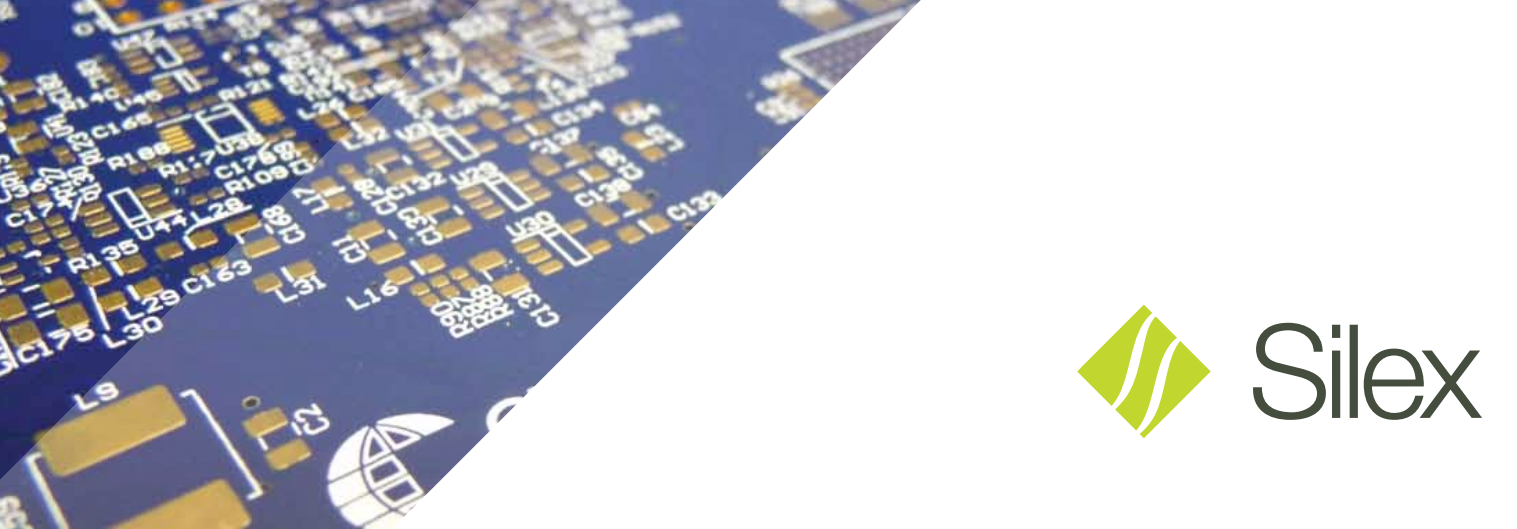




»» Annual
Report
2012





IMPORTANT NOTICE:

Forward Looking Statements and Business Risks:

Silex is a research and development Company whose assets include its proprietary rights in technologies, including, but not limited to, the SILEX technology, the Solar Systems technology and business, Translucent technology and ChronoLogic technology. Several of the Company's technologies are in the development stage and have not been commercially deployed, and therefore are high-risk. Accordingly, the statements in this report regarding the future of the Company's technologies and commercial prospects are forward looking and actual results could be materially different from those expressed or implied by such forward looking statements as a result of various risk factors.

Some risk factors that could affect future results and commercial prospects include, but are not limited to: results from the uranium enrichment development program; the demand for enriched uranium; the business risks associated with technology development, manufacturing and marketing activities conducted by Solar Systems; the outcomes of the Company's interests in the development of various semiconductor, photonics, instrumentation and alternative energy technologies; the time taken to develop various technologies; the development of competing technologies; the potential for third party claims against the Company's ownership of Intellectual Property associated with its numerous technologies; the potential impact of government regulations or policies; and the outcomes of various commercialisation strategies undertaken by the Company.

Silex Systems Limited ABN 69 003 372 067

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Silex

Chairman's Report



Professor Stephen Burdon
Chairman

28 September 2012

Dear Fellow Shareholders,

This year we have implemented important corporate governance initiatives as well as focussing on delivering on our operational priorities.

We achieved a number of milestones across our businesses. These highlight the value of our holistic approach to managing the opportunities within our group and illustrate our commitment to progressing technological development to realise monetised solutions.

We have enjoyed several successes this year, particularly in our uranium enrichment and utility-scale solar power businesses. On the other hand, we made the decision to cease our silicon flat-panel solar business which had been operating in what became an increasingly unfavourable and highly challenging market.

Financial Performance

We have achieved a good result this year in terms of preserving our balance sheet, ending the 2012 financial year with cash reserves of \$87.6 million. All continuing business units were operating according to budget and progressing towards key commercial objectives.

This achievement has been reflected in the Silex Systems share price which was trading around \$2.30 at the 2011 AGM and is approximately \$3.85 at the time of writing. We are strongly focused on delivering key milestones and commercialising our technologies for the benefit of our shareholders, and have every confidence that the Company will continue to accrue benefits from the impetus generated during this past year.

Operational Achievements

The United States' Nuclear Regulatory Commission's announcement in September approving Global Laser Enrichment's (GLE) commercial facility license is the first time in history that a company has been granted a licence for the construction and operation of a uranium enrichment plant utilising laser technology. We will continue to work alongside GLE as it progresses towards the commercialisation of this technology.



We advanced the commercialisation of our utility-scale solar concentrated photovoltaic technology by implementing additional product improvements, opening our test and demonstration facility in Bridgewater, Victoria, and continuing initial works on our Mildura project also in Victoria. We are also very pleased to have secured demonstration projects in the United States and Saudi Arabia.

We have also made progress in developing the technologies within our advanced materials and instrumentation businesses, including initiating a process to consider strategic partnership opportunities for ChronoLogic.

Corporate Governance

A number of important changes were made at the Board level during the year to reflect the changing needs of our business and the need to refresh the Board and update the collective skills and experience of the Directors. This is a crucial step forward for Silex as the company continues to transition from research and development to commercialisation activities.

In February 2012, Peter Campbell decided to step down as Chairman in recognition that the Company was entering a stage of its development which would demand greater time commitment from the Chairman as the company moved forward with its technology commercialisation, marketing and change management activities. I was honoured to be appointed by the Board to the role. We are pleased that Peter has agreed to continue to serve as a non-executive director.

We were delighted to announce the appointment of Dr Lisa McIntyre as an additional non-executive Director in July. An experienced company director, Lisa has brought with her a unique set of high-technology, commercialisation and financial skills that has strengthened and diversified the skill set of the Board. Lisa has already made a significant contribution and the Directors unanimously recommend shareholders vote to formally elect her at the Annual General Meeting.

Board renewal remains an ongoing objective.

The Company has also taken further steps around risk management during the year outlining a formalised approach to succession planning for key senior positions. This will help Silex identify strengths and weaknesses in executive positions and further develop a human resources plan to assist in recruitment and training.

The Remuneration Committee is aware that there are various shareholder concerns with the remuneration of KMP and non-executive directors. Issues raised by shareholders in relation to the 2011 Remuneration Report, resulted in a “first strike” being recorded in relation to the adoption of this report. A great deal of work has been done this year to address these issues. Our remuneration approach both for the 2012 financial year and for future years is set out in the Remuneration Report commencing on page 30. We believe we have incorporated several enhancements to our remuneration practices and look forward to answering any questions you may have at our Annual General Meeting in November 2012.

Management

We have decided to bolster our executive management capability to provide for greater focus on the commercialisation phase of our business. This includes the appointment of Julie Ducie as Chief Financial Officer in February. Julie has a deep knowledge of all facets of our business having joined the company in May 2010. Julie has also served as Company Secretary since October 2010. Julie has also assumed responsibility for investor relations and has overseen a restructuring of our practices in this area.

In addition, we have continued to recruit to boost our executive ranks, as and when it makes commercial sense, and are presently seeking suitably experienced executives for our Group as it undergoes significant growth. This includes the appointment of a corporate intellectual property lawyer to assist with the management of our extensive technology patent portfolio.

Outlook

As countries around the world continue to focus on energy supply and the desire to source low carbon emitting fuels, the demand for nuclear and solar power is expected to increase significantly. Businesses and governments are looking for innovative solutions and Silex is extremely well placed to capitalise on these opportunities.

I look forward to updating you again at the Annual General Meeting in November.

Professor Stephen Burdon
Chairman

CEO's Report

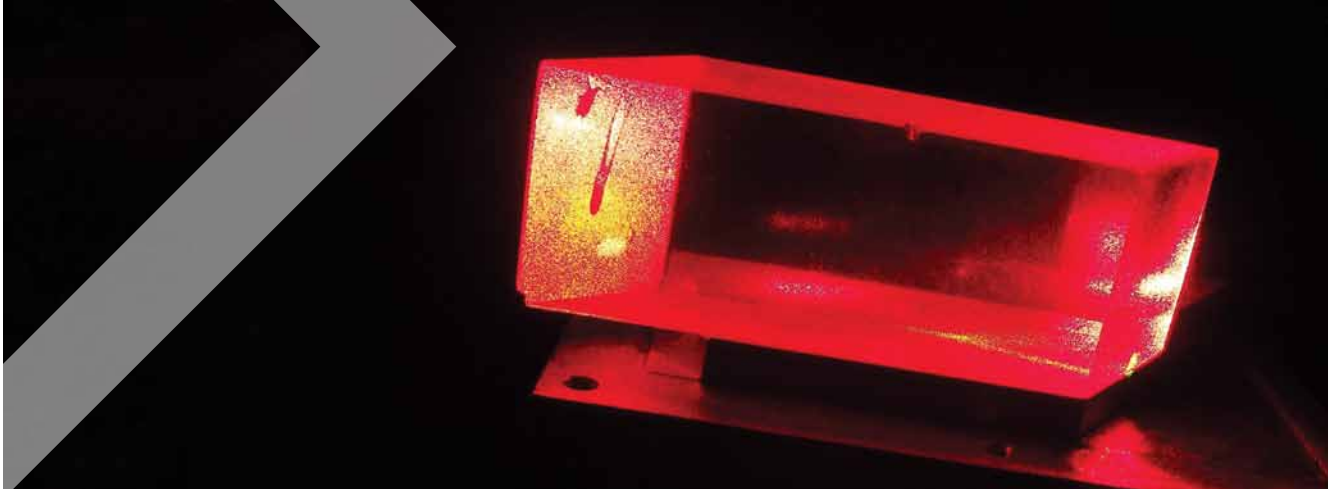


Dr Michael Goldsworthy
CEO and Managing Director

The 2012 financial year was a successful year for Silex in many respects. Significant progress was achieved in advancing the development of our globally focused technologies and we are excited by the potential of these technologies as each moves closer to key commercial milestones.

Silex is in a strong financial position with cash reserves of \$87.6 million at 30 June 2012. Investment in the development and deployment of our core technologies into target markets has accelerated, resulting in significant progress towards the commercialisation of potentially game-changing technologies. Operational updates for each of our businesses are detailed following.

Investment in the development and deployment of our core technologies into target markets has accelerated, resulting in significant progress towards the commercialisation of potentially game-changing technologies.



> SILEX Technology

Global demand for enriched uranium is expected to increase significantly over the next two decades, with the anticipated construction of a new generation of nuclear power plants. Despite the tragic events of Fukushima in Japan in 2011, the industry is moving ahead with many governments around the world recognising that nuclear power is an important potential and actual source of energy supply.

The outlook for the uranium enrichment market is therefore positive.

Significant expansion in nuclear capacity is planned by several countries including, most notably, China and India. According to the latest available data on the World Nuclear Association website¹, there are currently 433 operable reactors around the world today. Additionally, there are currently 65 nuclear reactors under construction, 160 new nuclear reactors planned with approvals, funding and/or major commitments in place and 323 more units proposed and mostly expected to be in operation within 15 years.

Against this backdrop, it is pleasing to report that the United States Nuclear Regulatory Commission (“NRC”) has recently approved the combined construction and operating licence for Global Laser Enrichment’s proposed uranium enrichment facility in Wilmington, North Carolina. The granting of this licence is an historic milestone for the industry – it is the first time a licence of this nature has been granted for a uranium enrichment facility utilising laser-based technology anywhere in the world. We are very proud of this unique achievement.

Test Loop & Engineering Design Activities

Further positive tests were achieved in the Test Loop facility during the period. These tests and ongoing activities aim to accumulate performance, operating and reliability data on the technology to assist the engineering design program for the first proposed commercial production plant.

Concurrent testing and engineering design activities will continue into next year, with the aim of providing additional information supporting the scaling up of equipment for the proposed commercial production plant.

The Path Forward

Under current plans, key criteria required to be met prior to GLE making a final decision to proceed with the construction of the first commercial production facility:

- Construction and Operating License from the NRC – received 25th September 2012.
- Completion of the commercial plant engineering design program, including the evaluation of prototype systems for commercial production; and
- Securing of conditional customer commitments.

Subject to these and other factors and activities, GLE plans to make a decision on the construction of the first full-scale commercial production facility with a capacity of up to 6 million separative work units (SWU).

¹ www.world-nuclear.org (September 2012)



› Solar Systems

During the year, a number of important operational milestones were achieved by Solar Systems.

In addition to the achievement of significant product development milestones, we connected the Bridgewater 600kW test and demonstration facility to the grid, signed our first power purchase agreement with Diamond Energy, progressed work on the Mildura project and embarked upon two new exciting projects – securing a site in Beaumont, California for the installation of a solar power facility of up to 1MW and commencing construction of a demonstration facility at the Nofa Equestrian Resort in Saudi Arabia also of up to 1MW. This development pipeline covers three of the most prospective global target markets for Solar Systems' utility-scale concentrating photovoltaic (CPV) technology, representing key regions with excellent direct normal irradiance (DNI) characteristics.

Product Development

The product commercialisation program co-funded by the Victorian Government has recently been completed, with the final report submitted to the government in September 2012.

The Manufacturing Review milestone was completed in March 2012. This involved a review of the manufacturing capabilities and processes at Solar Systems' clean-room fabrication facility in Melbourne, in which the Company's

proprietary 'Dense Array' CPV modules and receivers are manufactured.

The Product Release milestone, involving a review of the CS500 'Dense Array' Dish Systems installed at Bridgewater, was successfully completed in June 2012.

Significant progress with the development of the unique 'Dense Array' CPV technology, including performance optimisation, reliability testing and cost reductions continues to be made. Solar Systems plan to release a lower cost and improved performance product to the market during FY 2013.

Significant progress has also been achieved in the development of intellectual property associated with the 'Dense Array' technology, with the filing of four new patent applications and drafting of several more potential patent applications.

Bridgewater Demonstration Facility

The Bridgewater test and reliability facility was officially opened on 28 June 2012. This facility will underpin reliability testing leading ultimately to international certification of the technology for global deployment.

Solar System's first commercial power purchase agreement for power off-take onto the local Bridgewater grid was signed with Diamond Energy on 28 June 2012.





Michael Caton

MC of Official Opening of Bridgewater Demonstration Facility – 28 June 2012

Mildura CPV Power Station Project

Stage 1 – Pilot Plant Facility (1.5MW)

Construction activities are currently continuing on schedule and budget, with scheduled completion by the end of FY 2013.

A grid connection agreement has been signed with Powercor Australia and discussions regarding a power purchase agreement are well advanced.

Three milestones under the Commonwealth Government's Asia-Pacific Partnership on Clean Development and Climate grant program for Mildura Stage 1, being the Utility System Development Review, Planning Approval and Construction Start and Utility Development Review were completed by June 2012.

Stage 2 – Solar Power Station Project (100MW)

The Stage 2 100MW Power Station Project has received funding commitments of \$75 million from the Commonwealth Government under the Low Emissions Technology Demonstration Fund, and approximately \$35 million from the Victorian Government under the Energy Technology Innovation Strategy Fund (net of around \$15 million to be drawn down prior to Stage 2).

The planning phase continues, with construction commencement expected in FY 2014, subject to successful completion of Stage 1.

Power Station Projects and Pilot Plants

As noted above, Solar Systems is also actively pursuing offshore opportunities to demonstrate its technology through the deployment of demonstration plants.

Subject to successful completion of these smaller plants, the objective is to undertake major utility power station development projects in these offshore markets, potentially in collaboration with strategic partners.

Two off-shore pilot demonstration plants of up to 1MW capacity each are underway:

- Nofa Equestrian Resort near Riyadh, Saudi Arabia: Construction is expected to be completed in Q3 FY 2013.
- Beaumont, California USA: Construction is expected to be completed in Q2 FY 2014.

‘Our vision is to establish Solar Systems’ technology as the world’s leading utility scale solar power generating system, and the grant provided by the Victorian State Government advances our unique and innovative technology to the next scale of deployment in Mildura. The commercial prospects for Solar Systems are very exciting, and we continue to see strong domestic and overseas interest from companies seeking to develop large scale solar power station projects.’



> Translucent

Translucent continued to advance product development and industry validation activities in three target markets during the period – Power Electronics, LED lighting and CPV solar cells. It is estimated that the total accessible market across these three sectors is approximately \$1.5 billion per year and growing, providing some exciting opportunities for the business.

Product Development Activities

Power Electronics and LED Lighting

Improvements continue with the quality of Translucent's proprietary vGaN™ substrates (Gallium Nitride (GaN) epitaxial layers deposited on Rare Earth Oxide (REO) layers on silicon wafers). This iterative improvement process which includes testing by several potential customers is well advanced, producing very encouraging results with product quality substrates anticipated in FY 2013.

Translucent is currently constructing an in-house designed, fully functional multi-wafer prototype production system, which will significantly increase the volume of vGaN™ substrates that can be produced, and will enable the production of large 200mm substrates for the first time.

Ultra-High Efficiency Solar Cells

Translucent is developing a novel process to reduce the cost and increase the efficiency of advanced multi-junction solar cells used in concentrating solar photovoltaic applications (such as the technology being developed by Solar Systems). The process involves deposition of germanium-tin (GeSn) layers on to silicon wafers in a proprietary designed epi-reactor.

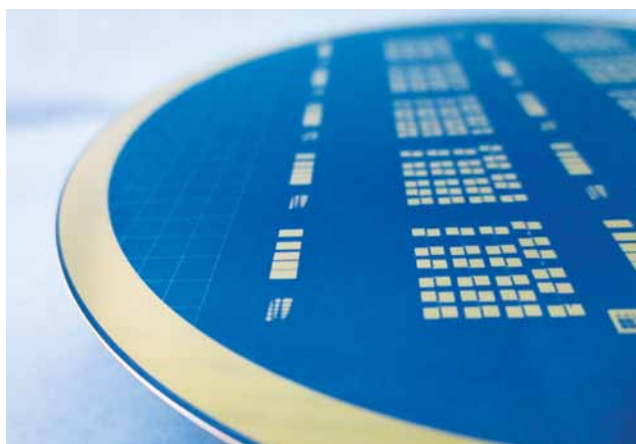
Analysis undertaken in collaboration with Arizona State University has indicated that GeSn based multi-junction cells have the potential to achieve 50 percent or more solar conversion efficiency, compared to around 43 percent for today's best multi-junction cells, and around 20 percent for conventional silicon solar cells.

Commercial Activities

Commercial activities continue to increase with potential customers in both the Power Electronics and LED industries building functional devices and conducting trials on Translucent's silicon wafer-based vGaN™ substrates with continuously improving results. This product line offers significant cost advantages compared to sapphire and other expensive substrates currently used in these industries.

Apart from realising lower substrate costs, the additional advantage for customers is that the vGaN™ substrates can be readily utilised in standard 200mm silicon wafer process plants – again with significant cost benefits.

In the GeSn substrate project outlined above, Translucent has initiated collaborative efforts with three key CPV solar cell manufacturers (Spectrolab, Emcore and IQE), and expects to be able to supply them with product-quality substrates during FY 2014. This project has received a funding grant from the Australian Solar Institute worth \$2 million over three years.



> ChronoLogic

ChronoLogic continues to work on the development of its new product range, which continues to generate significant interest in the multi-billion dollar Test and Measurement industry.

Recent breakthroughs with the core USB-inSync™ technology have generated further interest in several new applications, potentially opening up additional market segments.

ChronoLogic has embarked on an exhaustive process to secure appropriate strategic partners for its technology and/or products. Several trips have been undertaken to the US and Asia, resulting in more detailed discussions evolving on possible business transactions, including joint venturing, merger or acquisition.



> Silex Solar

A significant restructuring of Silex Solar was undertaken throughout the period, however, in light of continuing economic difficulties in the global and domestic solar flat panel industry, Silex made the difficult decision to

terminate all activities. The Sydney Olympic Park facility has now been vacated with the corporate head office relocating to the Sydney CBD.

> Outlook

We are firmly committed to progressing each of our technologies through their respective commercialisation phases and have a well-structured and focussed program for the 2013 financial year and beyond.

With the recent NRC approval of GLE's application to construct and operate a commercial uranium enrichment plant utilising our SILEX Technology, we are excited about working alongside GLE on the path to commercialisation.

We will continue to deploy capital into our Solar Systems business throughout the year as we manage and deliver on our product development targets and demonstration pilot plant projects in Saudi Arabia, the United States and Australia.

We are also confident that further progress will be made with Translucent's technology development programs, particularly

in the Power FET market and in collaboration with Solar Systems on the CPV cell development project. Finally, we will advance the process for securing appropriate strategic partners for the ChronoLogic business.

Dr Michael Goldsworthy
CEO and Managing Director

28 September 2012



Company Overview

> Mission

To become a world leader in advanced technology solutions in key strategic markets, including the nuclear industry, the solar power industry and the semiconductor / photonics industry.

> Silex Corporate Structure

Silex Systems Limited

ASX: SLX
HQ: Sydney, Australia
(The SILEX Uranium Technology)

www.silex.com.au

Solar Systems Pty Ltd

Melbourne, Australia (100% ownership)
Utility scale PV (Solar Power Stations)

www.solarsystems.com.au

Translucent Inc.

Palo Alto, USA (98% ownership)
Advanced Materials (Semiconductors & Solar)

www.translucentinc.com

ChronoLogic Pty Ltd

Adelaide, Australia (90% ownership)
Instrumentation (Test & Measurement)

www.chronologic.com.au



> Historical Background

- 1988** Silex was established by founder Dr Michael Goldsworthy as a technology research and development subsidiary of Sonic Healthcare Limited, an Australian publicly listed company.
- 1990** Silex began researching the isotope separation ideas of the co-inventors Dr Michael Goldsworthy and Dr Horst Struve.
- 1993** The unique principles of the SILEX (Separation of Isotopes by Laser EXcitation) Process were formulated.
- 1995** 'Proof of Principle' demonstration of the SILEX Process was achieved at the Company's laboratories in Lucas Heights, south of Sydney. Uranium Enrichment, the largest market for isotope separation, became the primary focus of the Company.
- 1996** Silex was divested from Sonic and set about establishing the commercial viability of the SILEX technology.
- 1998** Silex listed on the Australian Stock Exchange on 8 May 1998.
- 1999** An Agreement for Cooperation between the United States and Australian Governments was signed paving the way for continued development of the SILEX Technology for uranium enrichment, and facilitating its future transfer to the US.
- 2000** The first macroscopic demonstration of the SILEX uranium process was successfully achieved. Silex won the 2000 Australian Technology Award for Excellence in the Manufacturing and Engineering sector. Silex raised \$36 million through a share issue to assist in funding the development of the Company's technology portfolio.
- 2001** Silex entered the semiconductor materials field with the acquisition of a 30 percent interest in Translucent Inc, a Silicon Valley start-up developing silicon photonics technology. The SILEX Technology was officially "Classified" by the US and Australian Governments. The implications of classification relate mainly to security protocols.
- 2002** Silex acquired a controlling 51 percent interest in ChronoLogic Pty Ltd, Adelaide-based start-up developing novel technology for the electronics and instrumentation industries. The SILEX Uranium Enrichment Project achieved a key milestone with the first full demonstration on practical uranium enrichment using the SILEX 'Direct Measurement Facility'.
- 2003** Silex took a majority ownership in Translucent Inc, moving to ~70 percent interest (from 30 percent). Silex also increased its stake in ChronoLogic to 90 percent.
- 2004** Silex commissioned the world's first silicon laser enrichment pilot plant. Translucent secured its first US Patent for 'optical silicon' and filed patents for Silicon-on-Insulator (SOI) and dielectric substrates for the silicon chip industry.
- 2005** Translucent wins a US Defence Department DARPA Grant to help develop the 'optical silicon' technology, under DARPA's Electronics and Photonics Integrated Circuits (EPIC) Program. Subsidiary ChronoLogic wins a Federal Government "Commercial Ready Grant" for its novel 'USB-inSync™'. Data Acquisition technology (\$1.2 million for three years).
- 2006** Silex and the General Electric Company sign an exclusive Commercialisation and License Agreement for the SILEX Uranium Enrichment Technology in May, with US Government authorisations received in October.



➤ Historical Background continued

2007 Transfer of the SILEX Uranium Enrichment project to GE's Wilmington, North Carolina (USA) nuclear fuel plant was completed in the first half of 2007. Hitachi joined GE as project partner.

GE-Hitachi signs Letters of Intent for uranium enrichment services and support using the SILEX Technology with Exelon and Entergy – the two largest nuclear power utilities in the US.

Silex successfully completes a \$50 million capital raising in October.

2008 Global Laser Enrichment (GLE), formed as a subsidiary of GE Hitachi Nuclear Energy (GEH) to commercialise the SILEX Technology, announced that it had selected its Wilmington, North Carolina, headquarters site for the first potential commercial SILEX uranium enrichment facility.

GLE was notified that the U.S. Nuclear Regulatory Commission (NRC) approved a license to operate the Test Loop for the next generation SILEX laser enrichment technology.

GEH and Cameco Corporation, announced that Cameco, the world's largest uranium producer, had joined the GLE venture.

Cameco paid US\$123.8 million for a 24 percent stake in GLE. GE retained 51 percent ownership with Hitachi at 25 percent.

2009 Silex announced in June the acquisition of the Sydney Olympic Park (SOP) solar photovoltaic (PV) panel manufacturing facility — the only PV panel plant in Australia at the time.

GLE submitted a licence application to the US NRC to build and operate a commercial SILEX uranium-enrichment facility in Wilmington. In August the NRC announced it had accepted the licence application, triggering a ~30-month review process.

GLE in July announced the on-schedule start-up of the Test Loop to evaluate the next-generation SILEX uranium enrichment technology.

2010 Silex acquired the business assets of Melbourne based Solar Systems in March for \$20 million. Solar Systems' concentrating photovoltaic (CPV) technology is applicable to large utility-scale solar power generation, using its unique ultra-high efficiency 'Dense Array' technology.

2011 Silex successfully completed a capital raising of \$89 million and a share purchase plan which raised a further \$20 million (total capital raised of \$109 million).

Completion of a \$75 million Federal Government funding package for the 100MW Mildura solar power station was announced by Solar Systems in June. A \$50 million package from the Victorian Government for the same project was confirmed in 2010.

GLE and Silex announced the successful completion of the Test Loop initial measurement program in April.

2012 NRC issued the final Safety Evaluation Report and Environmental Impact Statement in relation to the proposed uranium enrichment facility planned by Global Laser Enrichment. Mandatory hearings in relation to the licence application were held in July and in September the NRC issued its decision in relation to the application. NRC approves GLE's licence application to construct and operate a commercial uranium enrichment plant utilising the SILEX Technology.

Solar Systems was awarded a grant from the Australian Solar Institute. The business also secured two sites for demonstration facilities in Beaumont, California (USA) and at Nofa Equestrian Resort in Saudi Arabia. Solar Systems opened its Test & Demonstration Facility at Bridgewater in Victoria.

Following a significant business restructure and continuing challenging trading conditions in the Australian solar panel market, Silex decided to cease the panel manufacturing operations at Silex Solar's Sydney Olympic Park plant.

Silex Systems' head office relocated to Sydney CBD in September.

Business Overview

> SILEX Technology

Business Facts

Platform

Nuclear Energy

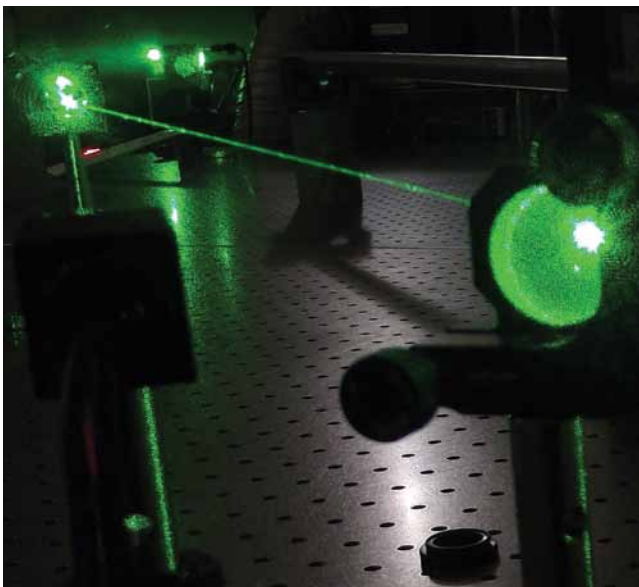
Location

Lucas Heights, NSW, Australia
Sydney, NSW, Australia

GLE: Wilmington, North Carolina,
and Oak Ridge, Tennessee, USA

Business Description

Developing the SILEX laser technology for application to uranium enrichment.



Background

After several years of pioneering R&D, the SILEX Technology was invented by Silex Systems scientists Dr Michael Goldsworthy and Dr Horst Struve in the mid 1990's. In order to facilitate the potential commercial deployment of the technology in the United States, an Agreement for Cooperation between the United States and Australia was enacted in May 2000.

In June 2001, the technology was officially Classified by the United States and Australian governments, bringing the project formally under the security and regulatory protocols of each country.

Silex signed a Technology Commercialisation and License agreement with General Electric Company (GE) in 2006 to develop and commercialise the technology to enrich uranium for use in nuclear power reactors. Since 2008, the project has been managed by GE subsidiary Global Laser Enrichment (GLE), comprising GE (51 percent) Hitachi (25 percent) and Cameco (24 percent).

Uranium Enrichment

Naturally occurring uranium must be enriched before it can be used as fuel in a nuclear reactor. Enrichment is a technically difficult process and constitutes a major component of nuclear fuel costs.

Uranium enrichment involves increasing the atomic concentration of the 'active' U-235 isotope from 0.7 percent in natural uranium to approximately 5 percent required for reactor fuel.

The two methods of uranium enrichment used to date have been Gas Diffusion (first generation) and Centrifuge (second generation). The third generation laser-based SILEX process provides much higher enrichment efficiency compared to these earlier methods, offering significantly lower costs.



➤ SILEX Technology continued

Demand for Enriched Uranium

The global demand for nuclear power and therefore enriched uranium, is expected to increase significantly over the next few decades to help meet the world's converging needs to achieve energy supply security and address climate change.

The uranium enrichment market is currently worth in excess of \$6 billion per annum (2012). It is expected that this will increase to approximately \$20 billion by 2030.

The SILEX Technology

The SILEX Technology is a unique laser-based process that has the potential to efficiently separate uranium isotopes as well as other various elements.

The SILEX Technology has a number of advantages over other uranium enrichment processes including:

- Significantly higher enrichment process efficiency.
- Relatively low operating costs.
- Considerably lower capital costs compared to centrifuge technology.

Significantly, SILEX Technology is the only third generation laser-based uranium enrichment technology under development in the world.

GE Agreement

Subject to the continued success of the program, GE agreed to fund the following activities to be undertaken in conjunction with Silex:

- **Test Loop:** This program is designed to test the performance and efficiency of engineering-scale equipment and to provide the engineering design detail for a commercial production facility.
- **Lead Cascade:** This program involves the construction and operation of the first full-scale production module after successful completion of the Test Loop. If the Lead Cascade confirms the efficiency and reliability expected of the technology at full-scale production, then GE may continue with the deployment of the first large-scale commercial enrichment plant.

In addition to funding the technology development program, GE agreed to the following milestone payments to Silex:

- US\$5 million after receipt of preliminary US government approval (payment was received in June 2006).
- US\$15 million on receipt of final government approval (payment was received in October 2006).
- US\$15 million upon successful completion of the Test Loop program and receipt of an NRC license for the commercial plant.
- US\$20 million upon successful completion/licensing of the Lead Cascade.

Additionally, Silex will receive a perpetual royalty of up to 12 percent, comprising:

- A base royalty of 7 percent of revenues generated from enrichment services using the SILEX Technology.
- An additional royalty of up to 5 percent based on the total cost of deployment whereby the lower the cost of deployment per unit production, the higher the royalty.



> Solar Systems

Business Facts

Platform

Solar Energy

Ownership

100 percent

Manufacturing

Melbourne, Victoria, Australia

Project Sites

Bridgewater, Victoria, Australia

Mildura, Victoria, Australia

Beaumont, California, USA

Tibrak, Saudi Arabia

Acquired

2010

Business Description

Solar Systems designs and manufactures ultra-high efficiency concentrating photovoltaic (CPV) power generation systems, which are ideally suited to large utility-scale deployment globally.

Background

As climate change issues bring about a paradigm shift in energy production from conventional fossil fuel sources to renewable energy sources and nuclear power, there has been increasing interest in developing solar energy technology that could be economically viable in very large-scale utility projects in the order of 10's to 100's of megawatts (MW's) electrical output.

Silex acquired the assets of Melbourne based Solar Systems including the technology intellectual property and patents, a new manufacturing facility in Abbotsford, Melbourne, and a large-scale test and demonstration facility in Bridgewater, central Victoria in 2010.

CPV Technology

Solar Systems utilises a novel approach known as the 'Dense Array' concentrating photovoltaic (CPV) technology, whereby low-cost large-area parabolic mirrors reflect the sunlight onto a small-area solar conversion module, concentrating the sunlight to the equivalent of approximately 500 to 1000 suns.

Key elements in the Solar Systems Technology



Manufacturing

Melbourne



CPV Module

6cm x 6cm



CPV Converter

0.25m²



CS500 Dish

15m Diameter

➤ Solar Systems continued

The principle advantages of Solar Systems' Dense Array CPV technology are:

- Smaller area module dramatically decreases the costs associated with PV material, thereby permitting use of more expensive but much higher efficiency solar cells.
- Compact 'Dense Array' CPV module can be actively cooled, decreasing both the power losses and lifetime performance degradation caused by extended operation at higher temperature.
- Ground-mounted dish mirror systems are relatively cheap and are controlled with proprietary technology to track the sun throughout the day, increasing the total solar power produced each day compared to non-tracking systems.
- The technology can be easily upgraded – replacing an older Dense Array receiver with a newer more powerful model.
- Currently cells have approximately 40 percent solar conversion efficiency.
- Future cell designs are projected to reach over 50 percent efficiency.



Commercialisation and Project Deployment

Solar Systems is undertaking a phased approach to the commercialisation of its Dense Array CPV Technology:

Phase 1 Technology Commercialisation Program (Completed September 2012)

- Bridgewater (Victoria, Australia) 600kW Test and Reliability Facility (completed June 2012)

Phase 2: Small Scale Deployments (Demonstration Plants)

- Mildura Stage 1 (Victoria, Australia): 1.5MW (Expected completion mid-CY2013)
- Nofa (Tibrak, Saudi Arabia): 1.0MW (Expected completion early-CY2013)
- Beaumont (California, USA): up to 1.0MW (Expected completion late-CY2013)

Phase 3: Large Scale Deployment

- Mildura Stage 2 (Victoria, Australia): 100MW
- Potentially several intermediate scale plants (approximately 10 - 20MW each)

Phase 4: Open Market Deployment

- Global Market



> Translucent

Business Facts

Platform

Advanced Semiconductor Materials

Ownership

98 percent

Location

Palo Alto, California, USA

Acquired

2001

Business Description

Translucent is developing a unique family of 'rare earth oxide' (REO) semiconductor materials which enable a new class of low-cost silicon wafer-based substrates, with commercial applications in the photonics, semiconductor and solar PV industries.

Background

Translucent has been developing advanced materials, initially based on rare earth oxides (REOs) in its state-of-the-art development facility in Palo Alto, California, since 2001. The initial research and development activities focused on applications in the photonics and semiconductor industries.

By carefully depositing REOs onto well-established semiconductor materials such as silicon, and making them compatible with other semiconductor materials and industrial semiconductor processes, the original photonics applications have been expanded to include photovoltaics and power electronics, with a common theme of using the REOs to develop low cost "on-silicon" solutions.

REO Technology – Commercial Applications

Several industries are forced to use high-cost non-silicon substrates for high-end semiconductor device applications.

For example, high cost substrates such as germanium; sapphire and silicon carbide are commonly used for fabrication of many high powered semiconductor devices. Translucent's innovative REO platform could enable these industries to use large low-cost silicon wafers, potentially overcoming traditional barriers (such as wafer bowing and cracking), in the highly prized transition to silicon wafers.

Translucent is commercialising this technology with a focus on applications in three key markets:

- LED Lighting substrates
- Power Electronics devices
- CPV Solar cell substrates

Commercial Progress

LED Lighting substrates

Translucent has engaged with customers in the USA and Asia, with strong interest to test Mirrored-Si™ wafers for LED fabrication. Repeat commercial orders for sample evaluations (up to 150mm diameter wafers) have been filled. Work continues for the development of commercial-grade substrates and full validation by commercial customers.

Power Electronics devices

Translucent has engaged with customers in the USA, Europe and Asia with strong interest for 100mm and 150mm vGaN™ substrates for 'Field Effect Transistor' (FET) device fabrication and testing. Additionally, Translucent is developing higher margin vFET™ substrates for evaluation and customer validation.

CPV Solar Cell substrates

The application of Translucent's REO-based 'virtual germanium' (vGe™) substrates may potentially result in significant cost reductions for ultra-high efficiency multi-junction solar cells, currently operating at around 40 percent efficiency. Translucent's initial engagement in the PV solar industry has been with customers in the USA and Europe. The solar application project has received a \$2 million grant from the Australian Solar Institute, which will help accelerate the commercialisation of this product.



➤ ChronoLogic

Business Facts

Platform

Advanced Materials & Instrumentation

Ownership

90 percent

Location

Adelaide, South Australia, Australia

Acquired

2002 (51 percent)

2005 (90 percent)

The target markets for ChronoLogic's initial range of products are quite considerable, amounting to several billions of dollars revenue annually. They include (in order of importance):

- Test & Measurement market
- Data Acquisition market
- Precision Timing market

ChronoLogic has recently developed a new range of instruments for the Test and Measurement industry called 'Distributed Virtual Instrumentation' (DVI), incorporating its 'USB-inSync™' technology.

ChronoLogic is also pioneering new USB-based connectivity standard called 'UXI' to extend cross-platform interoperability from existing technology to the 'USB-inSync™' platform.

Business Description

ChronoLogic is devoted to providing the world's best precision timing systems and synchronized measurement instruments in a universal distributed platform, extending the capabilities of conventional USB with its patented 'USB-inSync™' technology.

Background

In September 2002, Silex acquired a 51 percent interest in ChronoLogic and, in 2005, increased its interest to 90 percent as a result of a restructuring of the business.

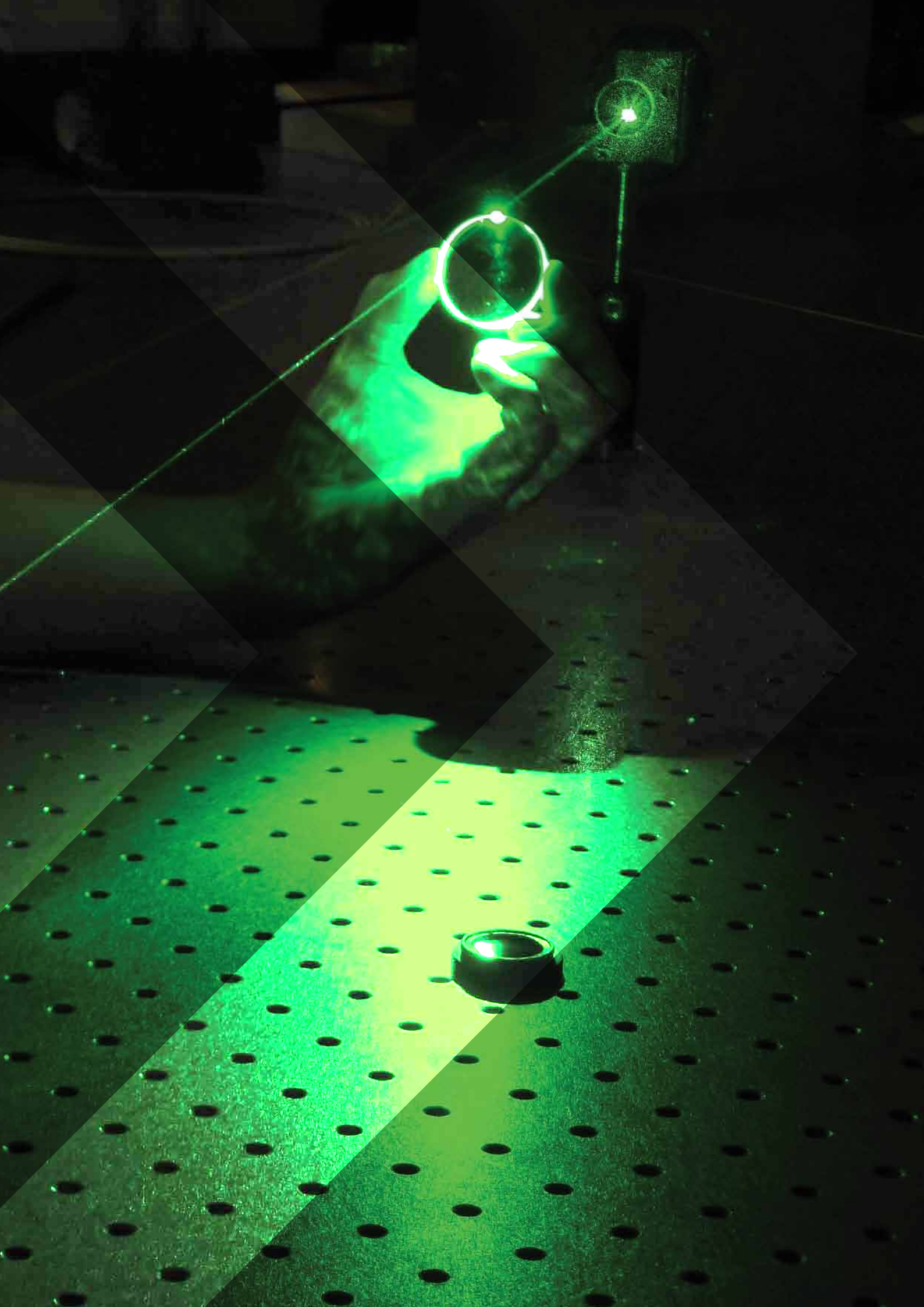
As part of the restructuring, ChronoLogic shifted its focus from the depressed optical communications market to the growing data acquisition and instrumentation markets, which continues to be its predominant commercialisation focus.

ChronoLogic's Technology

Virtually every consumer product we use today has been manufactured and tested in plants and laboratories using data acquisition and control systems, and test and measurement instrumentation. Applications fall within the Test, Control and Automation areas, including the semiconductor, automotive and mining industries through to medical diagnostics and food processing.

A large number of these applications require synchronous measurements and acquisition of data, and the ability to control processes and/or events with precise relative timing. These requirements are addressed for the first time on the low-cost USB-based instrumentation platform by ChronoLogic.

ChronoLogic's USB-inSync™ technology transforms the ubiquitous USB connection from a simple consumer connectivity data-bus to an instrumentation grade interface with class-leading synchronisation capabilities.





Concise Financial Report for the year ended 30 June 2012

**SILEX SYSTEMS LIMITED
& ITS SUBSIDIARIES**

ABN 69 003 372 067



Silex

Directors' Report

Your directors present their report on the consolidated entity consisting of Silex Systems Limited (Silex or the Company) and the entities it controlled at the end of, or during the year ended 30 June 2012.

1. Directors

The following persons were directors of Silex Systems Limited during the whole of the financial year and up to the date of this report:

Prof S W R Burdon
Mr R P Campbell
Dr C S Goldschmidt
Dr M P Goldsworthy
Mr C D Wilks

Dr L M McIntyre was appointed a director on 2 July 2012 and continues in office at the date of this report.

2. Principal Activities

During the year the principal continuing activities of the consolidated entity consisted of:

- (a) SILEX Technology: commercialisation of the Company's foundation technology – the laser isotope separation process for uranium enrichment known as the 'SILEX Technology';
- (b) Solar Systems: research, development and commercialisation activities for the unique 'Dense Array' concentrated photovoltaic system being developed for utility-scale solar power stations by wholly-owned subsidiary Solar Systems Pty Ltd;
- (c) Translucent: research, development and commercialisation of novel 'Rare Earth Oxide' materials for application to low cost LED lighting devices, power electronics technology and ultra-high efficiency solar energy conversion materials. These activities are being undertaken by Translucent Inc, a California based company in which Silex has a 98% fully diluted interest; and
- (d) Chronologic: development and commercialisation of data acquisition equipment, and test and measurement instrumentation utilising the proprietary 'USB-inSync™' technology developed by subsidiary ChronoLogic Pty Ltd, in which Silex has a 90% interest.

The Australian PV panel market continued to deteriorate during the year and led to a decision to cease Silex Solar's manufacturing operations at Sydney Olympic Park. Subsequent to this, a decision to cease all activities was made.

3. Dividend

No dividend payments were made during the year. No dividend has been recommended or declared by the Board.

Directors' Report

4. Review of operations and activities

Trading Results

A summary of consolidated revenue and results is set out below:

	2012	2011
	\$	\$
Revenue from continuing operations	9,438,691	9,924,566
(Loss) before income tax expense	(17,982,777)	(12,731,789)
Income tax expense	-	-
Net (loss) from continuing operations	(17,982,777)	(12,731,789)
Net (loss) from discontinued operation	(18,987,847)	(18,749,977)
Net (loss) for the year	(36,970,624)	(31,481,766)
(Loss) is attributable to:		
Owners of Silex Systems Limited	(36,792,005)	(31,301,061)
Non-controlling interests	(178,619)	(180,705)
	(36,970,624)	(31,481,766)

Comments on the operations and the results of those operations are set out below:

The increased loss for the period was mainly due to:

- a) Solar Systems' segment loss increased from \$5.7 million in the prior year to \$10.8 million in the current year as the business ramped up its product development and commercialisation programs. During the year, Solar Systems announced it had built and commissioned Australia's largest concentrating photovoltaic (CPV) solar power station in Bridgewater, central Victoria. Solar Systems has also commenced construction of a demonstration CPV solar power station in Mildura, north-west Victoria.
- b) The loss for the period was also impacted by the decision to cease Silex Solar's manufacturing operations and close the plant at Sydney Olympic Park. Silex Solar's loss from the discontinued operation increased by \$0.2 million to \$19.0 million. The current year loss included the impact of further reductions in selling prices and costs associated with the closure including the negotiated lease settlement, dismantling and decommissioning, further write downs of fixed assets and inventory and redundancy payments.

Interest income increased from \$4.6 million to \$5.6 million in the current year. Interest income increased as a result of higher average cash/term deposit holdings in the current year as a consequence of the capital raising completed mid-financial year 2011.

Directors' Report

Details of segment results are detailed below:

Silex Systems

The segment result for the parent company Silex Systems Limited, was a profit of \$2.3 million compared to a profit of \$1.1 million in the prior year. The result in the current year was impacted by higher income as Silex's average cash / term deposit balances were higher in the current year as a consequence of the capital raising completed mid-financial year 2011.

Translucent

The segment result for Translucent, based in the United States, was a loss of \$5.4 million compared to a loss of \$4.4 million in the prior year, as development activities increased.

ChronoLogic

The segment result for ChronoLogic was a loss of \$1.7 million compared to a loss of \$1.8 million in the previous year.

Solar Systems

The segment result for Solar Systems was a loss of \$10.8 million compared to a loss of \$5.7 million for the prior year, as the business ramped up its product development and commercialisation programs. During the year, Solar Systems announced it had built and commissioned Australia's largest concentrating photovoltaic (CPV) solar power station in Bridgewater, central Victoria. Solar Systems has also commenced construction of a demonstration CPV solar power station in Mildura, north-west Victoria. Sites for demonstration plants (of up to 1MW each) have been secured in Beaumont California, USA, and at the Nofa Resort near Riyadh, Saudi Arabia. Manufacturing and construction has commenced for these plants, which are the first off-shore demonstration facilities using the CS500 Dense Array Dish CPV System.

Discontinued operation

Silex Solar

The loss for the period was also impacted by the decision to cease Silex Solar's manufacturing operations and close the plant at Sydney Olympic Park. The loss from this discontinued operation increased by \$0.2 million to \$19.0 million. The current year loss included the impact of further reductions in selling prices and costs associated with the closure including the negotiated lease settlement, dismantling and decommissioning, further write downs of fixed assets and inventory and redundancy payments.

5. Earnings per share

	2012	2011
	cents	cents
Basic earnings per share from continuing operations	(10.5)	(7.8)
Diluted earnings per share from continuing operations	(10.5)	(7.8)
Basic earnings per share	(21.6)	(19.6)
Diluted earnings per share	(21.6)	(19.6)

Directors' Report

6. Significant changes in state of affairs

The significant changes in the state of affairs of the consolidated entity during the course of the year included the Company's announcement in August 2011 to cease manufacturing solar cells at Silex Solar. In May 2012, Silex Solar announced the full closure of the manufacturing plant at Sydney Olympic Park. Subsequent to this, a decision was made to cease all activities at Silex Solar.

7. Matters subsequent to the end of the financial year

On 25 September 2012, the US Nuclear Regulatory Commission announced that it had issued a combined construction and operating license to Global Laser Enrichment, the subsidiary of GE responsible for commercialising the SILEX Technology (refer to Section 8: 'Silex Systems' below). Other than this, the directors are not aware of any matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years.

8. Likely developments and expected results of operations

Silex is a technology company with interests in a number of technology development projects both in Australia and overseas. Silex also has manufacturing operations through its subsidiary Solar Systems Pty Ltd at Abbotsford, Victoria. The Company's future prospects remain dependent on the outcomes of the various technology development programs, including the Company's success in ultimately commercialising those technologies.

The Group's segments are summarised below:

Silex Systems

Silex invented a novel method for enriching uranium using lasers in the mid-1990's, and after further development activities in Australia, is currently supporting the commercialisation of the SILEX Technology in Wilmington, North Carolina, USA under a Technology Commercialisation and License Agreement with Global Laser Enrichment (GLE – a venture owned by GE (51%), Hitachi (25%) and Cameco (24%)). Test Loop operations have continued during the year accumulating performance, operating and reliability data to assist the engineering design of the first commercial plant. The successful completion of the Test Loop program and the grant of a construction and operating license (issued 25 September 2012 – refer to Section 7) from the US Nuclear Regulatory Commission, would trigger a milestone payment of US\$15 million to Silex.

Translucent Inc

Silex has a 98% fully diluted interest in Translucent Inc, a California based company which has been researching and developing advanced semiconductor materials called "Rare Earth Oxides". These unique materials may generate commercial outcomes in key areas such as low cost LED lighting, power electronics and ultra-high efficiency solar cells.

These technologies continue to be developed. Potential customers in both the power electronics and LED industries are continuing trials with Translucent's substrates with steadily improving results being achieved. Future commercial prospects for the Translucent technology will depend on continued success with the technical program, third party validation of the technologies, protection of Intellectual Property including Patents, and successful implementation of commercialisation strategies.

ChronoLogic

Silex holds a 90% interest in ChronoLogic, which continues to develop a range of innovative instrumentation products incorporating its unique patented 'USB-inSync™' technology, including the new Distributed Virtual Instrumentation (DVI) product range. ChronoLogic has embarked on an exhaustive process to secure appropriate strategic partners for its technology and/or products. Detailed discussions on possible business transactions, including joint venturing, merger or acquisition are continuing.

Directors' Report

Solar Systems

Significant progress with the development of Solar Systems' unique concentrating photovoltaic (CPV) 'Dense Array' technology and associated intellectual property has been made in the last 12 months. During the year, Solar Systems announced it has built and commissioned Australia's largest CPV solar power station in Bridgewater, central Victoria. Solar Systems has also commenced construction of a 1.5MW demonstration CPV solar power station in Mildura, north-west Victoria. Sites for off-shore demonstration plants (of up to 1MW each) have also been secured in Beaumont California, USA and at the Nofa Resort near Riyadh, Saudi Arabia.

9. Share options

Shares under option

Unissued ordinary shares of Silex Systems Limited under option at the date of this report are as follows:

Number of options	Issue price of shares	Grant date	Expiry date
100,000	\$5.81	24th December 2007	23rd December 2012
190,000	\$7.06	15th July 2008	14th July 2013
25,000	\$3.63	7th October 2008	6th October 2013
50,000	\$3.54	28th November 2008	27th November 2013
50,000	\$3.51	5th December 2008	4th December 2013
50,000	\$4.19	31st March 2009	30th March 2014
205,000	\$5.88	29th June 2009	28th June 2014
205,000	\$6.13	11th January 2010	10th January 2015
60,000	\$5.99	19th March 2010	18th March 2015
690,000	\$5.24	27th May 2010	26th May 2015
540,000	\$4.65	30th July 2010	29th July 2015
165,000	\$5.28	15th October 2010	14th October 2015
455,000	\$2.92	5th July 2011	4th July 2016
1,469,242	\$2.04	8th December 2011	7th December 2016
75,000	\$3.61	16th March 2012	15th March 2017
4,329,242			

No option holder has any right under the option to participate in any other share issue of the Company or of any other entity. Between balance sheet date and the date of this report no options were granted.

Shares issued on the exercise of options

No ordinary shares of Silex Systems Limited were issued during the year ended 30 June 2012 on the exercise of options granted under the Silex Systems Limited Employee Share Option Plan.

Between balance date and the date of this report, no options were exercised.

Directors' Report

10. Information on Directors

a) Directors' profiles

Professor Stephen Burdon

MBA BSC(Hons) FAICD, FAIM, FIEAust
Chairman - Non-executive (director since 2011)
Age 69

Experience and expertise

Prof Burdon has extensive management experience. He previously held the position of Managing Director of OTC, Group Managing Director of Telstra, and Managing Director of British Telecom Asia Pacific. In addition, Prof Burdon has experience as a non-executive director on over a dozen private and public company boards in Australia, NZ, India and Japan. He is currently a Visiting Professor of Management at the University of Technology Sydney and CASS Business School London. Prof Burdon was appointed Chairman of the Board on the 28 February 2012.

Other current directorships

None

Former directorships in last 3 years

Non-executive director of Transfield Services Limited 2000 to July 2010.

Special responsibilities

Member of audit committee (Chairman from 30 September 2011 to 27 February 2012)

Chairman of remuneration committee (Member to 30 September 2011)

Mr Peter Campbell

FCA, FTIA, FAICD
Non-executive (director since 1996)
Age 67

Experience and expertise

Mr Campbell has been an independent and non-executive director since 1996 and held the position of Chairman for the period October 2010 to February 2012. He is a Chartered Accountant with his own practice based in Sydney and is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia. Mr Campbell is also a registered Company Auditor.

Other current directorships

Non-executive director of Sonic Healthcare Limited since 1993 and Chairman since October 2010 and non-executive director of QRxPharma Limited since April 2007.

Former directorships in last 3 years

None

Special responsibilities

Chairman of audit committee (Member to 27 February 2012)

Member of remuneration committee

Directors' Report

Dr Colin Goldschmidt

MB BCh, FRCPA, FAICD

Non-executive (director since 1992)

Age 58

Experience and expertise

Dr Goldschmidt has extensive experience in listed public company management, operational company leadership, international business operations and healthcare and scientific markets in Australia, Europe and the USA. He is the CEO of Sonic Healthcare Limited, a global laboratory services company.

Other current directorships

Managing Director of Sonic Healthcare Limited since 1993.

Former directorships in last 3 years

None

Special responsibilities

Member of audit committee (Chairman between 27 October 2010 and 30 September 2011)

Member of remuneration committee to 30 June 2012 (Chairman between 27 October 2010 and 30 September 2011)

Dr Michael Goldsworthy

BSc (Hons), MSc, PhD, FAIP

Managing Director/CEO – Executive (director since 1992)

Age 54

Experience and expertise

Dr Goldsworthy received his PhD in Physics from The University of New South Wales. Prior to starting with Silex Systems Limited in 1988, Dr Goldsworthy was a member of the University's academic staff and was involved in a number of laser-associated research projects. Dr Goldsworthy is the founder of the Company and has been the driving force behind the SILEX uranium enrichment project, and the establishment of the consolidated entity's extensive interests in solar, semiconductor and photonics technologies. Dr Goldsworthy was awarded the Royal Society of NSW's James Cook Medal for 2009 which recognises outstanding contributions for science and human welfare.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Managing Director

Directors' Report

Dr Lisa McIntyre

BSc (Hons) PhD MAICD

Non-executive (director since July 2012)

Age 47

Experience and expertise

Dr McIntyre was appointed to the Board in July 2012. She is a company director for various companies including HCF, I-MED Network Pty Ltd, the Garvan Institute of Medical Research and Tutoring Australasia. Prior to 2011, Lisa was a senior partner in global strategic firm L.E.K. Consulting for 19 years and led L.E.K.'s Asia Pacific Life Science and Technologies practice in Sydney where she advised healthcare companies and organisations on strategy, commercialisation and performance issues.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Member of audit committee

Member of remuneration committee

Mr Christopher Wilks

BComm, FAICD

Non-executive (director since 1988)

Age 54

Experience and expertise

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private investment bank and has held positions on the board of a number of public companies.

Other current directorships

Executive director of Sonic Healthcare Limited since 1989.

Former directorships in last 3 years

None

Special responsibilities

Business development and corporate strategy

b) Directors' interests in shares and options as at the date of this report

Director's name	Class of shares	No. of shares	Share options
Prof S W R Burdon	Ordinary	20,000	–
Mr R P Campbell	Ordinary	1,354,823	–
Dr C S Goldschmidt	Ordinary	2,525,937	–
Dr M P Goldsworthy	Ordinary	5,849,533	1,102,207
Dr L M McIntyre	Ordinary	–	–
Mr C D Wilks	Ordinary	2,794,021	367,035

Directors' Report

11. Remuneration report

Message from the Remuneration Committee Chairman

Dear Shareholder,

I am pleased to introduce Silex Systems' Remuneration Report for the year ended 30 June 2012.

Report overview

The Board has endorsed our approach to the Remuneration Report this financial year in order to demonstrate the nature and purpose of changes to the remuneration strategy. Our objective is to provide greater clarity of our remuneration practices, enabling shareholders to assess:

- How we have improved the linkages between remuneration, execution of the Group's strategy and Group performance; and
- How the initiatives undertaken this year and those proposed over the coming years respond to the concerns that were raised by shareholders in the vote on the 2011 remuneration report.

The Remuneration Report contains disclosures as required by Australian regulations and additional disclosures relating to the structure and approach to remuneration at Silex.

Improvement initiatives

Our business model requires a top calibre executive team with both the leadership skills to manage four businesses across different geographies, as well as the technical expertise to manage and direct technical, scientific and regulatory matters of varying complexity in each business. The executive remuneration strategy is intended to ensure we have in place remuneration policies and programs that balance the following:

- Based upon a globally consistent framework with some local flexibility to enable us to hire, retain and motivate the requisite executive and specialised talent in each of the markets in which we operate;
- Provide our key talent with incentive opportunities that have a clear alignment and appropriate balance between remuneration outcomes and short and long term company performance including the accomplishment of major strategic imperatives. These performance based awards need to be delivered through a mix of cash and equity to provide executives with a sense of ownership in the business and an appropriate level of reward for over-achievement. In this context, it should be noted some of our businesses compete for executive and specialised talent with start-up entities where equity is a key element of a competitive remuneration package;
- Compliance with relevant regulatory and legislative requirements in Australia and with global good governance practices; and
- The desire to be transparent in the disclosures and explanations associated with our remuneration practices while acknowledging the commercial sensitivity of some of the strategic targets and innovations upon which an executive's performance is assessed and incentive outcomes determined.

In response to feedback from shareholders and having regard to the above, we have implemented a program to review Silex's remuneration strategy.

As you will note by reading the Remuneration Report, the Company is modifying the method and manner in which its Board and senior executives are remunerated. This will be achieved by adjusting the alignment between company performance and executive remuneration outcomes.

Directors' Report

Over the course of the 2012 financial year, the Remuneration Committee has focussed its attention on improving the design and governance of the Long Term Incentive Plan (LTIP) and on developing an associated Share Rights Plan. This is our first step in better linking the risks and rewards of shareholders to those of Executives. The proposed LTIP, which is subject to shareholder approval at our 2012 Annual General Meeting is based on rewarding executive personnel with performance rights that are linked to Board approved hurdles which must be met prior to eligibility. Previously, incentives were awarded under our Employee Share Option Plan. This is our first step in better linking the risks and rewards of shareholders to those of executives. It is our view that offering performance rights is consistent with market practice, employee expectations and less dilutive to shareholders as the same remuneration value can be delivered with smaller allocation of rights than options.

Throughout the 2012 financial year, the Remuneration Committee has also undertaken a review of our Short Term Incentive Plan (STIP), which currently operates to reward staff for the achievement of certain predetermined targets. The value of these performance based STIP incentive outcomes are currently delivered through a mix of certain predetermined targets and are currently delivered through a mix of cash, options or escrow (restricted) equity. The proposed Share Rights Plan will also enable the award of STIP Deferred Rights in addition to, or instead of options and escrow equity. Over the coming years, we will be focussing our attention on restructuring this plan and its delivery, to ensure that the Group STIP will provide alignment between remuneration and Company performance, while also being market-based in its operation. For some key employees, the STIP needs to include an assessment of strategic accomplishments, including innovations and commercialisation initiatives that do not result in an immediate 'bottom line' impact but may be the essence of our future growth.

We need to ensure our remuneration policies reinforce Silex's future strategies and reward performance for achieving these strategies and believe that our current approach to remunerating our Executives with a market-based remuneration structure with an appropriate at-risk component appropriately aligns Executive and shareholder risk and rewards. Our review of the STIP and LTIP is also to consider the "flow" of annual award grants and to ensure we have in place controls to manage the overall total equity committed to equity based incentives and employee share acquisition. This will take into account shareholders perspectives and good governance guidelines issued by investor groups such as the Australian Council of Super Investors (ACSI).

Executive changes

During the past financial year there has been some change to our executive team. Ms Julie Ducie, our previous Group Financial Controller and Company Secretary, was promoted to the dual role of Chief Financial Officer (CFO) and Company Secretary effective 28 February 2012. Ms Ducie's remuneration details are set out in this report.

Further details on our remuneration approach and the remuneration for the 2012 financial year are set out in this Remuneration Report. We hope we have shown demonstrated enhancements to our remuneration practices and look forward to answering any questions you may have at our Annual General Meeting in November 2012.



Professor Stephen Burdon
Chairman, Remuneration Committee

Directors' Report

Remuneration Report

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Directors' Report

11.1 Introduction

The 2012 Silex Remuneration Report has been prepared in accordance with the requirements of section 300A of the *Corporations Act 2001* and accounting standard requirements and applies to Key Management Personnel (KMP) of the Group. KMP are defined as persons who have authority and responsibility for planning, directing and controlling the activities of the Group. KMP for the 2012 financial year are as follows:

Name	Position
Non-executive and executive directors	
Prof S W R Burdon	Chairman and non-executive director
Mr R P Campbell	Non-executive director
Dr C S Goldschmidt	Non-executive director
Dr M P Goldsworthy	Managing Director/CEO – Executive director
Dr L M McIntyre	Non-executive director
Mr C D Wilks	Non-executive director
Other key management personnel	
Ms J E Ducie	CFO/Company Secretary (appointed CFO 28 February 2012)
Mr B J Spillane	Subsidiary Company Secretary (until 12 September 2011)

Details and disclosures relating to KMP who held office in prior financial years have been included in this report as required.

11.2 Remuneration Governance

11.2.1 Board oversight

The Silex Board is ultimately responsible for ensuring that the Group's remuneration structure is equitable and aligned with the long term interests of shareholders. The Board and its advisors are independent of Management when making decisions affecting employee remuneration.

Consistent with this responsibility, the Board has established a Remuneration Committee to assist it in making determinations. The Remuneration Committee is comprised solely of non-executive directors, all of whom are considered by the Board to be independent directors.

In order to ensure that it is fully informed about the Group's remuneration strategies, structures and decision making processes, the Remuneration Committee meets regularly with Management in attendance by invitation.

Directors' Report

11.2.2 Remuneration Committee structure

The Committee is a committee of the Board currently comprised of independent, non-executive directors. Its role is to make recommendations to the Board regarding the Group's remuneration policies and practices, including those applicable to the Group's KMP.

Members of the Remuneration Committee as at the date of this report were as follows:

<i>Committee members</i>	Prof S Burdon – Chairman Mr P Campbell Dr L McIntyre (appointed 2 July 2012)
<i>Committee secretary</i>	Ms Julie Ducie (appointed 6 August 2012)
<i>Number of meetings in FY12</i>	3
<i>Other individuals who regularly attended meetings</i>	Dr M Goldsworthy – MD/CEO Ms J Ducie – CFO/Company Secretary – from February 2012

The role of the Remuneration Committee is to:

- Review and recommend to the Board the appropriate remuneration policies and practices for the Group, and its specific application to KMP, as well as the general application to all employees;
- The determination of levels of reward to the MD/CEO and other KMP;
- Providing guidance to the Chair of the Board on evaluating the performance of the MD/CEO;
- Review and make recommendations to the Board regarding the remuneration of non-executive directors; and
- Communication with shareholders and other key stakeholders on remuneration policy.

11.2.3 Use of remuneration consultants

The Remuneration Committee seeks and considers advice from independent remuneration consultants and external advisers when required. Such advice will typically cover non-executive director remuneration, senior executive remuneration and advice in relation to equity incentive plans. Remuneration consultants are engaged by and report directly to the Remuneration Committee.

The Silex Board's Remuneration Committee approved the engagement of Aon Hewitt to provide remuneration recommendations regarding the MD/CEO and advice on matters to be addressed in relation to his existing contractual arrangements, KMP remuneration benchmark review, and design of Silex's proposed long term incentive plan (LTIP). Aon Hewitt has provided their recommendations in relation to this and the coming financial year.

The Committee is satisfied with the advice received from Aon Hewitt regarding the above services, and is free from undue influence from the KMP to whom the advice relates, as the relevant criteria as established by the Board have been satisfied. The following arrangements were made to ensure that the remuneration recommendations were free from undue influence from any members of the KMP:

- Aon Hewitt was engaged by, and reported directly to, the chair of the Remuneration Committee. The agreement for the provision of remuneration consulting services was executed by the chair of the Remuneration Committee under delegated authority on behalf of the Board;
- The report containing the remuneration recommendations was provided by Aon Hewitt directly to the chair of the Remuneration Committee; and

Directors' Report

- Aon Hewitt was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, Aon Hewitt was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the KMP.

The remuneration recommendations were provided to Silex as an input into decision making only. The Remuneration Committee considered the recommendations along with other factors in making its remuneration decisions.

The total fees paid to Aon Hewitt for the remuneration recommendations were \$26,924. There were no other services provided by Aon Hewitt for the financial year ended 30 June 2012.

11.3 Response to shareholder concerns and revised remuneration approach

The Remuneration Committee is aware that there are various shareholder concerns with the remuneration of KMP, non-executive directors and the special remuneration arrangements in place for Mr Chris Wilks. Issues raised by shareholders in relation to the 2011 Remuneration Report, resulted in a "no" vote of 34% of the shares voted at the Annual General Meeting being recorded in relation to the adoption of this report. The 34% "no" vote was generated from a pool of 65% of the Company's shareholders who registered to vote on the report.

Recognising the varying views on this issue but nonetheless cognisant of its importance, in the 2012 financial year the Remuneration Committee undertook to commence a process of reviewing the remuneration of senior executives.

The first part of this process related to the establishment of a proposed LTIP, and in this regard the Remuneration Committee engaged Aon Hewitt to assist with the development of a suitable plan. The proposed LTIP which is subject to shareholder approval at our 2012 Annual General Meeting is anticipated to operate alongside the existing Silex Systems Limited Employee Share Option Plan and other STIP if approved by shareholders.

We have also implemented a freeze on the remuneration paid to the MD/CEO, and the non-executive directors for the 2013 financial year.

11.3.1 Quantum and structure of senior executives' remuneration

Shareholders also raised concerns in the prior year around the changes to the remuneration structure for the MD/CEO. A comprehensive remuneration review was therefore conducted in the 2012 financial year to ensure the overall executive remuneration structure supports the Group's business goals by enabling it to attract, retain and appropriately reward senior executives of the calibre necessary to deliver expected performance, and ensuring that it is suitably market tested.

In direct response to Shareholder feedback received in late 2011, the Remuneration Committee were committed to ensuring a high-quality partner was engaged to assist with the fixed remuneration review process. In this regard and due to their expertise in human capital matters, Aon Hewitt were also selected to assist the Remuneration Committee with this process.

Directors' Report

11.3.2 Quantum of non-executive directors' remuneration

At the 2011 Silex Annual General Meeting (AGM), the directors sought and received shareholder approval for an increase to the directors' annual aggregate fee pool to \$750,000. As was stated in the Explanatory Memorandum accompanying the 2011 Notice of Meeting, the increase was sought so as to immediately increase the directors' fee pool given that an increase had not been effected since 1 July 2006. It was also to allow flexibility to appoint additional new directors in the future and to continue to remunerate non-executive directors for specialist consulting arrangements. The level of directors' fees has and always will be subject to rigorous market-based testing and advice from independent remuneration consultants.

The resolution was passed at the AGM, notwithstanding a 26% "no" vote from 62% of the Company's shareholders who registered to vote.

In the 2011 financial year, independent data was obtained by the Remuneration Committee to market test the value of the directors' fees. This data suggested that a rise in fees was warranted and that a greater spread between the fees paid to the Chairman and those paid to the non-executive directors was required to better reflect the relative time commitments of each.

11.3.3 Special remuneration arrangements for consulting services provided by Mr Chris Wilks

Approval was sought at the 2011 AGM for an award of options to Mr Chris Wilks. The options proposed were to vest in 3 years and have an exercise price using the Volume Weighted 5 day Average Market Price (5 day VWAP) plus five cents for Silex Systems Limited shares. When requesting approval of this special remuneration arrangement, the Board remained conscious of ASX Corporate Governance Principle 8 relating to non-executive director remuneration however, considered it appropriate that Mr Wilks be recognised through a reward arrangement aligned to his accomplishments and contributions on strategic business development actions. Since the early days of Silex's establishment, Mr Wilks has provided financial oversight and was a key contributor in complex corporate development initiatives. He continues to bring his extensive expertise to the commercialisation and corporate development of Silex's diverse interests.

The resolution was passed at the AGM, notwithstanding a 26% "no" vote from 56% of the Company's shareholders who registered to vote. In view of this and the abovementioned Corporate Governance Principle, the Board agreed not to allocate Mr Chris Wilks an equity award for the 2013 fiscal year.

11.4 Non executive directors' remuneration

As indicated above, total remuneration for all non-executive directors of the Company is not to exceed \$750,000 per annum.

The table below sets out the annual fees paid to directors with effect from 23 November 2011. In addition to these fees, superannuation contributions will be paid to the benefit of all non-executive directors capped at the maximum amount required under the Superannuation Guarantee Legislation.

	Chairman	Member
Board	100,000	80,000
Audit Committee	8,000	6,000
Remuneration Committee	8,000	6,000

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The independent market analysis suggests that these fees remain below market but recognise current business circumstances and shareholder perspectives; it is intended to transition gradually toward market rates over time rather than through a significant one time “catch up” adjustment. To date, our below average market fees have not been a hindrance to bringing on Board top calibre new independent directors.

11.5 Senior executive remuneration

11.5.1 Remuneration strategy

The senior executive remuneration strategies have been enhanced in 2012 having regard to contemporary market practice and good governance. They are designed to attract, motivate and retain high quality personnel. These arrangements are aligned with organisational practices and behaviours, driving improvement to shareholder value and taking into account the dynamic labour market and regulatory landscape. The Group's aim is to reward senior executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and competitive within the market in which they were recruited.

Remuneration Component	Vehicle	Purpose	Link to performance
<i>Fixed remuneration</i>	Comprises base salary, superannuation contributions and other benefits.	To provide competitive fixed remuneration set with reference to role, market and experience.	Company and individual performance are considered during the annual remuneration review.
<i>Short term incentive plan</i>	Awards are currently paid in cash, options or escrow shares. STIP Rights may be introduced to replace escrow shares – see below.	Rewards executives for their contribution to achievement of Group and/or divisional outcomes, as well as divisional key performance indicators (KPIs). Deferral of a portion of the short term incentive earned into equity (performance rights or options) will further align reward with Group performance.	Operating cash flow is a key financial metric (performance to approved budget). Linked to other non-financial measures, such as safety, performance, and specific operational and strategic deliverables.

Continued overleaf

Directors' Report

Remuneration Component	Vehicle	Purpose	Link to performance
<p><i>Long term incentive plan (proposed plan)</i></p>	<p>It is proposed that awards are made in the form of performance rights. The new plan provides the Remuneration Committee with the flexibility to determine the nature, terms and conditions of each grant each year. Should the plan be approved, it is proposed that two types of grants will operate:</p> <ul style="list-style-type: none"> • LTI performance rights are an award of share rights (i.e. a right to receive a share) subject to performance hurdles assessed over a period of three years from the date of award. • STI deferred rights are rights that are issued on the basis of assessed performance and convert to shares after 2 years from award. <p>LTI awards may be made in Performance Options or a combination of rights and options from time to time.</p>	<p>Rewards executives for their contribution to the creation of shareholder value over the longer term.</p> <p>Delivering STIP awards in cash and/or rights is considered the best way to recognise and reward the accomplishment of commercially sensitive strategic business initiatives and scientific and regulatory breakthroughs.</p> <p>Participants are aligned to these accomplishments delivering significant value in future years rather than in the current year.</p> <p>For some participants other than senior executives and KMP the STIP rights may replace LTIP.</p> <p>STIP and LTIP rights are considered important in the retention of key employees.</p>	<p>LTI award performance measures for KMP and senior executives will be linked to metrics such as total shareholder return over a three year period relative to the ASX 300 Index (vesting schedule shown below 11.5.1.1)</p> <p>For executives other than KMPs, LTIP Performance Rights (or LTI Performance Options) tailored performance measure hurdles may also be required.</p> <p>KMP and senior executives LTIP Rights may also be subject to a minimum share price target established at the time of award.</p> <p>Unvested LTI and STI rights may be “clawed back” in the event of accounting irregularities, unethical behaviour or compliance breaches.</p>

The Group's policy is to position total fixed remuneration at around the median percentile of direct industry peers and other Australian listed companies of a similar size and complexity. Variable remuneration opportunities are intended to provide the opportunity to earn total remuneration above the market median for outstanding performance against the stretch targets set.

Remuneration levels are considered through a remuneration review that considers market data, insights into remuneration trends, the performance of the Company and individual, and the broader economic environment. This review is conducted in consultation with independent remuneration consultants.

Directors' Report

11.5.1.1 LTI performance criteria and vesting

The TSR Performance Condition applied to KMP and senior executive LTI awards will be measured over a 3 year performance period relative to the ASX 300 Index:

- TSR less than 50th percentile = 0% vesting
- TSR at 50th percentile = 25% vesting
- TSR at 75th percentile = 75% vesting
- TSR at or above 95th percentile = 125% vesting
- Pro rata vesting between each of the above

The target TSR has been set at the 85th percentile to achieve 100% vesting. This compares to 100% vesting at the 75th percentile which is the prevalent market practice. This higher hurdle and the 25% premium for market leading outperformance is consistent with our understanding of investor expectations.

11.5.2 Remuneration structure

For the 2012 financial year, the MD/CEO's remuneration package included a mix of fixed, short term incentives and long term incentives (at-risk) remuneration as illustrated in the table below:

Component	Composition	Assessment	At Risk
<i>Fixed remuneration</i>	Base salary, allowances and other statutory benefits	Based on responsibilities and performance	No
<i>Short term incentive</i>	Maximum value of 50% of Fixed Remuneration Restricted Silex Systems Limited ordinary shares.	A mix of agreed performance criteria comprising financial metrics and one key strategic objective for each of the 5 businesses. The performance criteria and their actual calibration and weighting were established at the beginning of the fiscal year.	Yes
<i>Long term incentive</i>	Maximum value of proposed LTIP awarded is 125% of fixed remuneration value. Option Issued.	The options have a life of 5 years, vest subject to a Total Shareholder Return (TSR) hurdle measured over a 3 year performance period relative to the ASX 300 Index (vesting schedule as shown above in 11.5.1.1). LTI awarded during the 2012 financial year – the LTI award of options was approved at the 2011 AGM, with the approved options issued in December 2011 with the abovementioned conditions.	Yes

Remuneration packages paid to other senior executives for the year ended 30 June 2012 are detailed in section 11.6.

Directors' Report

For the 2013 financial year, the remuneration packages for other senior executives' include a mix of fixed and short term incentives (at-risk) remuneration as illustrated in the table below:

Component	Composition	Assessment	At Risk
<i>Fixed Remuneration</i>	Base salary, allowances and other statutory benefits.	Based on responsibilities and performance	No
<i>Short term incentive</i>	Currently cash and/or options Upon approval of the Rights Plan – Cash and/or STIP Deferred Rights	Short term incentives paid by cash are subject to the achievement of divisional and Group financial performance supplemented by non-financial measures specific to business unit deliverables. Short term incentives paid via options have been subject to a 3 year vesting period and have a life of 5 years. Options vest after 3 years if a predetermined share price hurdle is met. The 2 year vesting period and other terms of the proposed STIP Deferred Rights are noted above.	Yes

In the event that the proposed Share Rights Plan is approved by shareholders at the 2012 Annual General Meeting, senior executives will also become eligible to be offered an award of LTI performance rights. These will be offered with an appropriate set of performance hurdles measure over a 3 year vesting period.

11.5.2.1 Fixed Remuneration

Fixed remuneration consists of base salary, superannuation contributions and other benefits. Other benefits include non-cash benefits such as motor vehicle and other allowances. The Group pays fringe benefits tax on these benefits where required.

Fixed remuneration is reviewed annually by the Remuneration Committee in discussion with external remuneration consultants. The review process considers individual, business unit and overall performance of the Group as well as changing market, industry and economic circumstances. Any adjustments will take into account factors such as market alignment with competitors, skill, experience, contribution and length of service to the Group.

During the 2012 financial year the Remuneration Committee obtained independent analysis and advice from Aon Hewitt on the appropriateness of senior executive fixed remuneration.

Directors' Report

11.5.2.2 Performance linked remuneration

Performance linked remuneration includes short term and long term incentives and is designed to reward senior executives for meeting or exceeding the organisation's short term strategic and financial objectives.

Short term incentives

The Group's short term incentives are an at-risk component of senior executives' remuneration and are currently provided in the form of cash, options or escrow (restricted) equity.

For the 2012 financial year, the actual STIP award for the MD/CEO was determined having regard to the Group's cash flow targets and the Board's assessment of his performance and progress in achieving the agreed commercially sensitive strategic objectives for each of the businesses within the Group as at 1 July 2011. This will result in an award of escrow shares with a value of 76% of the maximum short term incentive opportunity (that is, \$400,000 equivalent value). 20% of the maximum STI opportunity was based on cash flow targets, with the remaining opportunity allocated to specific strategic and commercialisation objectives. Due to the challenging nature of the targets set, it was deemed that 76% achievement was made for the 2012 financial year. At an assumed average share price of say \$4.00 would result in the award of 76,000 escrow shares. The allotment of STI deferred shares will be issued in October 2012 (prior to 31 October 2012) at the price prevailing at that date.

Consistent with Resolution 6 passed at the 2011 AGM, the MD/CEO's STIP for the 2012 financial year is not delivered in cash, but through the allotment of restricted Silex Systems Limited ordinary shares subject to an escrow period ending 2 years after the end of the financial year to which the award is related. The use of equity rather than cash for the MD/CEO award recognises the current cash flow and profitability of the Group. While the confidential and commercial sensitivity of the strategic accomplishments prevent their full disclosure at this point in time, the Board considers that the objectives set will result in increases to shareholder value in a time frame that is consistent with the vesting period of the deferred equity.

No other senior executives participated in a short term incentive for the 2012 financial year.

The current form of short term incentives entitles eligible employees to be rewarded based on set entitlement criteria linked primarily to Group financial performance and key commercial business targets required to be achieved within the financial year.

For commercially sensitive reasons, no short term incentive targets for executives are published within this Remuneration Report, however the Remuneration Committee believe that all targets are set at levels appropriate given market expectation of capital returns.

In reviewing the application of the current short term incentives after consultation with Aon Hewitt, the Remuneration Committee will continue to review the short term incentives to ensure that the scheme is market based, at risk and appropriately rewards executives for performance.

Directors' Report

Long term incentives

In 2011, Silex advised that they were moving from a single significant grant of LTI options for the MD/CEO covering multiple years, to annual LTI awards in options (or rights) with a maximum value of 125% of fixed remuneration. The maximum vesting only occurs in the event Silex's 3 year TSR was in the top 5% of the ASX 300.

Shareholders will be asked to vote on the 2012 LTIP award of performance rights under the proposed plan.

The number of rights to be issued is based on a maximum of 125% of fixed remuneration for the 2013 financial year and subject to performance criteria comprising Total Shareholder Return (TSR) over a 3 year period (as described in 11.5.1.1) and will have a share price hurdle of \$5.40. This share price hurdle is equal to the Offer Price from the December 2010 placement.

11.5.2.3 New Long term Incentive Plan (LTIP)

In the 2012 financial year and in direct response to shareholder feedback, the Remuneration Committee carefully considered the impact of implementing a more appropriately structured LTIP. In conjunction with its external consultants, the Remuneration Committee has recently developed a new LTIP proposed for implementation. This LTIP will include market based hurdles and is at-risk. This LTIP has been designed to ensure that Silex's remuneration framework is aligned with both the Company's business strategy and the remuneration structures of other publicly listed companies in Australia.

The proposed LTIP is structured in a manner whereby awards (described as LTI performance rights) granted to senior executives are a right to acquire fully paid ordinary shares in the Company for nil consideration, subject to meeting certain pre-determined vesting conditions. Performance rights awards are anticipated to be made annually to senior executives of the Company at the sole discretion of the Board.

LTIP performance rights vest 3 years following the date of grant, subject to the achievement of various performance measures including but not limited to relative Total Shareholder Return (TSR) targets, share price hurdles and pre-determined performance measures and deliverables specific to the role held by the awardee.

Vesting Period

A 3 year performance period has been deemed appropriate to Silex's business for the proposed LTIP, and is in line with market practice and shareholder advisory group views. This vesting period will also encourage employee retention and sustained longer-term performance.

Directors' Report

11.5.3 Summary of senior executives' contracts

It is the Group's policy that service contracts for senior executives, including the MD/CEO and CFO/Company Secretary are unlimited in term however, capable of termination in accordance with their contracts.

With reference to the MD/CEO the notice period is 6 months. An additional termination benefit of 6 months total fixed remuneration may be paid in the event a restraint or 'gardening leave' provision is applied. Any STI or LTI in place at the time of gardening leave/termination commencement, will be dealt with in accordance with the rules governing the respective plans and in line with the specific termination parameters provided to shareholders at the time of approval of the equity incentive arrangements.

The Group retains the right to terminate all service contracts with senior executives immediately by making payment in lieu of notice or as otherwise mutually agreed between the parties. On termination of employment, senior executives are also entitled to receive their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

Service contracts outline the components of remuneration paid to senior executives in accordance with the Group's remuneration policy. Fixed remuneration levels are reviewed annually however, there is no obligation to provide any adjustment. Any adjustment would take into account the executive's performance and contribution, the positioning of the current remuneration relative to the indicative market median, any change in the scope of the role and any changes required to meet the principles of the Group's remuneration policy and strategy.

Senior executives have no entitlements to payment in lieu of notice in the event of removal for misconduct.

Directors' Report

11.6 Directors' and senior executives' remuneration

The table below has been prepared in accordance with the requirements of the *Corporations Act 2001* and relevant accounting regulations in Australia.

2012	Short-term employee benefits			Post-employment benefits	Long term benefits	Termination benefits	Share-based payments		Total
	Cash salary and fees	STI award	Non-monetary benefits	Superannuation	Long service leave		Options	STI Deferred Rights	
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive directors									
Dr M P Goldsworthy	755,773	–	75,448	15,775	46,193	–	130,593	304,000	1,327,782
Non-executive directors									
Prof S W R Burdon	91,797	–	–	8,262	–	–	–	–	100,059
Mr R P Campbell	89,262	–	–	8,034	–	–	–	–	97,296
Dr C S Goldschmidt	83,285	–	–	7,496	–	–	–	–	90,781
Mr C D Wilks	142,704	–	–	11,984	823	–	43,487	–	198,998
Other key management personnel and group executives									
Ms J E Ducie	177,049	–	–	24,347	1,912	–	74,483	–	277,791
Mr B J Spillane (until 12 September 2011)	25,983	–	3,060	2,338	481	–	–	–	31,862
Total	1,365,853	–	78,508	78,236	49,409	–	248,563	304,000	2,124,569

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2011	Short-term employee benefits			Post-employment benefits	Long term benefits		Share-based payments		Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Long service leave		Termination benefits	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
Executive directors									
Dr M P Goldsworthy	722,401	–	77,478	15,199	11,779	–	–	–	826,857
Mr C D Wilks (until 28 June 2011)	173,982	–	–	15,023	159	–	–	–	189,164
Non-executive directors									
Prof S W R Burdon (from 14 February 2011)	26,444	–	–	2,380	–	–	–	–	28,824
Mr R P Campbell	70,000	–	–	6,300	–	–	–	–	76,300
Dr C S Goldschmidt	68,370	–	–	6,153	–	–	–	–	74,523
Mr B S Patterson (until 27 October 2010)	22,822	–	–	2,054	–	–	–	–	24,876
Mr C D Wilks (from 29 June 2011)	884	–	–	75	1	–	–	–	960
Other key management personnel and group executives									
Ms J E Ducie (from 27 October 2010)	99,635	13,761	–	9,728	255	–	26,633	–	150,012
Mr R J Seares (until 28 June 2011)	190,608	–	–	15,077	(198)	28,938	(72,045)	–	162,380
Mr B J Spillane	132,246	–	13,742	11,665	1,759	–	–	–	159,412
Total	1,507,392	13,761	91,220	83,654	13,755	28,938	(45,412)	–	1,693,308

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The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI*	
	2012	2011	2012	2011	2012	2011
Directors						
Prof S W R Burdon (NED)	100.0%	100.0%	N/A	N/A	N/A	N/A
Mr R P Campbell (NED)	100.0%	100.0%	N/A	N/A	N/A	N/A
Dr C S Goldschmidt (NED)	100.0%	100.0%	N/A	N/A	N/A	N/A
Dr M P Goldsworthy (ED)	67.3%	100.0%	22.9%	–	9.8%	–
Mr B S Patterson (NED)	N/A	100.0%	N/A	N/A	N/A	N/A
Mr C D Wilks**	78.1%	100.0%	N/A	N/A	21.9%	–
Other key management personnel and group executives						
Ms J E Ducie	73.2%	73.1%	–	9.2%	26.8%	17.7%
Mr R J Seares	N/A	100.0%	N/A	–	N/A	(44.4%)
Mr B J Spillane	100.0%	100.0%	–	–	–	–

* This relates to options issued on an LTI basis with the percentages based on the value of options expensed during the year.

** Mr C D Wilks was a non-executive director for the year ended 30 June 2012. For the prior year, Mr C D Wilks was an executive director until 28 June 2011 and a non-executive director from 29 June 2011.

11.7 Other statutory disclosures

11.7.1 Analysis of options over equity instruments granted as remuneration

Options are granted under the Silex Systems Limited Employee Share Option Plan. Full-time and part-time staff of the consolidated entity are eligible to participate in the plan. Options are granted under the plan for no consideration. Options are granted for a five year period and options issued to 15th March 2012 vest 100% after two years. Options issued after the 16th March 2012 vest 100% after three years as recommended by various governance bodies. Options have also been granted to the MD/CEO and Mr Chris Wilks. These were subject to shareholder approval, granted for a five year period and vest after three years subject to a Total Shareholder Return (TSR) hurdle measured over a three year performance period relative to the ASX 300 Index.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable	Share price hurdle
29th June 2009	28th June 2014	\$5.88	\$3.20	100% after 29th June 2011	N/A
30th July 2010	29th July 2015	\$4.65	\$1.97	100% after 30th July 2012	\$4.86
5th July 2011	4th July 2016	\$2.92	\$2.93	100% after 5th July 2013	\$3.05
8th December 2011	7th December 2016	\$2.04	\$0.63	100% after 8th December 2014	\$2.13

Directors' Report

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five days immediately before the options are granted, plus five cents.

Details of options over ordinary shares in the company provided to each director of Silex Systems Limited and each of the KMP of the Group are set out below. When exercisable, each option is converted into one ordinary share of Silex Systems Limited.

Name	Number of options granted during the year	Value of options at grant date	Number of options vested during the year	Number of options that were forfeited during the year	Number of options lapsed during the year	Value at lapse date
Directors of Silex Systems Limited						
Dr M P Goldsworthy	1,102,207	694,170	–	–	–	–
Mr C D Wilks	367,035	231,159	–	–	–	–
Other key management personnel of the Group						
Ms J E Ducie	60,000	70,716	–	–	–	–
Mr B J Spillane	–	–	–	–	–	–

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2012 included:

Exercise price cents	Grant date	Expiry date	Share price at grant date cents	Expected volatility of Company's shares	Expected dividend yield	Risk free interest rate
292	5th July 2011	4th July 2016	293	45.0%	–	5.00%
204	8th December 2011	7th December 2016	190.5	47.6%	–	3.39%

Shares provided on exercise of remuneration options

There were no ordinary shares issued in the Company provided as a result of the exercise of remuneration options to each director of Silex Systems Limited and other KMP of the Group for the years' ended 30 June 2011 or 2012.

The Remuneration Committee has recognised that this scheme alone is not appropriate for rewarding senior executives as there are no performance based criteria which impact on their ability to realise share entitlements. It is for this reason that the proposed LTIP has been established. Whilst the proposed LTIP is reviewed for approval and implementation, the current Silex Systems Limited Employee Share Option Plan may continue to apply to senior executives. Any awards of options to senior executives will now be subject to performance criteria.

Directors' Report

11.8 Company performance and consequences on shareholder wealth

11.8.1 Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

11.8.2 Details of remuneration: cash bonuses, options and restricted stock

For each cash bonus, grant of options or restricted stock included in the tables on pages 44 to 46, the percentage of the available bonus or grant that was paid, or that vested is set out below. The maximum value of options to vest is based on the value determined using the binomial model taking the value calculated as at grant date.

Name	Cash bonus		Financial year granted – year ended	Options			
	Paid %	Forfeited %		Vested %	Forfeited %	Financial years in which options may vest – year ended	Maximum total value of grant to vest
Dr M P Goldsworthy	N/A	N/A	30/06/2012	–	–	30/06/2015	694,170
Mr C D Wilks	N/A	N/A	30/06/2012	–	–	30/06/2015	231,159
Ms J E Ducie – YE 30/06/11	100	N/A	30/06/2011	–	–	30/06/2013	78,820
Ms J E Ducie – YE 30/06/12	N/A	N/A	30/06/2012	–	–	30/06/2015	70,716

Name	STI deferred shares			
	Financial year to be issued – year ended	Entitled %	Forfeited %	Maximum value of shares
Dr M P Goldsworthy	30/06/2013	76	24	304,000
Mr C D Wilks	N/A	N/A	N/A	N/A
Ms J E Ducie – YE 30/06/11	N/A	N/A	N/A	N/A
Ms J E Ducie – YE 30/06/12	N/A	N/A	N/A	N/A

At the 2011 AGM, shareholders approved a short term incentive scheme for Dr Michael Goldsworthy in the form of restricted Silex Systems Limited ordinary shares. The maximum total value was set at \$400,000 (50% of his fixed 2012 remuneration package) subject to the accomplishment of performance objectives. The remuneration committee deemed Dr Michael Goldsworthy was entitled to 76% of the short term incentive and the shares will be issued in October 2012.

11.8.3 Restrictions on limiting risk

Where a part of the directors or executives' remuneration consists of securities, the director or executive is not allowed to limit their exposure to risk in relation to the securities. Directors and executives with remuneration consisting of securities are required to provide an annual declaration of compliance with this policy.

Directors' Report

11.8.4 Other executives of the consolidated entity

There are no officers, other than Executive Directors and executives noted above, involved in, concerned in, or taking part in, the management of the commercial affairs of Silex Systems Limited.

11.8.5 Performance of Silex Systems Limited

Year ended 30 June	EPS	STI	Share price at 30 June
	cents	\$	\$
2008	(6.5)	–	7.96
2009	(2.6)	–	6.00
2010	(12.3)	85,000	4.60
2011	(19.6)	13,761	2.92
2012	(21.6)	304,000	3.20

The increase in the negative earnings per share in the current year was mainly due to the increased loss from continuing operations. The loss increased in the current period mainly due to an increase in Solar Systems' segment loss. Solar Systems' segment loss increased from \$5.7 million in the prior year to \$10.8 million in the current year as the business ramped up its product development and commercialisation programs.

The loss for the period was also impacted by the decision to cease Silex Solar's manufacturing operations and close the plant at Sydney Olympic Park. The loss from this discontinued operation increased by \$0.2 million to \$19.0 million. The current year loss included the impact of further reductions in selling prices and costs associated with the closure including the negotiated lease settlement, dismantling and decommissioning, further write downs of fixed assets and inventory and redundancy payments totalling approximately \$13.4 million.

The short term incentives (STI's) in the prior year were awarded to Ms Julie Ducie for her contribution to the management of the Company's financial affairs and for her role in the share placement and share purchase plan. Of Dr Michael Goldsworthy's short term incentive for the year ended 30 June 2012, 76% was awarded equating to \$304,000 of restricted Silex Systems Limited ordinary shares at the price prevailing at the date of issue.

In recent years, the share market has dropped considerably due to growing concerns over the deteriorating conditions in global financial and equity markets. Silex's share price has suffered as a result. In addition, events in Fukushima have had a negative impact on uranium-based stocks, including a significant fall in the Silex share price in the weeks following the initial event. Progress in the Group's various technology projects has not directly been reflected in EPS as some of the projects are still in the research and development phase and, with the exception of the Uranium Enrichment Project are yet to generate substantial revenue.

Directors' Report

12. Company secretary

Ms Julie Ducie, B. Bus, CA was appointed to the position of Company Secretary in October 2010. Before joining Silex, Ms Ducie spent 4 years in the Construction Industry in the Middle East as Finance Manager of a Facade Engineering company with projects in Dubai, Bahrain and Qatar. Prior to this, Ms Ducie was a Senior Associate with a Chartered Accounting Practice.

13. Meetings

The number of directors' meetings held during the financial year and the number of meetings attended by each director are set out in the following table:

Director's Name	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
Prof S W R Burdon	16	16	3	3	3	3
Mr R P Campbell	16	15	3	3	3	3
Dr C S Goldschmidt	16	15	3	3	3	3
Dr M P Goldsworthy	16	16	–	–	–	–
Mr C D Wilks	16	16	–	–	–	–

14. Indemnification and insurance of directors

The Company has entered into agreements to indemnify the Directors of the Company against all liabilities to persons (other than the Company or related body corporate) which arise out of the performance of their normal duties as directors or executive officers unless the liability relates to conduct involving lack of good faith. The Company has agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity.

The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company) incurred in their position as a director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The insurance policy does not allow specific disclosure of the nature of the liabilities insured against or the premium paid under the policy.

Directors' Report

15. Environmental regulation

The parent entity is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The parent entity is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and are a licensee under the Act. Solar Systems is subject to a number of regulations including VIC Occupational Health and Safety Act 2004, VIC Occupational Health and Safety Regulations 2007, VIC Dangerous Goods Act 1985, VIC Dangerous Goods (Storage and Handling) Interim Regulations 2011. Silex Solar was also subject to a number of regulations including the Sydney Water Act, NSW Occupational Health and Safety (Dangerous Goods) Regulation and NSW Protection of the Environment Operations (Clean Air) Regulations.

To the best of the Directors' knowledge, all environmental and health and safety regulatory requirements have been met and there have been no claims made during the financial year.

16. Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out on the following page.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out on the following page, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent company, its related practices and non-related audit firms.

Directors' Report

	2012	2011
	\$	\$
Remuneration of auditors		
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-audit firms:		
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	163,000	202,000
Total remuneration for audit services	163,000	202,000
Other assurance services		
PricewaterhouseCoopers Australian firm		
Audit of government grants	5,000	19,000
Total remuneration for other assurance services	5,000	19,000
Total remuneration for assurance services	168,000	221,000
(b) Other services		
Review of option valuation methodology for Long Term Incentive Plan for directors	11,000	–
Total remuneration for other services	11,000	–
Total remuneration	179,000	221,000

17. Auditors

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

18. Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 53.

This report is made in accordance with a resolution of the Directors.



Dr M P Goldsworthy
Managing Director



Mr C D Wilks
Director

Sydney, 28 September 2012

Directors' Report



Auditors' Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Silex Systems Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'R. Dring'.

Rod Dring
Partner
PricewaterhouseCoopers

Sydney
28 September 2012

PricewaterhouseCoopers, ABN 52 780 433 757

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Corporate Governance Statement

Silex Systems Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations (including 2010 Amendments).

Principle 1: Lay solid foundations for management and oversight

The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

The Board of Directors is accountable to shareholders for the performance of the Group and is responsible for the corporate governance practices of the Group.

The Board's principal objective is to maintain and increase shareholder value while ensuring that the Group's overall activities are properly managed.

Silex's corporate governance practices provide the structure which enables the Board's principal objective to be achieved, whilst ensuring that the business and affairs of the group are conducted ethically and in accordance with the law.

The Board's overall responsibilities include:

- providing strategic direction and approving corporate strategies;
- monitoring management and financial performance and reporting;
- monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms; and
- ensuring the business is conducted ethically and transparently.

The Board delegates responsibility for day-to-day management of the business to the Managing Director. The Managing Director also oversees the implementation of strategies approved by the Board. The Board uses committees to support it in matters that require more intensive review and involvement. Details of the Board committees are provided below.

As part of its commitment to good corporate governance, the Board undertakes regular reviews of the practices and standards governing the Board's composition, independence and effectiveness, the accountability and compensation of directors and the Board's responsibility for the stewardship of the Group.

The Chairman undertakes an annual assessment of the performance of executive directors and meets privately with each executive director to discuss this assessment. The Managing Director meets annually with senior management to discuss their performance. Feedback is also sought from other directors. These assessments and meetings took place during the year.

Corporate Governance Statement

Principle 2: Structure the Board to add value

The Board is comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a balanced perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management.

The Chairman is an independent non-executive director, the majority of the Board are independent of management and all directors are required to bring independent judgement to bear in their Board decision making. The Chairman is elected by the full Board.

The Company maintains a mix of directors on the Board from different backgrounds with complementary skills and experience. When a new director is to be appointed, the Board prepares a list of the requisite range of skills, experience and expertise. From this the Board, prepares a short-list of candidates with appropriate skills and experience. A number of channels are used to source candidates to ensure the company benefits from a diverse range of individuals in the selection process.

The Directors of the Company in office at the date of this statement are:

Name	Age	Position	Expertise	Year Appointed Director
Prof S W R Burdon	69	Non-executive director/ Chairman	Telecommunications industry and Company Management	2011
Mr R P Campbell	67	Non-executive director	Finance and Accounting, Computing and Company Management	1996
Dr C S Goldschmidt	58	Non-executive director	Company Management	1992
Dr M P Goldsworthy	54	Managing Director/CEO	Physicist and Co-inventor of the SILEX Technology	1992
Dr L M McIntyre	47	Non-executive director	Strategy, Commercialisation and Company Management	2012
Mr C D Wilks	54	Non-executive director	Investment Banking, Finance and Company Management	1988

Prof S W R Burdon, Mr R P Campbell, Dr C S Goldschmidt and Dr L M McIntyre are considered independent. An independent director cannot be a substantial shareholder (as defined in section 9 of the *Corporations Act 2001*). The size and composition of the Board is determined by the full Board. Additional information on the skills and experience of the directors is included in Section 10 of the Directors' Report.

Corporate Governance Statement

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years, not have been employed in an executive capacity by the Company or any other group member, or been a director after ceasing to hold any such employment;
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other group member, or an employee materially associated with the service provided;
- not be a material supplier or customer of the Company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group; and
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Term of office

The Company's Articles of Association specifies that all directors other than the Managing Director must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, and facilitating Board discussions.

The CEO is responsible for the day-to-day management of the Company's affairs, and for implementing Group strategies and policies as determined by the Board of Directors.

Corporate Governance Statement

Induction

The induction provided to new directors and senior executives enables them to actively participate in board decision-making as soon as possible. It ensures that they have a full understanding of the company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board and senior executives and the Company's meeting arrangements.

Board meetings

The Board meets formally at least 9 times a year to consider a broad range of matters, including progress with respect to the Company's various development programs, strategy, financial reviews, acquisitions and investments. Details of meetings and attendances are set out in the Directors' Report. Various meetings during the year were held at operational sites of the Company and a full tour of the facilities was included as part of the visit.

Conflicts of interest of directors

The Board has guidelines dealing with disclosure of interests by directors and participation and voting at board meetings where any such interests are discussed. In accordance with the *Corporations Act 2001*, any director with a material personal interest in a matter being considered by the Board does not receive the relevant board papers, must not be present when the matter is being considered, and may not vote on the matter.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

All directors have access to Company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

Performance assessment and remuneration

The Board meets to undertake an annual self-assessment of its collective performance, the performance of the Chairman and of its committees. This was performed in June 2012 and all deemed satisfactory. The Board discusses a broad range of issues including the progress of the various research and development projects, the financial results, capital raisings, major deals negotiated and the share price. The Board considers the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

The Chairman undertakes an annual assessment of the performance of individual directors and holds discussions with each director to discuss this assessment. The Managing Director meets annually with non-director senior executives to discuss their performance. Feedback is also sought from other directors.

The Directors' Report contains details of remuneration paid to directors and executives. Executive and non-executive directors' fees are clearly separated in the Directors' Report.

Where bonuses are paid, details of the reason for the bonus are described. Equity awards issued to executive directors are approved by shareholders at the Annual General Meeting.

Additional information on performance evaluation and remuneration is provided in the Directors' Report.

Corporate Governance Statement

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the Remuneration and Audit Committees. Each is comprised of a majority of non-executive directors. The committee structure and membership is reviewed on an annual basis.

Nomination committee

The Board has decided that it is in the Company's best interest that the full Board deals with nomination issues. As a result a Nomination Committee has not been established.

Principle 3: Promote ethical and responsible decision making

Code of conduct

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees.

In summary, the Code requires that at all times Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

A copy of the Code is available on the Company's website.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the Company has developed a diversity policy, a copy of which can be found on the Company's website. This policy outlines the Company's position on all forms of diversity, in particular diversity as it relates to gender. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the company's progress in achieving them.

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming 2 to 3 years as director, senior executive and management positions become vacant and appropriately skilled candidates are available:

	Objective (%)	Actual (%)
Number of women employees in the whole organisation	35.0	22.1
Number of women in senior executive and management positions	35.0	28.5
Number of women on the Board	33.0*	16.6

* Target to be achieved by 2016

Responsibility for diversity has been included in the board charter and the remuneration committee charter (diversity at all levels of the company).

Corporate Governance Statement

Share trading policy

The Company has in place a formal share trading policy which places certain prohibitions on the trading of the Company's shares. The policy is on the Company's website. All Silex share dealings by directors are promptly notified to the Australian Stock Exchange (ASX). All directors and employees are prohibited from buying and selling Silex shares at any time if they are aware of any material price sensitive information that has not been made available to the public. This however does not restrict directors and employees from exercising options over unissued Silex shares. Trading of the subsequently issued shares is however subject to the prohibitions above.

Principle 4: Safeguarding integrity in financial reporting

Audit committee

The audit committee consists of 4 non-executive independent directors as follows:

Prof S W R Burdon (member for full year, Chairman from 30 September 2011 to 28 February 2012)

Mr R P Campbell (member for full year, Chairman from 28 February 2012)

Dr C S Goldschmidt (Chairman from 27 October 2010 to 30 September 2011)

Dr L M McIntyre (member from 2 July 2012)

Details of these directors' qualifications and attendance at audit committee meetings are set out in the Directors' Report.

The Audit Committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The Audit Committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. The charter is reviewed on an annual basis and is available on the Company's website.

Minutes of committee meetings are tabled at the subsequent Board meeting.

The Audit Committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the financial reports and all other financial information published by the Company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the committee's role and responsibilities.

Corporate Governance Statement

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report. It is the policy of the external auditors to provide annual declarations of their independence to the Audit Committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its subsidiaries that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote effective communication with shareholders and encourage participation at general meetings. The Company's Continuous Disclosure Policy is available on the Company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Information disclosed to the ASX is posted on the Company's website as soon as it is disclosed to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

Corporate Governance Statement

The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to shareholders as follows:

- The Annual Report is distributed to all shareholders who have elected to receive it and is posted on the Company's website. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of likely future developments, in addition to the other disclosures required by the *Corporations Act 2001*;
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of directors.

Principle 7: Recognise and manage risk

The Board, through the Audit Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies, detailed in the Audit Committee charter are available on the Company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks. The Board discusses these policies at regular intervals. For example management provides details of cash deposits, intellectual property patenting and significant commercial exposures on a regular basis for review. Management has reported to the Board on the effectiveness of the Company's management of its material business risks.

The Board requires that each major proposal submitted to the Board for decision is accompanied by sufficient due diligence and risk review.

Occupational Health and Safety (OH&S)

The Company recognises the importance of Occupational Health and Safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective, OH&S Committees have been established to facilitate the systematic identification of OH&S issues and to ensure they are managed in a structured and rigorous manner. This system has been operating for a number of years and allows the Company to:

- monitor its compliance with all relevant OH&S legislation and regulations;
- continually assess and improve the effectiveness of the Company's OH&S program;
- encourage employees to actively participate in the management of all OH&S issues; and
- reinforce the importance of safe work practices throughout the Company, as mandated by management.

Corporate Governance Statement

Environmental regulation

As noted in the Directors' Report, the parent entity is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The parent entity is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and are a licensee under that Act. Silex Solar was subject to a number of regulations including the Sydney Water Act, NSW Occupational Health and Safety (Dangerous Goods) Regulation and NSW Protection of the Environment Operations (Clean Air) Regulations. Solar Systems is also subject to a number of regulations including VIC Occupational Health and Safety Act 2004, VIC Occupational Health and Safety Regulations 2007, VIC Dangerous Goods Act 1985, VIC Dangerous Goods (Storage and Handling) Interim Regulations 2011. To the best of the Directors' knowledge, all environmental regulatory requirements have been met.

Corporate reporting

In complying with recommendation 7.3, the Managing Director/CEO and CFO have made the following certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

Remuneration committee

The remuneration committee consists of the following non-executive directors:

Prof S W R Burdon (member for full year, Chairman from 30 September 2011)

Mr R P Campbell

Dr L M McIntyre (member from 2 July 2012)

Dr C S Goldschmidt (member to 30 June 2012, Chairman from 27 October 2010 to 30 September 2011)

Details of these directors' attendance at remuneration committee meetings are set out in the Directors' Report.

The Remuneration Committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. Further information on directors' and executives' remuneration is set out in the Directors' Report, which distinguishes non-executive directors' remuneration from that of executive directors and senior executives.

The remuneration committee adopts policies that attract and maintain talented and motivated directors and employees so as to encourage enhanced performance.

Where a part of the director's or executive's remuneration consists of securities, the director or executive is not allowed to enter into transactions in associated products which limit the economic risk of participation in unvested entitlements under any equity based remuneration schemes. Annual declarations of compliance are obtained.

Further details of directors' remuneration, superannuation and retirement payments are set out in the Directors' Report.

SILEX SYSTEMS LIMITED**Concise Financial
Report – 30 June 2012**

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**Relationship of the concise financial
report to the full financial report**

The concise financial report is an extract from the full financial report for the year ended 30 June 2012. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Silex Systems Limited and its subsidiaries as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report and auditor's report will be sent to members on request, free of charge. Please call +61 2 9532 1331 and request a copy of the full financial report (or email enquiries@silex.com.au). Alternatively, you can access both the full financial report and the concise report via the internet on our website: www.silex.com.au.

Consolidated income statement

for the year ended 30 June 2012

	Notes	2012	2011
		\$	\$
Revenue from continuing operations	2	9,438,691	9,924,566
Other income	3	1,504,310	3,148,904
Research and development materials		(1,739,738)	(2,227,726)
Finance costs		(3,127)	(112,247)
Depreciation and amortisation expense		(2,788,685)	(2,522,493)
Employee benefits expense		(16,658,397)	(12,364,008)
Consultants and professional fees		(2,761,833)	(2,795,170)
Printing, postage, freight and stationery		(260,735)	(273,312)
Rent, utilities and property outgoings		(1,748,757)	(1,439,357)
Travelling expenses		(1,147,798)	(1,257,277)
Changes in inventories of finished goods and work in progress		(11,224)	33,004
Raw materials and stores used		(287,198)	(314,231)
Net foreign exchange losses		–	(1,110,782)
Share of net loss of associate accounted for using the equity method		(31,320)	(5,470)
Other expenses from continuing activities		(1,486,966)	(1,416,190)
(Loss) before income tax expense		(17,982,777)	(12,731,789)
Income tax expense		–	–
Net (loss) from continuing operations		(17,982,777)	(12,731,789)
Net (loss) from discontinued operation	5	(18,987,847)	(18,749,977)
Net (loss) for year		(36,970,624)	(31,481,766)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		(36,792,005)	(31,301,061)
Non-controlling interests		(178,619)	(180,705)
		(36,970,624)	(31,481,766)

	Notes	2012	2011
		cents	cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		(10.5)	(7.8)
Diluted earnings per share		(10.5)	(7.8)
Earnings per share for (loss) attributable to the ordinary equity holders of the company			
Basic earnings per share		(21.6)	(19.6)
Diluted earnings per share		(21.6)	(19.6)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

for the year ended 30 June 2012

	2012	2011
	\$	\$
Net (loss) for the year	(36,970,624)	(31,481,766)
Other comprehensive income		
Exchange differences on translation of foreign operations	(121,503)	(471,034)
Other comprehensive income for the year, net of tax	(121,503)	(471,034)
Total comprehensive income for the year	(37,092,127)	(31,952,800)
Attributable to:		
Owners of Silex Systems Limited	(36,913,508)	(31,772,095)
Non-controlling interests	(178,619)	(180,705)
Total comprehensive income for the year	(37,092,127)	(31,952,800)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

as at 30 June 2012

	30 June 2012	30 June 2011
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	3,682,254	15,470,436
Held to maturity investments – term deposits	83,912,921	93,937,500
Trade and other receivables	6,633,569	8,550,710
Inventories	1,887,567	9,183,917
Total current assets	96,116,311	127,142,563
Non-current assets		
Property, plant and equipment	15,687,753	14,486,600
Deferred tax assets	11,337	20,168
Intangible assets	20,555,407	22,037,511
Investments accounted for using the equity method	98,236	129,556
Total non-current assets	36,352,733	36,673,835
Total assets	132,469,044	163,816,398
LIABILITIES		
Current liabilities		
Trade and other payables	5,070,084	5,210,593
Provisions	1,814,642	811,607
Total current liabilities	6,884,726	6,022,200
Non-current liabilities		
Trade and other payables	4,779,164	2,334,690
Provisions	163,789	124,434
Total non-current liabilities	4,942,953	2,459,124
Total liabilities	11,827,679	8,481,324
Net assets	120,641,365	155,335,074
EQUITY		
Contributed equity	231,068,369	231,040,738
Reserves	9,180,044	6,930,760
Accumulated losses	(119,068,672)	(82,276,667)
Capital and reserves attributable to owners of:		
Silex Systems Limited	121,179,741	155,694,831
Non-controlling interests	(538,376)	(359,757)
Total equity	120,641,365	155,335,074

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 30 June 2012

	Attributable to owners of Silex Systems Limited				Non-controlling interests	
	Contributed equity	Reserves	Accumulated losses	Total		Total
	\$	\$	\$	\$	\$	\$
Balance at 30 June 2010	122,423,175	5,035,839	(50,975,606)	76,483,408	(179,052)	76,304,356
Loss for the year	–	–	(31,301,061)	(31,301,061)	(180,705)	(31,481,766)
Exchange differences on translation of foreign operations	–	(471,034)	–	(471,034)	–	(471,034)
Total comprehensive income for the year	–	(471,034)	(31,301,061)	(31,772,095)	(180,705)	(31,952,800)
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	108,347,195	–	–	108,347,195	–	108,347,195
Employee share options – value of employee services	–	2,637,140	–	2,637,140	–	2,637,140
Transfer from share based payments reserve	271,185	(271,185)	–	–	–	–
Deferred tax credit recognised directly in equity	(817)	–	–	(817)	–	(817)
	108,617,563	2,365,955	–	110,983,518	–	110,983,518
Balance at 30 June 2011	231,040,738	6,930,760	(82,276,667)	155,694,831	(359,757)	155,335,074

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the year ended 30 June 2012 (continued)

	Attributable to owners of Silex Systems Limited				Non-controlling interests	
	Contributed equity	Reserves	Accumulated losses	Total		Total
	\$	\$	\$	\$	\$	\$
Loss for the year	–	–	(36,792,005)	(36,792,005)	(178,619)	(36,970,624)
Exchange differences on translation of foreign operations	–	(121,503)	–	(121,503)	–	(121,503)
Total comprehensive income for the year	–	(121,503)	(36,792,005)	(36,913,508)	(178,619)	(37,092,127)
Transactions with owners in their capacity as owners						
Shares to employees, net of transaction costs	36,462	–	–	36,462	–	36,462
Employee share options – value of employee services	–	2,364,665	–	2,364,665	–	2,364,665
Transactions with non-controlling interests	–	6,122	–	6,122	–	6,122
Deferred tax credit recognised directly in equity	(8,831)	–	–	(8,831)	–	(8,831)
	27,631	2,370,787	–	2,398,418	–	2,398,418
Balance at 30 June 2012	231,068,369	9,180,044	(119,068,672)	121,179,741	(538,376)	120,641,365

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the year ended 30 June 2012

	2012	2011
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	16,794,963	28,955,595
Payments to suppliers and employees (inclusive of goods and services tax)	(38,846,105)	(60,903,378)
Transaction costs relating to acquisition of business	–	(226,160)
Interest received	5,897,855	3,597,163
Interest paid	(3,127)	(153,492)
Net cash (outflows) from operating activities	(16,156,414)	(28,730,272)
Cash flows from investing activities		
Payment for investments accounted for using the equity method	–	(135,026)
Payments for held to maturity investments – term deposits	–	(93,937,500)
Proceeds from maturity of held to maturity investments – term deposits	10,024,579	–
Payments for property, plant and equipment	(6,100,818)	(7,525,386)
Payments for intangibles	(126,375)	(107,979)
Proceeds from sale of property, plant and equipment	233,911	6,355
Repayment of loans by employees	–	3,731
Net cash inflows/(outflows) from investing activities	4,031,297	(101,695,805)
Cash flows from financing activities		
Proceeds from issue of shares	(1,538)	106,347,190
Proceeds from issue of shares to non-controlling interest	6,122	–
Net cash inflows from financing activities	4,584	106,347,190
Net (decrease) in cash held	(12,120,533)	(24,078,887)
Cash and cash equivalents at the beginning of the financial year	15,470,436	40,731,209
Effects of exchange rate changes on cash	332,351	(1,181,886)
Cash and cash equivalents at end of year*	3,682,254	15,470,436
* Held to maturity investments excluded from cash and cash equivalents	83,912,921	93,937,500

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

30 June 2012

This concise financial report relates to the consolidated entity consisting of Silex Systems Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012. The accounting policies have been consistently applied to all years presented, unless otherwise stated otherwise.

Note 1 Presentation currency

The presentation currency used in this concise financial report is Australian dollars.

Note 2 Revenue

	2012	2011
	\$	\$
From continuing operations		
Recoverable project costs	3,865,756	5,208,290
Sale of goods	61,472	251,877
Interest income	5,500,081	4,446,495
Other	11,382	17,904
	9,438,691	9,924,566
From discontinued operation		
Sale of goods	8,063,520	19,136,713
Interest income	128,831	129,995
	8,192,351	19,266,708

Note 3 Other income

	2012	2011
	\$	\$
From continuing operations		
Government grants	1,245,381	3,127,617
Foreign currency exchange gains (net)	250,397	–
Profit on sale of property, plant and equipment	5,266	–
Other	3,266	21,287
	1,504,310	3,148,904
From discontinued operation		
Government grants	–	264,636
Foreign currency exchange gains (net)	79,456	–
Profit on sale of property, plant and equipment	190,201	–
Other	–	7,125
	269,657	271,761

Notes to the financial statements

30 June 2012 (continued)

(i) Government grants

Federal and state government solar project grants of \$1,245,381 (2011: \$3,112,954) were recognised as other income by Solar Systems during the financial year. The company has met the conditions of the grants and the income has been recognised. An export market development grant of nil (2011: \$14,663) was recognised as income during the financial year by Solar Systems. State government solar project grants of nil (2011: \$264,636) were recognised as other income by Silex Solar during the financial year. There are no unfulfilled conditions attached to these grants.

Note 4 Segment information

2012	Silex Systems	Translucent	ChronoLogic	Solar Systems	Total
	\$	\$	\$	\$	\$
Total segment revenue	10,327,364	2,082,430	19,015	62,839	12,491,648
Inter-segment revenue	(982,048)	(2,070,909)	–	–	(3,052,957)
Revenue from external customers	9,345,316	11,521	19,015	62,839	9,438,691
Segment result	2,275,255	(5,362,564)	(1,720,243)	(10,830,614)	(15,638,166)
Total segment assets	88,113,766	2,987,328	305,912	29,565,459	120,972,465
Total segment liabilities	1,715,089	330,330	243,832	4,007,021	6,296,272

2011	Silex Systems	Translucent	ChronoLogic	Solar Systems	Total
	\$	\$	\$	\$	\$
Total segment revenue	10,440,020	2,702,959	38,398	242,592	13,423,969
Inter-segment revenue	(815,186)	(2,684,217)	–	–	(3,499,403)
Revenue from external customers	9,624,834	18,742	38,398	242,592	9,924,566
Segment result	1,077,843	(4,351,375)	(1,759,477)	(5,731,189)	(10,764,198)
Total segment assets	107,706,026	1,539,538	366,300	25,532,081	135,143,945
Total segment liabilities	1,538,358	238,263	237,454	2,188,363	4,202,438

The Board of Directors assesses the performance of the operating segments based on a result that excludes share based payments, exchange gains and losses on intercompany loans which eliminate on consolidation and amortisation of intellectual property on consolidation. A reconciliation of segment result to net (loss) before tax from continuing operations is provided as follows:

	2012	2011
	\$	\$
Segment result	(15,638,166)	(10,764,198)
Amortisation of intellectual property on consolidation	(797)	(1,913)
Share based payments expense in continuing operations	(2,343,814)	(1,965,678)
Net (loss) from continuing operations	(17,982,777)	(12,731,789)

Notes to the financial statements

30 June 2012 (continued)

Note 5 Discontinued operation

The Australian PV panel market continued to deteriorate during the year and led to a decision to cease all manufacturing operations at Sydney Olympic Park in May 2012. Subsequent to this, a decision to cease all activities was made.

The current year loss included the impact of further reductions in selling prices and provision for costs associated with the closure, including the negotiated lease settlement cost, dismantling and decommissioning costs, further write downs of fixed assets and inventory, redundancy payments and other costs totalling \$13.4 million.

A summary of the results of the discontinued operation is provided below.

	2012	2011
	\$	\$
Revenue (note 2)	8,192,351	19,266,708
Other income (note 3)	269,657	271,761
Expenses	(27,449,855)	(38,288,446)
(Loss) before income tax	(18,987,847)	(18,749,977)
Income tax expense	–	–
(Loss) after income tax of discontinued operation	(18,987,847)	(18,749,977)
Net cash (outflow) from operating activities	(3,411,963)	(20,886,780)
Net cash inflow / (outflow) from investing activities	180,912	(2,392,935)
Net cash (outflow) from financing activities	–	–
Net cash (outflow) from the discontinued operation	(3,231,051)	(23,279,715)

Note 6 Dividends

No dividends were declared or paid during the year or in the prior year.

Note 7 Events occurring after reporting date

On the 25th September 2012, the US Nuclear Regulatory Commission announced that it had issued a combined construction and operating license to Global Laser Enrichment, the subsidiary of GE responsible for commercialising the SILEX Technology. Other than this, the directors are not aware of any matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years.

Directors' declaration

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2012 as set out on pages 63 to 72 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2012. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report, which is available on request.

This declaration is made in accordance with a resolution of the directors.



Dr M P Goldsworthy
Managing Director



Mr C D Wilks
Director

Sydney, 28 September 2012

Independent auditor's report to the members of Silex Systems Limited



Report on the concise financial report

We have audited the accompanying concise financial report of Silex Systems Limited (the company) which comprises the balance sheet as at 30 June 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited financial report of the company for the year ended 30 June 2012 for Silex Systems Limited Group (the consolidated entity). The concise financial report does not contain all the disclosures required by the Australian Accounting Standards and accordingly, reading the concise financial report is not a substitute for reading the audited financial report.

Directors' responsibility for the concise financial report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal controls as the directors determine are necessary to enable the preparation of the concise financial report.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of the consolidated entity for the year ended 30 June 2012. We expressed an unmodified audit opinion on that financial report in our report dated 28 September 2012. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the concise financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Our procedures include testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of audit evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with AASB 1039 *Concise Financial Reports*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Independent auditor's report to the members of Silex Systems Limited (continued)



We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Silex Systems Limited would be in the same terms if given to the directors as at the date of this auditor's report.

Auditor's opinion

In our opinion, the concise financial report of the company for the year ended 30 June 2012 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

Report on the remuneration report

The following paragraphs are copied from our report on the remuneration report for the year ended 30 June 2012.

We have audited the remuneration report included in pages 30 to 49 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Silex Systems Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited concise financial report

This auditor's report relates to the concise financial report and remuneration report of Silex Systems Limited (the company) for the year ended 30 June 2012 included on Silex Systems Limited web site. The company's directors are responsible for the integrity of the Silex Systems Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the concise financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the concise financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Rod Dring' in a cursive style.

Rod Dring
Partner

Sydney
28 September 2012

Shareholders' information

1. Information relating to shareholders as at 24 September 2012

(a) Distribution schedule

1-1,000	2,284
1,001-5,000	2,563
5,001-10,000	775
10,001-100,000	765
100,001 and over	91
Total number of holders of each class of security	6,478
Voting rights - on a show of hands - on a poll	
Percentage of total holding held by the largest 20 holders	72.32%
Number of total holdings less than a marketable parcel of shares	337

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	29,801,030
M&G Investment*	15,375,371
The Bank of New York Mellon Corporation	14,268,822

* Including M&G Investment Funds (3) & (12), M&G Investment Management Limited, M&G Limited, M&G Group Limited and Prudential plc

Shareholders' information

(continued)

(b) Names of Twenty Largest Holders as at 24 September 2012

Name	Number of securities	Percentage held
Jardvan Pty Ltd	29,801,030	17.52%
HSBC Custody Nominees (Australia) Limited	26,219,112	15.41%
National Nominees Limited	19,245,157	11.31%
J P Morgan Nominees Australia Limited	13,524,522	7.95%
J P Morgan Nominees Australia Limited (Cash Income A/c)	7,521,600	4.42%
Majenta Holdings Pty Ltd	5,703,923	3.35%
Polly Pty Ltd	4,073,863	2.39%
Throvena Pty Ltd	2,978,203	1.75%
Hamlac Pty Ltd	2,525,937	1.48%
Mr Christopher David Wilks	2,405,070	1.41%
Quintal Pty Ltd	2,002,952	1.18%
Citicorp Nominees Pty Limited	1,848,957	1.09%
Truenergy Solar Pty Ltd	1,103,927	0.65%
Mithena Holdings Pty Ltd	817,139	0.48%
Merrill Lynch (Australia) Nominees Pty Limited	721,177	0.42%
BNP Paribas Noms Pty Ltd (Master Cust DRP)	554,176	0.33%
Matrix Investments Pty Limited (Matrix Holdings Account)	511,452	0.30%
Mr Hayden Harvey Prior	500,000	0.29%
RBC Investor Services Australia Nominees Pty Ltd (PISelect)	498,502	0.29%
UBS Wealth Management Australia Nominees Pty Ltd	493,938	0.29%
	123,050,637	72.32%

2. Vendor securities as at 24 September 2012

There are no vendor securities.

Shareholders' information

(continued)

3. Interest of directors in shares as at 24 September 2012

	Ordinary shares	Interest held
Prof S W R Burdon	20,000	Beneficially
Mr R P Campbell	1,354,823	Beneficially
Dr C S Goldschmidt	2,525,937	Beneficially
Dr M P Goldsworthy	5,849,533	Personally/Beneficially
Dr L M McIntyre	-	N/A
Mr C D Wilks	2,794,021	Personally/Beneficially

4. Securities subject to voluntary escrow as at 24 September 2012

	Number on issue	Date escrow period ends
As at 24 September 2012 the following securities were subject to voluntary escrow:		
Ordinary shares	10,000	16 January 2013

5. Unquoted equity securities as at 24 September 2012

	Number on issue	Number of holders
Options issued under the Silex Systems Limited Employee Share Option Plan to take up ordinary shares	2,860,000	53
Other options issued to take up ordinary shares*	1,469,242	2

*These are options to Dr M P Goldsworthy (1,102,207) and Mr C D Wilks (367,035).



Company directory

Directors

Prof S W R Burdon – Chairman
Mr R P Campbell
Dr C S Goldschmidt
Dr M P Goldsworthy – Managing Director/CEO
Dr L M McIntyre
Mr C D Wilks

Remuneration Committee

Prof S W R Burdon – Chairman
Mr R P Campbell
Dr L M McIntyre

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Stock Exchange

Listed on the Australian Stock Exchange

Auditors

PricewaterhouseCoopers

Solicitors

Baker & McKenzie

Bankers

Australia and New Zealand Banking Group Limited

Audit Committee

Mr R P Campbell – Chairman
Prof S W R Burdon
Dr C S Goldschmidt
Dr L M McIntyre

Company Secretary

Ms J E Ducie

Share Registry

Computershare Registry Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide
South Australia 5000, Australia
GPO Box 1903 Adelaide SA 5001, Australia

Enquiries within Australia: 1300 556 161
Enquiries outside Australia: +61 3 9415 4000
Email: web.queries@computershare.com.au
Website: www.computershare.com.au

American Depository Receipts (ADR) Information

Silex Systems Limited has established a Level 1 ADR Program. Silex ADRs may be purchased on the Over-the-Counter “Pink Sheet” (OTC) market.

Details are as follows:

Ratio: 1 ADR = 5 ordinary shares

Symbol: SILXY

CUSIP: 827046 10 3

Exchange: OTC

Country: Australia

