

# **Icelandic Alloys Ltd**

**Financial Statements September 30, 2002**

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## **Ratification by the Board of Directors and the Managing Director**

The Board of Directors and the Managing Director of Icelandic Alloys Ltd. hereby ratify the Financial Statements for the period January 1 - September 30, 2002 with their signatures.

Grundartangi, November 22, 2002

### **Board of Directors:**

Arnfinn Holås

Geir Kvernmo

Haukur Ingibergsson

Marius Grønningsæter

Már Guðmundsson

Stefán Ólafsson

Stefán Reynir Kristinsson

### **Managing Director:**

Frank Bjørklund

## **Auditor's report**

We have reviewed the accompanying Financial Statements of Icelandic Alloys Ltd., which consists of a profit and loss account January 1 - September 30, 2002, balance sheet as of September 30, 2002, cash flow statement as well as notes 1 - 6 and comparative figures from last year.

A review consists principally of inquiries of the Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the Financial Statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review we are not aware of any material modifications that should be made to the accompanying Financial Statements in order for them to be in conformity with generally accepted accounting principles.

Reykjavik, November 22, 2002

**PricewaterhouseCoopers ehf**

Gunnar Sigurðsson

State Authorized Public Accountant

## Profit and Loss Account

	Notes	2002		2001
		1.7-30.9 NOK	1.1-30.9 NOK	1.1-30.9 NOK
<b>Operating income</b>				
Sales .....		111.657	353.377	404.744
Other operating income .....		948	3.662	12.098
Sales expenses. ....		(15.106)	(42.350)	(44.346)
		<u>97.499</u>	<u>314.689</u>	<u>372.496</u>
<b>Operating expenses</b>				
Raw material used .....		46.835	140.934	143.988
Labour .....		12.570	49.882	56.781
Electricity .....		24.340	75.794	73.636
Other operating expenses .....		18.522	49.548	49.056
Depreciation .....	1	8.523	25.569	25.389
Decrease (increase) of finished goods .....		(14.743)	(32.212)	(7.671)
		<u>96.047</u>	<u>309.515</u>	<u>341.179</u>
<b>Operating profit</b>		1.452	5.174	31.317
<b>Financial income (expenses)</b>				
Interest income and dividend .....		161	1.165	481
Interest expense .....		(1.118)	(9.046)	(17.556)
Currency exchange gain (loss) .....		1.138	5.404	(3.232)
		<u>181</u>	<u>(2.477)</u>	<u>(20.307)</u>
<b>Net profit before taxes</b>		1.633	2.697	11.010
Net worth tax .....		(704)	(2.132)	(2.702)
Calculated income tax .....	6	(148)	(258)	3.976
<b>Net profit</b>		<u>781</u>	<u>307</u>	<u>12.284</u>

Amounts in thousands

## Balance Sheet

<b>Assets</b>	<b>Notes</b>	<b>30.9 2002 NOK</b>	<b>31.12 2001 NOK</b>
<b>Fixed assets</b>			
Property, plant and equipment:	1		
Buildings .....		152.864	160.535
Machinery and equipment .....		370.888	382.569
		<u>523.752</u>	<u>543.104</u>
Investments and other non-current assets:			
Deferred tax assets .....	6	19.683	20.112
Shares in other companies .....	2	2.511	1.800
Bonds .....		1.011	1.223
		<u>23.205</u>	<u>23.135</u>
<b>Total fixed assets</b>		546.957	566.239
<b>Current assets</b>			
Stocks .....	3	111.502	82.543
Accounts receivable .....		111.119	149.534
Other receivables .....		23.031	11.347
Cash .....		28.717	95.976
		<u>274.369</u>	<u>339.400</u>
<b>Total assets</b>		<u><u>821.326</u></u>	<u><u>905.639</u></u>

Amounts in thousands

## Balance Sheet

	Notes	30.9 2002 NOK	31.12 2001 NOK
<b>Liabilities and shareholders equity</b>			
<b>Shareholders equity</b>			
	4		
Capital stock .....		100.132	100.132
Premium of paid-in capital stock .....		201.242	201.242
Retained earnings .....		99.605	99.298
		<u>400.979</u>	<u>400.672</u>
<b>Long term liabilities</b>			
Long-term loans .....	5	349.093	429.258
Current portion .....		(237.143)	0
		<u>111.950</u>	<u>429.258</u>
<b>Current Liabilities</b>			
Accounts payable .....		66.096	57.724
Other current liabilities .....		(1.422)	11.157
Current portion of long-term loans .....		237.143	0
Accrued taxes payable .....	6	6.580	6.828
		<u>308.397</u>	<u>75.709</u>
<b>Total liabilities</b>		420.347	504.967
<b>Total liabilities and shareholders equity</b>		<u><u>821.326</u></u>	<u><u>905.639</u></u>

Amounts in thousands

## Statement of Cash Flows

	2002		2001
	1.7-30.9	1.1-30.9	1.1-30.9
	NOK	NOK	NOK
<b>Funds from operating activities</b>			
Cash from operation:			
Net profit (loss) .....	781	307	12.284
Items not affecting cash:			
Depreciation and amortisation of fixed assets .....	8.523	25.569	25.389
Changes in calculated and deferred tax assets .....	162	429	(3.976)
Foreign exchange adjustment on loans .....	(1.749)	(39.995)	(2.682)
	<u>7.717</u>	<u>(13.690)</u>	<u>31.015</u>
Decrease (increase) in operating assets:			
Accounts receivable and other receivables .....	(26.183)	26.731	(40.756)
Stocks .....	(9.593)	(28.959)	(13.129)
Increase (decrease) in liabilities:			
Current liabilities .....	(16.126)	(4.455)	7.164
	<u>(51.902)</u>	<u>(6.683)</u>	<u>(46.721)</u>
<b>Net cash provided by (used in) operating activities</b>	<u>(44.185)</u>	<u>(20.373)</u>	<u>(15.706)</u>
<b>Cash flows from investing activities</b>			
Acquisition cost of fixed assets .....	(2.681)	(6.218)	(4.075)
Long-term cost, changes in marketing agreement .....	0	0	16.502
Acquisition cost of bonds, changes .....	195	195	257
Acquisition cost of shares in other companies .....	(268)	(711)	0
	<u>(2.754)</u>	<u>(6.734)</u>	<u>12.684</u>
<b>Cash flows from financing activities</b>			
Proceeds from new long-term loans .....	34.952	34.952	89.561
Repayment of long-term loans .....	0	(75.104)	(91.456)
	<u>34.952</u>	<u>(40.152)</u>	<u>(1.895)</u>
<b>Increase (decrease) of cash</b>	<u>(11.987)</u>	<u>(67.259)</u>	<u>(4.917)</u>
Cash at beginning of period .....	40.704	95.976	80.520
<b>Cash at end of period</b>	<u><u>28.717</u></u>	<u><u>28.717</u></u>	<u><u>75.603</u></u>

Amounts in thousands



## Accounting Policies

The financial statements are made in accordance with the Financial Statements Act. The principal accounting policies adopted in the preparation of these Financial Statements are mainly the same as last year except as depicted in this chapter.

### Accounting and preparation of financial statements in Norwegian kroner

The Company was granted permission to keep books and prepare financial statements in Norwegian kroner from the beginning of 2002, in accordance with the Accounting Act and the Annual Accounts Act as amended of April 2002. The quarterly and annual financial statements from beginning of the year 2002 are therefore only stated in Norwegian kroner (NOK) with some comparative figures in Icelandic kronur (ISK), together with the corresponding figures for the previous year.

### Operating income

According to the Marketing Agreement between Icelandic Alloys and Elkem the sale of ferrosilicon produced by Icelandic Alloys are exclusively handled by Elkem except sales to Japan. Under the Marketing Agreement Icelandic Alloys enjoys the same net FOB prices for the same quality of ferrosilicon as other Elkem plants.

### Assets and liabilities index linked or in foreign currency

Assets and liabilities in foreign currency are stated at the period-end rate of exchange. Currency exchange losses or gains thereon are stated as financial income or expenses in the profit and loss account.

### Stocks

Stocks are valued at the lower of cost (first-in, first-out for material, labour and overhead production costs) or market.

### Property, plant, equipment and depreciation

Property plant and equipment are stated at historical cost and accumulated depreciation in Norwegian kroner. Depreciation is calculated on a straight line basis, the following annual percentages of cost are used:

Buildings .....	3%
Machinery and other equipment .....	5-12%

## **Accounting Policies**

### **Investment in other companies**

Shares in other companies are stated at face value.

### **Income taxes**

A deferred tax assets based on taxable losses and deductible temporary differences is stated in the Financial Statements in compliance with principles laid down by the Icelandic Accounting Standard Board.

Deductible temporary differences are differences where the carrying amount of an asset in the balance sheet is lower than its tax base, but the difference will be deductible later in determining the taxable profit.

Deferred tax assets are recognised for all deductible temporary differences and the carryforward of unused tax credits to the extent that it is probable that taxable future profit will be available against which the temporary difference and unused tax credit can be utilised.

## Notes

### 1. Property, plant and equipment

Changes in net value of property, plant and equipment:

	Buildings	Machinery and equipment	Total
Amounts are as follows:	NOK	NOK	NOK
Cost 1/1 .....	358.111	667.433	1.025.544
Additions .....	429	5.789	6.218
Total .....	358.540	673.222	1.031.762
Accumul. depreciation 1/1 .....	197.576	284.865	482.441
Depreciation charge .....	8.100	17.469	25.569
Total .....	205.676	302.334	508.010
Net book value .....	152.864	370.888	523.752

Fixed assets´ official valuation is as follows:

	ISK	NOK
Municipal value of buildings .....	3.115.057	267.226
Municipal value of land .....	67.937	5.828
Insurance value of buildings .....	5.141.291	441.047
Insurance value of machinery and equipment .....	7.169.055	615.000

### 2. Investments

Shares in other companies

	Ownership	ISK	NOK
Endurvinnslan hf .....	5,90%	2.100	216
Spölur hf .....	14,65%	12.600	1.299
Klafi efh .....	50,00%	2.500	285
GT Tækni ehf .....	100,00%	5.000	443
Fang ehf .....	100,00%	3.000	268
		25.200	2.511

Amounts in thousands

## Notes

### 3. Stocks

Stocks on hand consists of:

	NOK	
	2002	2001
Raw material .....	18.224	21.319
Finished goods .....	65.568	33.356
Spare parts and sundry goods. ....	27.710	27.868
	111.502	82.543

### 4. Equity

The share capital of the company is ISK 1.090.720 thousands.

Changes in stockholders' equity

	Capital stock	Premium of paid-in capital	Retained earnings	Total
Amounts are as follows:	NOK	NOK	NOK	NOK
Balance 1.1. ....	100.132	201.242	99.298	400.672
Net profit (loss) .....			307	307
Balance at period end .....	100.132	201.242	99.605	400.979

### 5. Long-term liabilities

Specification of long-term liabilities:

	NOK
Loans in USD Floating interest rate tied to LIBOR .....	111.950
Loans in EUR Floating interest rate tied to LIBOR .....	237.143
Total long term liabilities, including current portion .....	349.093

Schedule of repayment of long-term liabilities is as follows:

Period 1/10 2002 - 30/9 2003 .....	237.143
Period 1/10 2003 - 30/9 2004 .....	22.390
Period 1/10 2004 - 30/9 2005 .....	22.390
Period 1/10 2005 - 30/9 2006 .....	22.390
Period 1/10 2006 - 30/9 2007 .....	22.390
Period 1/10 2007 - 30/9 2008 .....	22.390
Total .....	349.093

Amounts in thousands

## Notes

### 6. Income taxes

Accumulated losses to be carried forward for tax purposes amount to ISK 1.717,5 million (NOK 147,3 million) at end of September 2002. The right to utilise transferable losses will expire as follows during the next few years if they are not utilised to offset taxable income during this period:

	ISK	NOK
Operating year 2007 .....	474.345	40.692
Operating year 2008 .....	933.738	80.101
Operating year 2009 .....	272.963	23.416
Operating year 2010 .....	36.486	3.130
Total .....	<u>1.717.532</u>	<u>147.339</u>

Income tax rate was lowered from 30% to 18% at the beginning of 2002. As a consequence, deferred tax assets was written down by ISK 121 million (NOK 13 million) in the 4th quarter 2001. Calculated income tax in the profit and loss account for the nine months ended September 30, 2002 is based on 18% tax rate, but 30% in the corresponding period 2001.

	NOK
Changes in deferred tax assets during the year:	
Deferred tax assets 1.1 .....	20.112
Currency exchange gain (loss) .....	(171)
Calculated income tax for the year .....	<u>(258)</u>
	<u>19.683</u>
Deferred tax assets consist of the following items:	
Property, plant and equipment .....	13.845
Accounts receivable .....	(1.000)
Unused losses .....	<u>26.521</u>
	39.366
Valuation allowance .....	<u>(19.683)</u>
	<u>19.683</u>

Since uncertainty exist about utilisation of all deferred tax assets, the tax asset is lowered by a general 50% valuation allowance.