six months and €143.7 million in the second half of the previous financial year.

Over the same period, the euro/dollar exchange rate moved 10% higher, reflecting depreciation in the US dollar. On a sequential basis, wafer sales rose 20% at constant exchange rates.

Top-line growth was not sufficient to generate positive operating income, and for the first half of the 2011-2012 financial year, the Group recorded a current operating loss of €8.5 million compared with current operating income of €2.5 million during the first half of the previous financial year.

Trends in the euro/dollar exchange rate were the principal contributory factor. The average euro/dollar exchange rate was 1.43 during the first half of 2011-2012 financial year compared with 1.28 in the first half of the previous year which had a negative impact on both sales (-€20 million) and gross profit (-€11 million). At constant exchange rates (i.e. at a euro/dollar exchange rate of 1.28), first-half operating income was positive (2% of sales).

In addition, the Group significantly increased its R&D expenditure (increase of €7.1 million in net R&D expenses between the first half of 2010-2011 and the first half of 2011-2012) owing chiefly to its strategic programmes dedicated to the development of a high-performance solar cell and further research into materials for LED markets. The Group's corporate functions were reinforced (increase of €6.4 million in selling, general and administrative expenses) to prepare for its diversification and the expansion of the Solar Energy division. In particular, it boosted its development expenditure on solar farm projects, which totalled €3.7 million during the first half compared with €2.3 million over the same period of the previous financial year.

The first half 2011-2012 operating income contributed by the Electronics division came to €8.8 million (compared with €14.7 million during the first half of the previous financial year), while the Solar Energy division's was a loss of €17.2 million, compared with a loss of €12.2 million in the same period of the previous financial year.

The Group significantly strengthened its financial position through a €150 million rights issue. At 30 September 2011, it had €635 million in shareholders' equity, €381.3 million in available cash and €225.3 million in net cash. These funds should suffice to cover the financing requirements of its investment plan over the next three years totalling around €250 million.

##### **Silicon-on-insulator (SOI) wafers**

During the first half, total wafer sales recorded a sequential increase of 15.3% (20.0% rise at constant exchange rates) and of 19.0% on the year-earlier period (32.2% rise at constant exchange rates). 300mm wafer sales, which accounted for 80% of total wafer sales, rose by 22.8% on a sequential basis (27.8% at constant exchange rates) and by 20.4% compared with the year-earlier period (33.7% rise at constant exchange rates). Sales of other wafer sizes experienced a sequential decline of 7.7% (fall of 3.9% at constant exchange rates), but rose by 13.6% on the year-earlier period (up 26.3% at constant exchange rates).

## UNOFFICIAL COURTESY TRANSLATION

The Group's top five customers contributed 89% of wafer sales during the first half of the 2011-2012 financial year. Its number one customer (Global Foundries) generated 68% of wafer sales, with its number two customer (NXP) contributing 8%.

Licensing revenues rose by €1 million to €2.7 million on a sequential basis owing partly in a change in the revenue recognition method.

### *Geographical breakdown of consolidated first-half sales*

	H1 2009-2010	H1 2010-2011	H1 2011-2012
United States	23%	18%	10%
Europe	70%	68%	77%
Asia	7%	14%	7%

### *Breakdown of SOI sales by customer during the first half*

	H1 2009-2010	H1 2010-2011	H1 2011-2012
Top five customers	94%	92%	89%
Next five customers (6-10)	3%	4%	4%
Other customers	3%	4%	7%

### *Breakdown of SOI sales by wafer size during the first half*

	H1 2009-2010	H1 2010-2011	H1 2011-2012
300mm	85%	79%	80%
200mm	8%	13%	16%
125mm	5%	3%	0%
Other	3%	5%	4%

## **Specialty Electronics**

The Specialty Electronics division recorded first-half sales of €4.5 million, down just 3.7% by comparison with the same period of the previous financial year.

## **Layer Transfer Solutions**

The Layer Transfer Solutions division recorded an increase of 76% on the year-earlier period with its contribution of €7.5 million.

## **Solar Energy**

The Solar Energy division did not make a significant contribution to sales during the first half.

## **Gross profit**

Gross profit is based on total sales less the cost of sales. The cost of sales is the sum of production costs, distribution costs and royalties payable (to CEA-Léti for the use of SmartCut™ technology and to the Fraunhofer Institute for licences related to the Solar Energy division). Production costs include raw material costs, essentially silicon, manufacturing costs, including direct labour and any share-based payments, depreciation and maintenance costs related to manufacturing equipment, clean room facilities and general expenses associated with production.

For the Solar Energy division, production costs include the various components purchased and assembled to form systems, manufacturing costs (of the same type as in the semiconductors division) and, for the sale of turnkey solar power plants, project development costs and installation costs.

Volume growth did not lead to a tangible increase in gross profit, which went from €34.2 million (24.9% of sales) in the first half of 2010-2011 to €32.0 million (22.3% of sales) in the second half and then to €36.6 million (22.5% of sales) in the first half of the 2011-2012 financial year. At constant exchange rates, the first-half 2011-2012 gross margin was 26.4%.

During the first half of the 2011-2012 financial year, the Photovoltaic division recorded a gross loss of €5.1 million (vs. €4.7 million in the first half of the 2010-2011 financial year).

In addition to the unfavourable impact of fluctuations in the euro/dollar exchange rate, the Electronics division's gross margin was depressed by further falls in the selling price of 300mm SOI wafers, offset only partially by the volume increase and lower purchase cost of silicon. What's more, production issues led to a temporary drop in yields, both for 300mm wafers and for smaller sizes (negative impact of close to €2 million). Lastly, owing to the even shorter life of certain of our customers' products, a valuation allowance of over €2 million was set aside to cover impairment in the value of inventories.

## Research and Development

Research and development costs are expensed as they are incurred where the criteria laid down in IAS 38 for their capitalisation on the balance sheet are not satisfied.

The main R&D expenses are salaries and social security charges, including share-based payments, the running costs of dedicated clean room facilities and equipment required for research and development activities and fees related to maintaining and reinforcing protection of the Group's intellectual property.

Provided that the agreements have been signed and administrative permits secured, the amounts received under grant agreements are deducted from gross research and development costs to give the net expense, which is recognised on the income statement.

Some of the grants helping to finance the R&D activities may be provided in the form of repayable advances. Pursuant to IAS 38 and IAS 20, where the Group considers that the technical and commercial feasibility of projects has not been established, the corresponding development costs are not capitalised, but expensed directly and the corresponding repayable advances are deducted from these expenses, irrespective of any notifications received from the financing bodies, which may be received only subsequently when milestones are reached representing the end of programmes or marking the beginning of the repayment of advances.

Depending on the technical and commercial feasibility of the relevant projects, the Group may in the future recognise a financial liability based on the outlook for the sales generated by the new products being developed under the grant programmes.

Certain research and development expenses qualify in France for a research tax credit. In accordance with IAS 20, this credit is presented as a deduction in R&D expenses.

The Group continued to pursue the NanoSmart project, its principal research and development programme, which meets the criteria for designation as an innovative initiative and thus qualifies for grants and repayable advances from the public authorities.

Research and development spending rose significantly, with net research and development expenses totalling €20.7 million, i.e. 12.7% of sales, compared with €13.6 million, i.e. 9.9% of sales, in the first half of the 2010-2011 financial year. This increase was directly attributable to the acceleration in strategic programmes focused on the development of LEDs, solar cells and substrates for FD SOI technology.

During the first half of 2011-2012, the Group recorded €9.3 million in total grants, including a research tax credit of €2.5 million. In the first half of the previous financial year, total grants came to

€9.4 million. A breakdown of grants by nature (subsidy or advances) and by programme is provided in Note 6.2.6.3.

## **Operating expenses**

### **Selling and marketing expenses**

Selling and marketing expenses increased to €8.1 million during the first six months compared with €5.7 million in the first half and €6.8 million in the second half of the 2010-2011 financial year. These amounts include the launch costs of photovoltaic projects.

The €2.4 million increase on the previous financial year was chiefly attributable to costs linked to solar farm projects. In addition, the Group strengthened its organisation by hiring high-calibre executives specialising in the target areas and in strategic marketing and business development functions.

### **General and administrative expenses**

General and administrative expenses rose to €16.3 million during the first half of the 2011-2012 financial year from €12.3 million in the first half and €15.6 million in the second half of 2010-2011.

Of this €4 million increase on the year-earlier period, €1.8 million was attributable to a large-scale bonus share allotment plan approved by the Board of Directors in April 2011, which is intended to focus management teams on the pursuit of the strategic objectives.

The increase also flowed from spending to strengthen support functions ahead of the ramp-up in the Solar Energy division, in particular in human resources and IT. These moves led to an increase in staff costs, consulting fees and travel expenses of more than €2 million.

### **Current operating income/(loss)**

The current operating loss came to €8.5 million, ie. negative 5.2% of sales, compared with current income of €2.5 million or 1.9% of sales in the first half of 2010-2011 and a loss of €0.6 million, ie. negative 0.4% of sales, in the second half of the previous financial year. In the first half of 2011-2012, the positive contribution from the Electronics division came to €8.8 million, compared with a negative contribution of €17.3 million from the Solar Energy division.

### **Operating income/(loss)**

During the first half of both the 2011-2012 and the 2010-2011 financial years, operating income was equal to current operating income.

### **Net financial income/(expense)**

During the first half of the 2011-2012 financial year, the Group's net financial expense came to €4.5 million, down from €11.4 million in the first half of 2010-2011.

The improvement in net financial expense was chiefly attributable to the reduction in financial expense linked to discounting of the call (option to buy Soitec Solar GmbH) to €0.4 million from €3.7 million in the first half of the previous financial year. At 30 September 2010, the put option represented a financial liability of €52.6 million, which was revised down to €8.1 million in November 2010 and then to €3.8 million in September 2011.



Deposits generated €2.2 million in interest income compared with €1.1 million during the first half of 2010-2011 given the increase in cash following the €150 million rights issue and the rise in interest rates.

Currency effects resulted in a net foreign exchange gain of €1.5 million compared with a net loss of €0.6 million during the first half of the previous financial year.

Financial expense related to finance leases declined to €0.4 million from €0.8 million in the first half of the previous financial year owing to the reduction in outstanding leases.

### **Income before tax and income tax**

During the first half of 2011-2012, the loss before tax came to €13 million, with income tax almost nil. Soitec thus recorded an interim net loss (Group share) of €12.9 million, compared with a loss of €8.8 million in the first half and of €10.5 million in the second half of 2010-2011. Diluted earnings per share showed a loss of €0.12 per share compared with a loss of €0.08 per share in the first half of 2010-2011.

### **Balance sheet**

Net non-current assets came to €333.9 million at 30 September 2011, down from €341.0 million at 31 March 2011. Goodwill related to the Solar Energy division stood at €20.9 million at 30 September 2011, down from €25.7 million at 31 March 2011. This decrease was the result of the remeasurement of the financial liability associated with the put option held by minority shareholders in Soitec Solar GmbH.

The working capital requirement posted a strong increase from €51.3 million at 31 March 2011 to €94.7 million at 30 September 2011. This rise was chiefly attributable to the increase in inventories (€22.5 million) and the advances paid to suppliers to secure the purchase of equipment for the Solar Energy division (€7 million).

Shareholders' equity posted a steep rise of €151.2 million at 30 September 2011 owing to the July 2011 rights issue. It stood at €635.6 million at 30 September 2011 compared with €484.4 million at 31 March 2011.

Financial liabilities went down from €167.9 million at 31 March 2011 to €156.1 million at 30 September 2011 owing principally to the repayment of €4.8 million in leasing obligations and the €4.38 million impact of discounting the liability arising from the put on minority interests in Soitec Solar GmbH.

The Soitec group had €225.3 million in net cash at 30 September 2011.

### **Cash flow and cash resources**

Cash flow provided by operating activities was negative during the first half of 2011-2012 (€6.9 million), after running at €20.1 million in positive territory in the same period of the previous year. This downturn reflects the weaker operating performance (difference of €11.0 million on the year-earlier period) and faster pace of the increase in the working capital requirement (higher cash consumption of €15.6 million during the first half of 2011-2012).

At the same time, the investments made to boost production capacity at the Bernin and Freiburg facilities and ahead of the strategic research and development programmes had a greater impact on the Group's cash resources, with outlays totalling €239 million during the first quarter of 2011-2012 compared with just €6.4 million during the first half of the previous year.

Cash flow provided by financing activities lay well inside positive territory during the first half of 2011-2012 (increase of €142.3 million) compared with cash flow used by financing activities of €17.5 million during the first half of 2010-2011 owing principally to the July rights issue.

In sum, the Group's cash resources increased by €113.6 million during the first half of 2011-2012 to reach €381.4 million.

### **Objectives of the cash management policy**

The cash management policy implemented by the Group aims to minimise the impact of currency effects arising from its transactions and to generate healthy returns on its financial assets. The Group's commercial transactions are exposed to currency risk, notably resulting from fluctuations in the euro/dollar exchange rate, since most of its sales are denominated in US dollars. This risk is mitigated partially by the fact that all raw materials are purchased in US dollars. Currency futures, options and swaps are also used on a regular basis as hedging instruments over a horizon restricted to definite billings.

### **Principal transactions with related parties**

The principal transactions with related parties are described in Note 6.2.7.2 of the interim consolidated financial statements.

## **5. INFORMATION ABOUT TRENDS**

Recent information indicates that the ongoing introduction of new products based on the 32 nm SOI technology whose demand to the Group depends not only on the final demands of the consumers, but also on the evolution of the capacity of partners involved to meet this demand. The general economic uncertainty globally leads the semiconductor industry to be cautious which shall result in a anticipated sequential decrease in the activity of the third quarter of the current fiscal year with visibility which remains limited to the first quarter of the new calendar year. The Group remains confident that its activity will gradually rebound over the next several quarters and points out that the new contracts are anticipated in the solar energy market. It indicates that on its consolidated results for the full-year 2011-2012, its EBIT margin should remain negative.

The expectations presented above are taken from or based on, in whole or in part, the current views of management of the Company and its subsidiaries, which may change or be adjusted in the future.

The objectives, statements and forward-looking information summarised above are notably based on data, assumptions and estimates presented above and considered as reasonable by the Company.

By their nature, these figures, assumptions and estimates, as well as all the items taken into account to determine said objectives, statements and forward-looking information, may not be reached and are likely to change or be adjusted owing to the uncertainties linked notably to the Company's economic, financial and competitive environment and to the risk factors to which it is exposed.

## 6. FINANCIAL INFORMATION

## 6.1 Consolidated financial statements for the six months to 30 September 2011

## CONSOLIDATED STATEMENT OF OPERATIONS (Amounts in thousands of euros)

	Notes	Sixmonth ended 30 September 2011	Sixmonth ended 30 September 2010
Sales.....		162,574	137,296
Cost of sales.....		(125,933)	(103,136)
<b>Gross profit</b>		<b>36,641</b>	<b>34,160</b>
Selling and marketing expenses.....		(4,374)	(3,424)
Research and development expenses.....	<b>6.2.6.3</b>	(20,709)	(13,614)
Start-up expenses for photovoltaic projects.....		(3 725)	(2 251)
General and administrative expenses.....		(16,299)	(12,324)
<b>Current operating income</b>		<b>(8,466)</b>	<b>2,547</b>
<b>Operating income</b>		<b>(8,466)</b>	<b>2,547</b>
Financial income.....		7,819	11,955
Financial expense.....		(12,326)	(23,328)
<b>Net financial income/(expense)</b>		<b>(4,506)</b>	<b>(11,373)</b>
<b>Profit before income tax</b>		<b>(12,972)</b>	<b>(8,826)</b>
Tax.....	<b>6.2.6.6</b>	3	(13)
<b>Net income of fully consolidated companies</b>		<b>(12,969)</b>	<b>(8,839)</b>
Non-controlling interests.....		(61)	(1,468)
<b>Group share of net income</b>		<b>(12,908)</b>	<b>(7,371)</b>
.			
Basic earnings per share (€).....		(0.12)	(0.08)
Diluted earnings per share (€).....	<b>6.2.6.8</b>	(0.12)	(0.08)
<b>COMPREHENSIVE INCOME</b>	<b>Six months ended</b>	<b>30 September 2011</b>	<b>30 September 2010</b>
<b>Net income of fully consolidated companies</b>		<b>(12,969)</b>	<b>(8,839)</b>
Translation adjustments.....		6,110	(1,295)
Actuarial gains and losses on pension obligations and other post-retirement benefits.....		-	(984)
<b>Income and expenses recognised directly in equity</b>		<b>6,110</b>	<b>(2,279)</b>
<b>Comprehensive income for the period</b>		<b>(6,859)</b>	<b>(11,118)</b>
Non-controlling interests.....		(17)	(1,437)
<b>Comprehensive income (Group share)</b>		<b>(6,842)</b>	<b>(9,681)</b>

**BALANCE SHEET (amounts in thousands of euros)**

	Notes	30 September 2011	31 March 2011
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill and intangible assets.....	6.2.5.1	48,406	50,117
Capitalised development projects.....		3,525	3,710
Property, plant and equipment.....	6.2.5.1	277,798	282,469
Deferred tax assets.....		-	-
Financial assets.....		4,154	4,687
Other non-current assets		61	58
<b>Total non-current assets</b>		<b>333,944</b>	<b>341,041</b>
<b>Current assets</b>			
Inventories.....	6.2.5.2	73,786	51,307
Trade receivables.....	6.2.5.3	43,662	44,858
Other current assets .....		47,100	37,491
Short-term financial assets.....		2,242	2,171
Cash and cash equivalents.....	6.2.5.4	381,351	267,745
<b>Total current assets</b>		<b>548,141</b>	<b>403,572</b>
<b>TOTAL ASSETS</b>		<b>882,086</b>	<b>744,613</b>
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital.....		12,211	8,749
Additional paid-in capital.....		644,524	492,318
Treasury shares.....		-	(210)
Retained reserves.....		(26,649)	(16,671)
Other reserves.....		5,147	(233)
<b>Shareholders' equity, Group share</b>		<b>635,233</b>	<b>483,953</b>
Non-controlling interests.....		404	421
<b>Total shareholders' equity</b>		<b>635,637</b>	<b>484,374</b>
<b>Non-current liabilities</b>			
Long-term financial liabilities.....	6.2.5.8	140,654	143,416
Deferred tax liabilities.....		-	-
Provisions and other non-current liabilities.....	6.2.5.9	8,257	7,755
<b>Total non-current liabilities</b>		<b>148,911</b>	<b>151,171</b>
<b>Current liabilities</b>			
Short-term financial liabilities.....	6.2.5.8	15,422	24,493
Trade payables.....		46,394	44,123
Provisions and other current liabilities.....		35,722	40,451
<b>Total current liabilities</b>		<b>97,538</b>	<b>109,067</b>
<b>TOTAL CURRENT AND NON CURRENT LIABILITIES</b>		<b>246,449</b>	<b>260,238</b>
<b>TOTAL LIABILITIES</b>		<b>882,086</b>	<b>744,613</b>

## STATEMENT OF CHANGES IN EQUITY (In thousands of euros except per share data)

(in thousands of euros)	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Retained earnings and net income	Other reserves	Shareholders' equity (Group share)	Non-controlling interests	Total shareholders' equity
<b>At 31 March 2010</b>	<b>86,145,233</b>	<b>8,615</b>	<b>483,379</b>	<b>(210)</b>	<b>(487)</b>	<b>6,887</b>	<b>498,184</b>	<b>289</b>	<b>498,473</b>
Translation adjustments						(1,326)	(1,326)	31	(1,295)
Actuarial gains and losses on pension obligations and other post-retirement benefits						(984)	(984)		(984)
<b>Total income and expense for the period recognised directly in equity</b>				-	-	<b>(2,310)</b>	<b>(2,310)</b>	<b>31</b>	<b>(2,279)</b>
Net income/(loss) for the period					(7,371)		(7,371)	(1,468)	(8,839)
<b>Total income and expense for the period</b>				-	<b>(7,371)</b>	<b>(2,310)</b>	<b>(9,681)</b>	<b>(1,437)</b>	<b>(11,118)</b>
Exercise of stock options and warrants/bonus share allotments	159,797	16	96		(99)		13		13
Issue of ABSAARs	750,000	75	9,825				9,900		9,900
Capital transactions	330,239	33	1,365				1,398		1,398
Share issuance expenses (net of tax)			(2,647)				(2,647)		(2,647)
Transactions with non-controlling interests					(1,461)		(1,461)	1,461	-
Change in equity component of compound financial instruments					(1)		(1)		(1)
Share-based payments					844		844		844
Other					5		5	2	7
<b>At 30 September 2010</b>	<b>87,385,269</b>	<b>8,739</b>	<b>492,018</b>	<b>(210)</b>	<b>(8,570)</b>	<b>4,577</b>	<b>496,554</b>	<b>315</b>	<b>496,869</b>

UNOFFICIAL COURTESY TRANSLATION

(in thousands of euros)	Number of shares	Share capital	Additional paid-in capital	Treasury shares	Retained earnings and net income	Other reserves	Shareholders' equity (Group share)	Non-controlling interests	Total shareholders' equity
<b>At 31 March 2011</b>	<b>87,487,811</b>	<b>8,749</b>	<b>492,318</b>	<b>(210)</b>	<b>(16,671)</b>	<b>(233)</b>	<b>483,953</b>	<b>421</b>	<b>484,374</b>
Translation adjustments						<b>6,066</b>	<b>6,066</b>	<b>44</b>	<b>6,110</b>
Actuarial gains and losses on pension obligations and other post-retirement benefits							-		-
<b>Total income and expense for the period recognised directly in equity</b>	-	-	-	-	-	<b>6,066</b>	<b>6,066</b>	<b>44</b>	<b>6,110</b>
Net income/(loss) for the period					(12,908)		(12,908)	(61)	(12,969)
<b>Total income and expenses for the period</b>	-	-	-	-	<b>(12,908)</b>	<b>6,066</b>	<b>(6,842)</b>	<b>(17)</b>	<b>(6,859)</b>
Exercise of stock options and warrants/bonus share allotments	216,403	22				(22)	-		-
Issue of ABSAARs	1,100,000	110	13,530				13,640		13,640
Capital transactions	33,301,578	3,330	146,527				149,857		149,857
Share issuance expenses (net of tax)			(8,122)				(8,122)		(8,122)
Change in equity component of compound financial instruments			271			(271)	-		-
Share-based payments					2,930		2,930		2,930
Transactions in shares held in treasury				210		(423)	(213)		(213)
Other						30	30		30
<b>At 30 September 2011</b>	<b>122,105,792</b>	<b>12,211</b>	<b>644,524</b>	<b>0</b>	<b>(26,649)</b>	<b>5,147</b>	<b>635,233</b>	<b>404</b>	<b>635,637</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (In thousands of euros)

	Six months ended 30 September 2011	Six months ended 30 September 2010
<b>Net income of fully consolidated companies</b>	<b>(12,969)</b>	<b>(8,839)</b>
<b>Adjustments to reconcile net income/(loss) to net cash used in operating activities</b>		
Depreciation, amortisation and impairment, net.....	27,858	30,215
Loss on disposals of assets .....	(264)	(126)
Change in deferred tax.....	(3)	13
Cost of net debt.....	4,509	11,372
Expenses linked to stock options and emp. warrants.....	2,930	844
<b>Increase/(decrease) in cash and cash equivalents from:</b>		
Inventories .....	(22,094)	(10,791)
Trade receivables.....	4,219	1,581
Other receivables .....	(8,249)	(5,846)
Trade payables.....	1,075	1,090
Other liabilities .....	(3,930)	538
<b>Cash flow provided by/(used in) operating activities</b>	<b>(6,918)</b>	<b>20,051</b>
Purchases of intangible assets.....	(6,160)	(2,033)
Purchases of property, plant and equipment.....	(18,107)	(6,502)
Proceeds from sales of property, plant and equipment and of intangible assets....	786	1,000
Proceeds from sales/(purchases) of financial assets .....	(385)	1,181
<b>Cash flow provided by/(used in) investing activities</b>	<b>(23,866)</b>	<b>(6,354)</b>
Amounts received from shareholders from capital increases.....	155,405	9,905
Proceeds from exercise of stock options and warrants .....	-	-
Resale/(repurchase) of treasury shares.....	(213)	-
New borrowings .....	-	729
Repayments of borrowings (including finance leases) .....	(5,545)	(18,551)
Interest received.....	2,369	708
Interest paid .....	(9,694)	(10,310)
<b>Cash flow provided by/(used in) financing activities</b>	<b>142,322</b>	<b>(17,519)</b>
Impact of exchange rate fluctuations on cash and cash equivalents .....	2,068	(78)
<b>Change in net cash</b>	<b>113,606</b>	<b>(3,900)</b>
CASH AT THE BEGINNING OF THE PERIOD .....	267,745	277,603
CASH AT END OF THE PERIOD .....	381,351	273,703

## 6.2 Notes to the consolidated financial statements

### 6.2.1. Nature of the business

Soitec S.A. (the “Company”) is organised as a société anonyme, or limited liability corporation, under the laws of the Republic of France. It was founded in 1992 and is listed in compartment B of Euronext Paris. The Company and its subsidiaries are hereinafter referred to as “the Group” and “the Soitec group”.

The Group operates in two sectors of activity:

- the Electronics segment: the Group uses its patent portfolio and its technical expertise to manufacture and market products and services for the semiconductor industry. The Group’s main products are Unibond™ wafers, which are made using the patented Smart Cut™ technology licensed exclusively to the Company by the French Atomic Energy Commission (“Commissariat à l’Energie Atomique” or “CEA”). This exclusive licence runs for the entire duration of the patents filed, and the first is due to enter the public domain in 2013.
- the Solar Energy segment: since December 2009, when the Group acquired control of Soitec Solar GmbH, the Group has produced and marketed concentrator photovoltaic modules and designed and built photovoltaic installations sold on a turn-key basis or operated by the Group itself.

The interim consolidated financial statements at 30 September 2011 were subject to a limited review by our Statutory Auditors.

At 15 November 2011, the Board of Directors prepared and authorised publication of Soitec’s interim consolidated financial statements for the six-month period ended 30 September 2011.

### 6.2.2. Accounting policies

#### Basis of presentation

##### *Basis of preparation*

The interim consolidated financial statements, which are presented in a condensed form, were prepared in accordance with IAS 34 “Interim Financial Reporting”.

They do not include all the information and notes required for complete annual financial statements and should thus be read together with the Group’s consolidated financial statements for the financial year ended 31 March 2011.

The Group’s consolidated financial statements for the financial year ended 31 March 2011 are available upon request from the Company’s head office at Parc Technologique des Fontaines in Bernin (38190) or may be downloaded from the web site at [www.soitec.com](http://www.soitec.com).

##### *Accounting policies*

The accounting policies adopted are consistent with those adopted in the consolidated financial statements for the financial year ended 31 March 2011, except for the amendments to the standards and new interpretations, adoption of which is mandatory for the 2011-2012 financial year:

- Amendments to IAS 32, “Financial Instruments: Presentation”, Classification of Rights Issues;
- IFRIC 19, “Extinguishing Financial Liabilities with Equity Instruments”;
- Amendment to IFRIC 14, “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”;
- 2010 annual improvements.



These new documents published by the IASB, revisions of standards and interpretations did not have a material impact on the Group's financial statements.

#### *Significant judgments and estimates*

The preparation of financial statements requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the information provided in certain notes at the preparation date of this financial information and the reported amounts of income and expenses for the period.

The judgments and estimates and the assumptions are prepared on the basis of the information available at the preparation date of the financial statements.

The accounting principles and measurement rules adopted by the Group in its condensed interim consolidated financial statements at 30 September 2011 are the same as those adopted for the Group's consolidated financial statements for the financial year to 31 March 2011, except for the recognition of income tax, which is provided for in the interim financial statements based on the best estimate of the full-year tax rate anticipated for the financial year as a whole.

#### **6.2.3. Events during the interim period**

On 12 April 2011, Soitec drew on and issued 1,100,000 ABSAARs (shares with redeemable share warrants) at a price of €12.40, calculated based on a discount of 5% to the weighted average share price in the trading sessions preceding its determination. This issue gave rise to immediate dilution of the share capital by 1.26%, which could rise to 2.51% if the corresponding warrants are converted into new shares. This third drawing brought the existing PACEO programme to a close.

On 21 July 2011, the Company issued 33,301,578 new shares, resulting in an increase in shareholders' equity of €149.9 million, breaking down into a €3.3 million increase in the share capital and a €146.5 million increase in additional paid-in capital before transaction costs. The transaction costs directly attributable to this rights issue amounted to €7.1 million and were set off net of tax against additional paid-in capital.

#### **6.2.4. Basis of consolidation**

The interim consolidated financial statements at 30 September 2011 are based on the financial statements of the Company and of all its subsidiaries.

During the six-month period, the Company set up a distribution subsidiary in South Korea to market its Electronics division's products and a subsidiary to develop solar energy projects in South Africa.

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Entity	Consolidated from	Percentage of voting rights and share capital held	Country
Soitec USA Inc.	1997	100%	United States
Soitec Specialty Electronics SAS	April 2003	100%	France
Soitec Japan Inc.	June 2004	70%	Japan
Soitec Phoenix Labs Inc.	February 2006	100%	United States
Soitec Microelectronics Singapore Pte Ltd	June 2006	100%	Singapore
Soitec Solar GmbH	December 2009	85.68%	Germany
Soitec Solar Iberia SAU	December 2009	85.68%	Spain
Soitec Solar Inc.	December 2009	85.68%	United States
Soitec Solar Industries LLC	December 2009	85.68%	United States
Soitec Solar Development LLC	September 2010	85.68%	United States
CPV Rians SAS	July 2010	85.68%	France
Newberry Solar 1 LLC	September 2010	85.68%	United States
Soitec Solar RSA (Proprietary) Ltd	April 2011	85.68%	South Africa
Soitec Korea	July 2011	100%	South Korea

In addition, as part of the activities of its Solar Energy division, the Group may set up special purpose entities to house licences and permits, administrative authorisations, costs and revenues associated with a solar farm project. Generally speaking, these special purpose vehicles are intended to be sold to investors when the projects reach a sufficiently advanced stage of completion. The following entities that are controlled exclusively by the Group and fully consolidated were set up during the interim period:

Entity	Consolidated from	Percentage of voting rights and share capital held	Country
Tierra del Sol Solar Farm LLC	April 2011	85.68%	United States
Rugged Solar LLC	April 2011	85.68%	United States
Desert Harvest Solar Farm LLC	April 2011	85.68%	United States
CX Giuggianello srl	September 2011	85.68%	Italy
CX Minervino srl	September 2011	85.68%	Italy

#### 6.2.5. Notes to the balance sheet

At 30 September 2011, the Group reviewed the value of each cash-generating unit's (CGU) non-current assets. In the Electronics segment, the Group is organised globally, with customers managed centrally and production capacity organised to maximise its efficiency without any geographical considerations. The CGU corresponds to the Electronics segment as a whole.

In the Solar Energy segment:

- For projects involving the design, construction and operation of photovoltaic installations, the CGU comprises each individual project or group of projects where they are located in the same geographical region and are interdependent.
- For installations that are intended to be operated by the Group, the CGU comprises each installation or several installations where they are located in the same geographical region and are interdependent.
- For the production and marketing of concentrator photovoltaic modules, a business in which the Group is organised globally, with customers managed centrally and production capacity organised to maximise its efficiency without any geographical considerations, the CGU represents the module

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production business. The goodwill that arose from the acquisition of Soitec Solar is tested based on the Solar Energy CGU as a whole.

The Group thus believes that there was no evidence of impairment in any of the CGUs at the balance sheet date of 30 September 2011 and accordingly that the value of the non-current assets assigned to the CGU remains justified.

### 6.2.5.1. Acquisitions and disposals of non-current assets

During the first half of 2011, changes in net amounts broke down by category of non-current assets as follows:

(in thousands of euros)	Goodwill (including floating)	Concessions, patents and other rights	Software	Other intangible assets	Intangible assets in progress	Total
<b>At 1 April 2011</b>	<b>25,695</b>	<b>11,937</b>	<b>7,425</b>	<b>0</b>	<b>8,771</b>	<b>53,828</b>
Assets commissioned (gross)		4,910	693		(5,602)	0
Acquisitions (gross)			214		6,285	6,499
Changes in scope of consolidation (net)						
Translation adjustments (net)			188		33	221
Depreciation, amortisation and impairment (net)		(1,738)	(2,051)			(3,789)
Disposals and scrapping (gross)			(15)			(15)
Changes in goodwill	(4,812)					(4,812)
<b>At 30 September 2011</b>	<b>20,883</b>	<b>15,109</b>	<b>6,453</b>	<b>0</b>	<b>9,487</b>	<b>51,932</b>

Assets commissioned primarily comprise development costs reflecting a licensing agreement confirmed in March 2011 (transfers of circuits for image sensors), the term of which is estimated by the customer at ten years.

Acquisitions chiefly reflect IT developments.

The €4,812 thousand decline in goodwill is accounted for in Note 6.2.6.7.

(in thousands of euros)	Buildings	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment in progress	Total
<b>At 1 April 2011</b>	<b>92,280</b>	<b>125,799</b>	<b>44,872</b>	<b>19,517</b>	<b>282,469</b>
Assets commissioned (gross)	50	8,129	1,449	(9,628)	0
Acquisitions (gross)		99	530	14,056	14,685
Changes in scope of consolidation (net)					
Translation adjustments (net)	1,913	2,110	1,192	103	5,318
Depreciation, amortisation and impairment (net)	2,904	(8,494)	(3,180)	(1,749)	(16,327)
Disposals and scrapping (gross)		(8,320)	(27)		(8,347)
<b>At 30 September 2011</b>	<b>91,338</b>	<b>119,324</b>	<b>44,836</b>	<b>22,299</b>	<b>277,797</b>

The change in the gross amount of property, plant and equipment was primarily attributable to the increase in production capacity of 150mm and 200mm SOI wafers at the Bernin 1 plant.

**6.2.5.2 Inventories**

	<b>30 September 2011</b>	<b>31 March 2011</b>
Raw materials.....	37,561	26,795
Work-in-progress .....	16,084	11,911
Finished products .....	26,093	16,664
<b>Sub-total</b> .....	<b>79,737</b>	<b>55,370</b>
Impairment losses .....	(5,951)	(4,063)
<b>Inventories, net</b> .....	<b>73,786</b>	<b>51,307</b>

The increase in inventories of finished products was chiefly attributable to the introduction of a consigned stock at two sites operated by one of our principal customers in July and the overall growth in consumption of 300mm SOI wafers.

The increase in raw materials inventories and work-in-progress derived partly from the sequential growth in the Electronics division's business and also from a recent downgrade in sales forecasts by certain customers for automotive, image sensor and lighting applications. In addition, the Solar Energy division transferred components to the inventory to cover the deliveries of modules scheduled for the following quarter.

**6.2.5.3. Trade receivables**

At 30 September 2011, trade receivables broke down as follows:

(in thousands of euros)	<b>Total</b>	Current	Matured < 30 days	Matured 30-60 days	Matured 60-90 days	Matured 90-120 days	Matured > 120 days
30 September 2011	<b>43,662</b>	42,126	1,262	97	2	59	115
31 March 2011	<b>44,858</b>	43,965	516	215	-	-	163

**6.2.5.4. Cash and cash equivalents**

	<b>30 September 2011</b>	<b>31 March 2011</b>
Cash at bank.....	120,608	112,254
Cash equivalents .....	260,743	155,491
<b>Total</b> .....	<b>381,351</b>	<b>267,745</b>

At 30 September 2011, the cash was placed in interest-bearing accounts. Cash equivalents principally comprise time deposits and cash mutual funds.

The change was the result of the July 2011 rights issue (see Note 6.2.3), with operating activities giving rise to a negative cash flow during the six-month period.

**6.2.5.5. Dividend payments**

The General Meeting of the shareholders on 24 June 2011 voted to carry forward the loss and not to pay out any dividends.

#### **6.2.5.6. Share-based payments**

The cost of equity-settled transactions during the period to 30 September 2011 came to €2,930 thousand. The corresponding entry was an increase in equity of the same amount. This amount reflects a plan to allot 1,071,000 bonus shares to 32 employees approved by the Board of Directors in April 2011.

An initial plan to award 827,000 bonus shares currently covers 18 employees working at the French subsidiaries:

Vesting period from 1 April 2011 to 31 March 2013

Lock-up period: from 1 April 2013 to 31 March 2015

Value of shares allotted: €10,725

A second plan to award 244,000 bonus shares currently covers 14 employees working at subsidiaries outside France:

Vesting period: from 1 April 2011 to 31 March 2015

No lock-up period

Value of shares allotted: €10,725

Under both plans, the shares vest at the end of a mandatory period of presence on the Group's payroll subject to attainment of performance criteria assessed with reference to a composite internal indicator based on sales, EBITDA, available cash and completion of the principal stages of the Group's strategic plan.

#### **6.2.5.7. Contingent assets and liabilities**

There were no significant developments in the Group's litigation with MEMC compared with the position at 31 March 2011, as described in the annual report.

The next hearing in the dispute over the corporate solidarity social security contribution with the Caisse Nationale du RSI following a proposed €316 thousand reassessment is scheduled in June 2012.

Lastly, we reached an out-of-court settlement bringing to an end a dispute with an equipment supplier. Given the terms of the settlement agreement, we wrote down €948 thousand in property, plant and equipment in progress and reversed a €474 thousand provision for liabilities.

A provision of €211 thousand was set aside to cover labour disputes in progress.

**6.2.5.8. Borrowings and financial liabilities**

At 30 September 2011, the maturity schedule of the Group's borrowings and financial liabilities was as follows:

(in thousands of euros)	30 September 2011				31 March 2011
	Less than 1 year	From 1 to 5 years	Over 5 years	Total	31 March 2011
OCEANE 2014 convertible bonds	529	125,828	-	126,357	128,541
Bank loans	826	1,700	-	2,526	3,350
Derivatives	284	-	-	284	-
Financial liabilities resulting from restatements of finance lease obligations	9,706	12,995	-	22,701	27,422
Liabilities to non-controlling interests in Soitec Solar GmbH	3,794	-	-	3,794	8,181
Provision for warranties	-	-	-	-	145
Repayable advances	-	-	131	131	181
Other financial liabilities	283	-	-	283	89
<b>Total borrowings and financial liabilities</b>	<b>15,422</b>	<b>140,523</b>	<b>131</b>	<b>156,076</b>	<b>167,909</b>

**6.2.5.9. Provisions and other non-current liabilities**

Provisions and other non-current liabilities break down as follows:

(in thousands of euros)	30 September 2011	31 March 2011
Provisions for liabilities and charges	4,733	4,045
Prepaid income	3,524	3,710
<b>Total other non-current liabilities</b>	<b>8,257</b>	<b>7,755</b>

Provisions for liabilities and charges chiefly comprise the €3,364 thousand provision for pension obligations.

The €3,524 thousand in prepaid income reflects the payment received in advance in March 2011 under a technology licensing agreement giving rise to the recognition of revenues over the period covered by the agreement.

Provisions for liabilities and charges break down as follows:

(in thousands of euros)	Balance at 31 March 2011	Additions during the period	Reversals during the period		Translation adjustments	Balance at 30 September 2011
			Provisions used	Provisions not used		
Pension costs	3,009	355				3,364
Other provisions for liabilities and charges	1,036	1,354	(1,021)			1,369
Provisions for litigation	2,649	234	(474)			2,409
Other provisions	590	255	(508)		11	347
<b>Total</b>	<b>7,284</b>	<b>2,198</b>	<b>(2,003)</b>		<b>11</b>	<b>7,489</b>
<b>Non-current/current</b>						
Non-current	4,045	1,709	(1,021)			4,733
Current	3,239	489	(982)		11	2,756

Provisions for liabilities and charges comprises various amounts linked to labour (tribunal), commercial and tax disputes.

The principal reversal during the period of €474 thousand reflected the use of the provision set aside to settle a dispute with an equipment supplier.

## 6.2.6. Notes to the income statement

### 6.2.6.1. Segment reporting

As stated in the “Nature of the business” note, the Company is active in two business segments: the production and marketing of substrates and components for the microelectronics industry (Electronics) the production and marketing of concentrator photovoltaic modules, the design and construction of turnkey photovoltaic projects and the operation of photovoltaic installations (Solar Energy).

The key segment figures are as follows:

	30 September 2011			30 September 2010		
(in thousands of euros)	Electronics	Solar Energy	Total	Electronics	Solar Energy	Total
Sales	162,572	2	162,574	134,797	2,499	137,296
Gross profit	41,721	(5,080)	36,641	38,880	(4,720)	34,160
General and administrative expenses	(32,945)	(12,163)	(45,107)	(24,155)	(7,458)	(31,613)
<b>Current operating income/(loss)</b>	<b>8,777</b>	<b>(17,243)</b>	<b>(8,466)</b>	<b>14,725</b>	<b>(12,178)</b>	<b>2,547</b>

	30 September 2011			31 March 2011		
(in thousands of euros)	Electronics	Solar Energy	Total	Electronics	Solar Energy	Total
Intangible assets, net	22,078	29,853	51,931	18,693	35,134	53,827
o/w goodwill	-	20,883	20,883	-	25,695	25,695
Property, plant and equipment, net	265,959	11,840	277,798	269,824	12,645	282,469
Other non-current assets	61	-	61	58	-	58
<b>Non-current assets</b>	<b>288,097</b>	<b>41,693</b>	<b>329,790</b>	<b>288,575</b>	<b>47,779</b>	<b>336,354</b>
Inventories	58,589	15,197	73,786	43,188	8,119	51,307
Trade receivables	42,907	755	43,662	43,382	1,476	44,858
Other current assets	37,394	9,706	47,100	35,247	2,244	37,491
Trade payables	(45,122)	(1,272)	(46,394)	(41,513)	(2,610)	(44,123)
Other current liabilities	(30,243)	(5,479)	(35,722)	(39,108)	(1,343)	(40,451)
<b>Current assets, net</b>	<b>63,525</b>	<b>18,907</b>	<b>82,432</b>	<b>41,196</b>	<b>7,885</b>	<b>49,081</b>
<b>Capital employed</b>	<b>351,622</b>	<b>60,600</b>	<b>412,222</b>	<b>329,771</b>	<b>55,664</b>	<b>385,435</b>

The figures reported are prepared in accordance with the Group’s accounting principles.

During the period, the Group did not generate any significant sales from the design, construction and operation of photovoltaic facilities, since the projects in progress are still at a preliminary stage of their development.

**6.2.6.2. Staff costs**

Staff costs recorded during the period break down as follows:

(in thousands of euros)	Six months ended 30 September 2011	Six months ended 30 September 2010
Staff costs, including social security costs.....	(46,762)	(36,489)
Pension costs.....	(265)	(447)
Cost of share-based payments.....	(2,930)	(844)
<b>Total staff costs .....</b>	<b>(49,957)</b>	<b>(37,780)</b>

The increase in payroll was primarily attributable to the growth in the headcount from 1,140 in September 2010 to 1,415 in September 2011. 222 new jobs were created in the Electronics division and support functions and another 53 at the Solar Energy division. The growth in the Electronics division's headcount was attributable to the increase in production volumes and research and development activities.

**6.2.6.3. Research and development expenses**

(in thousands of euros)	Six months to 30 September 2011	Six months to 30 September 2010
Research and development operational expenses, gross	(31,693)	(24,992)
Sales of prototypes	1,655	2,027
Grants	1,726	5,753
Repayable advances	5,073	2,190
<b>Research and development operational expenses, net</b>	<b>(23,239)</b>	<b>(15,023)</b>
Research tax credit	2,530	1,409
<b>Total research and development operational costs, net</b>	<b>(20,709)</b>	<b>(13,614)</b>

Research and development (R&D) expenses mainly consist of research expenses, which are recorded in the income statement. The increase in gross expenses was attributable to the ramp-up in R&D on the Group's strategic projects (Super-LED, solar cells and FD SOI).

During the six months ended 30 September 2011, the Group recorded total grants amounting to €6.8 million (€7.9 million last year), including €7 million in the form of subsidies (€0.5 million for the Nanosmart programme alone) and €5 million in the form of repayable advances for Nanosmart. These repayable advances are recognised on the income statement where they reflect expenses committed to development projects at a preliminary stage with technical and commercial feasibility that has not been established.

The research tax credit came to €2.5 million during the first six months of the period (€1.4 million in the year-earlier period).

**6.2.6.4. Depreciation and amortisation included in the income statement**

Depreciation and amortisation included in the income statement breaks down as follows:

(in thousands of euros)	Six months to 30 September 2011	Six months to 30 September 2010
Cost of sales	(24,287)	(25,580)
Research and development expenses	(2,284)	(1,902)



Selling and marketing expenses	(55)	(7)
Administrative expenses	(316)	(759)
<b>Total depreciation and amortisation</b>	<b>(26,942)</b>	<b>(28,247)</b>

#### 6.2.6.5. Other operating income and expense

The Group has adopted a restrictive approach to recognising other income and expense. No other income or expense was recognised during the first six months of the financial year.

#### 6.2.6.6. Income tax

At the end of each period, the Group remeasures its deferred taxes. Within a single tax jurisdiction, deferred tax assets are recognised only up to the amount of deferred tax liabilities with the same maturity date.

At 30 September 2011, the current income benefit for the interim period came to €3 thousand. The amended finance bill for 2011 adopted in September did not have any impact on the Group's tax expense.

The difference between the theoretical income tax computed using the tax rate in force in France (34.43% at 30 September 2011) and the actual tax expense shown on the face of the income statement is analysed below:

	<b>Six months to 30 September 2011</b>	<b>Six months to 30 September 2010</b>
Theoretical income tax benefit/(expense) at the statutory rate	4,432	2,723
Deferred tax assets on uncapitalised tax losses	(6,294)	(3,604)
Non-deductible provisions and expenses	2,026	1,893
Research tax credit	871	967
Adjustments for differences in income tax rates	(1,031)	(1,993)
<b>Total income tax benefit/(expense)</b>	<b>3</b>	<b>(13)</b>

#### 6.2.6.7. Accounting for non-controlling interests

The agreement to purchase Soitec Solar GmbH gives the Company a call option exercisable at any time from 1 January 2012, and minority shareholders the right to sell their shares (put option) to the Company with effect from 1 January 2013. Exercise of this put option is contingent upon attainment of an EBITDA/sales ratio in excess of 11%. The exercise price for the call and put options is calculated based on a sales multiple for the 12 months prior to the exercise date (1.5x sales for the call and 0.8x sales for the put). Given that the put did not transfer the economic benefits associated with ownership of the underlying shares, in accordance with paragraph 23 of IAS 32 and the options accepted by the AMF, the Group elected to account for changes in the financial liability arising from the obligation by means of a corresponding adjustment to goodwill. The amount of the financial liability recognised for the buyout of non-controlling interests was adjusted based on the amount that the Company believes it would have to pay if it exercised the call at the beginning of 2012. The Company has revised this amount based on the updated business plan presented to members of the Board of Directors in September 2011. This business plan highlighted a timing difference in the recognition of sales from solar farm projects at the most advanced stages of completion. The reduction in the financial liability on the balance sheet at 30 September 2011 resulting from the revised estimate stands at €4,812 thousand and was set off against goodwill. At 30 September 2011, the fair value of the call recognised as a current financial liability stood at €3,794 thousand.

### 6.2.6.8. Earnings per share

The earnings and per share data used in the basic and diluted earnings per share computations were as follows:

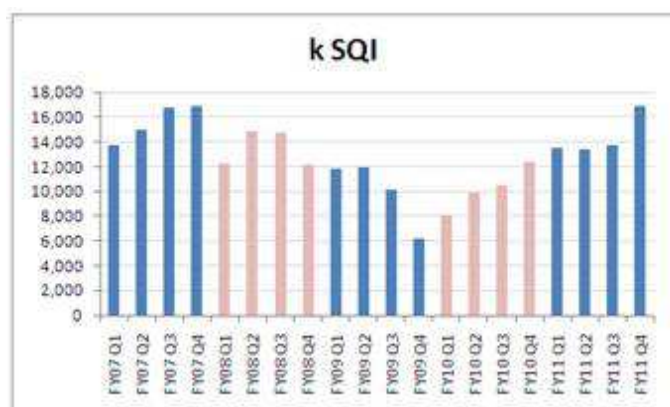
(in thousands of euros)	Six months to 30 September 2011	Six months to 30 September 2010
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	104,118,407	86,938,606
<b>Effect of dilution based on the treasury stock method:</b>		
Stock options	219,905	204,168
ABSAARs	421,493	465,811
OCEANEs	-	-
Bonus shares	389,513	253,579
<b>Weighted average number of ordinary shares (excluding treasury shares) adjusted for diluted earnings per share</b>	<b>105,149,318</b>	<b>87,862,164</b>

Dilutive instruments are not taken into account in the calculation of diluted earnings per share where they lead to a reduction in the loss per share based on the number of shares outstanding.

### 6.2.7. Other information

#### 6.2.7.1. Seasonal fluctuations in business trends

The Group's business activities are not at all seasonal. The following chart shows quarterly wafer sales volumes over a period of five years, which is sufficiently long to eliminate the impact of fluctuations in exchange rates and selling prices. The fluctuations observed reflect cycles in the semiconductor sector or phases of growth linked to the launch of new products by our principal customers.



Some of the markets served by the Group may have their own seasonal patterns (impact of Christmas on game console sales or of the start of the school/university year on PC sales), but in actual fact sales fluctuations are driven to a greater extent by launches of the next generations of products, which are not generally seasonal (e.g. game consoles or tablets introduced first in the United States, then in Asia and then in Europe). Broadly speaking, the seasonal effects that may affect certain applications are diluted by the diversity of the markets catered to by the Group, i.e. consumer products (game consoles, PCs, tablets, smart phones, etc.), industrial products or products aimed at businesses (automotive, lighting, servers).

The solar energy division (predominantly sales of systems used to build power plants) is not subject to any seasonal effects.

**6.2.7.2. Disclosures about related parties**

Certain members of the Company's Board of Directors are also directors of ARM, Altatech and STMicroelectronics. The Group entered into commercial relationships over the six-month period with these companies. These transactions were negotiated with the personal involvement of members of the Board of Directors and the Group's senior managers believe that they were agreed with a sufficient degree of independence and on an arm's length basis.

Relationships with related parties, including arrangements for the compensation of senior managers, remained comparable to those in place for the financial year ended 31 March 2011.

**6.2.7.3. Post balance sheet events**

None.

### **6.3 Statutory Auditors' report on the interim financial statements Six-month period from 1 April to 30 September 2011**

To the Shareholders,

In compliance with the assignment entrusted to us by the Shareholders meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier) , we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Soitec for the six-month period ended September 30 2011,
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

#### **1. Conclusion on the financial statements**

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - the standard of IFRSs as adopted by the European Union applicable to interim financial information.

#### **2. Specific verification**

We have also verified the information given in the half-year management report on the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the half-year consolidated financial statements.

Neuilly-sur-Seine and Meylan, November 15, 2011

The Statutory Auditors

Price Waterhouse Coopers

Cabinet Muraz Pavillet

Philippe Willemin

Christian Muraz