

Icelandic Alloys Ltd

Annual report 2002

Index

Page

Ratification by the Board of Directors and the Managing Director 2

Auditor's report 3

Profit and loss account 4

Balance sheet 5 - 6

Statement of cash flows 7

Accounting policies 8 - 9

Notes 10 - 12

Five year summary 13

Ratification by the Board of Directors and the Managing Director

The annual report is compiled in accordance with the same accounting principles as last year. It is the Directors opinion that the annual report presents fairly the financial position of the Company at the end of year 2002, the results of its operations during the year, and the changes in the financial position.

Production results in 2002 showed a further improvement throughout the year. The total output of ferrosilicon was 118.810 tons in 2002, an increase of 5,2% from previous year.

The Company suffered yet another year with difficult market conditions and historic low prices.

The total turnover of the Company in 2002 was NOK 456 million. The decrease from the previous year was 8,8%. Net profit of the year was NOK 6,4 million compared to a net loss of NOK 14,2 million in the previous year.

During the year an average of 142 employees were in the service of the Company, which is 31 less than in 2001. An average reduction of 18 was due to outsourcing of services.

At the year-end an offer from Elkem to buy all shares in the Company was still in force.

The proportional ownership distribution was as follows:

New Elkem Holdings Inc. (Elkem ASA) 86,5%

Others 13,5%

The Board of Directors and the Managing Director of Icelandic Alloys Ltd. hereby ratify the Accounts with their signatures.

Grundartangi, February 27, 2003

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

To the Board of Directors and Shareholders of Icelandic Alloys Ltd.

We have audited the financial statements of Icelandic Alloys Ltd. for the year 2002. The financial statements consist of a profit and loss account, a balance sheet as of December 31, a statement of cash flows, summary of accounting principles and notes 1-6. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit is based on our assessment of materiality and risk, and includes an analytical review and examination, on a test bases, of evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, the financial position of Icelandic Alloys Ltd. as of December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with law, the Company's statutes and generally accepted accounting standards in Iceland.

Reykjavik, February 27, 2003

PricewaterhouseCoopers ehf

Gunnar Sigurðsson

Sighvatur Halldórsson

Profit and Loss Account

	Notes	2002 NOK	2001 NOK
Operating income			
Sales		513.557	547.196
Other operating income		3.596	12.709
Sales expenses		<u>(60.970)</u>	<u>(59.834)</u>
		456.183	500.071
Operating expenses			
Raw material used		184.692	192.020
Labour		64.057	75.794
Electricity		100.157	97.693
Other operating expenses		69.106	65.011
Depreciation	1	34.104	33.806
Decrease (increase) of finished goods		<u>(11.201)</u>	<u>718</u>
		440.915	465.042
Operating profit		15.268	35.029
Financial income (expenses)			
Interest income and dividend		1.596	1.248
Interest expense		(12.243)	(22.745)
Currency exchange gain (loss)		4.676	2.458
		<u>(5.971)</u>	<u>(19.039)</u>
Net profit before taxes		9.297	15.990
Net worth tax		(1.907)	(6.870)
Calculated income tax	6	(999)	(23.290)
Net profit (loss)		<u>6.391</u>	<u>(14.170)</u>

Amounts in thousands

Balance Sheet

Assets	Notes	31.12 2002 NOK	31.12 2001 NOK
Fixed assets			
Property, plant and equipment:	1		
Buildings		151.264	160.535
Machinery and equipment		370.181	382.569
		<u>521.445</u>	<u>543.104</u>
Investments and other non-current assets:			
Deferred tax assets	6	19.114	20.112
Shares in other companies	2	2.511	1.800
Bonds		1.011	1.223
		<u>22.636</u>	<u>23.135</u>
Total fixed assets		544.081	566.239
Current assets			
Stocks	3	90.728	82.543
Accounts receivable		143.658	149.534
Other receivables		6.482	11.347
Cash		35.956	95.976
		<u>276.824</u>	<u>339.400</u>
Total assets		<u><u>820.905</u></u>	<u><u>905.639</u></u>

Amounts in thousands

Balance Sheet

	Notes	31.12 2002 NOK	31.12 2001 NOK
Liabilities and shareholders equity			
Shareholders equity			
	4		
Capital stock		100.132	100.132
Premium of paid-in capital stock		201.242	201.242
Retained earnings		105.689	99.298
		<u>407.063</u>	<u>400.672</u>
Long term liabilities			
Long-term loans	5	339.249	429.258
Current portion		(235.053)	0
		<u>104.196</u>	<u>429.258</u>
Current Liabilities			
Accounts payable		56.810	57.724
Other current liabilities		15.296	11.157
Current portion of long-term loans		235.053	0
Accrued taxes payable	6	2.487	6.828
		<u>309.646</u>	<u>75.709</u>
Total liabilities		413.842	504.967
Total liabilities and shareholders equity		<u><u>820.905</u></u>	<u><u>905.639</u></u>

Amounts in thousands

Statement of Cash Flows

	2002 NOK	2001 NOK
Funds from operating activities		
Cash from operation:		
Net profit (loss)	6.391	(14.170)
Items not affecting cash:		
Depreciation and amortisation of fixed assets	34.104	33.806
Changes in calculated and deferred tax assets	998	23.290
Foreign exchange adjustment on loans	(49.841)	(6.293)
Loss on sale of fixed assets	0	534
	<u>(8.348)</u>	<u>37.167</u>
Decrease (increase) in operating assets:		
Accounts receivable and other receivables	10.741	(61.861)
Stocks	(8.185)	(2.624)
Increase (decrease) in liabilities:		
Current liabilities	(1.116)	(16.033)
	<u>1.440</u>	<u>(80.518)</u>
Net cash provided by (used in) operating activities	<u>(6.908)</u>	<u>(43.351)</u>
Cash flows from investing activities		
Acquisition cost of fixed assets	(12.444)	(12.317)
Sale of fixed assets	0	576
Long-term cost, changes in marketing agreement	0	16.502
Acquisition cost of bonds, changes	195	257
Acquisition cost of shares in other companies	(711)	0
	<u>(12.960)</u>	<u>5.018</u>
Cash flows from financing activities		
Proceeds from new long-term loans	34.952	89.561
Repayment of long-term loans	(75.104)	(91.456)
Paid-in capital stock	0	56.725
Cost of offering new shares	0	(1.041)
	<u>(40.152)</u>	<u>53.789</u>
Increase (decrease) of cash	(60.020)	15.456
Cash at beginning of year	95.976	80.520
Cash at end of year	<u>35.956</u>	<u>95.976</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 year-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	5-33%

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	358.112	667.434	1.025.546
Additions	1.494	10.950	12.444
Total	359.606	678.384	1.037.990
Accumul. depreciation 1/1	197.576	284.865	482.441
Depreciation charge	10.766	23.338	34.104
Total	208.342	308.203	516.545
Net book value	151.264	370.181	521.445

Fixed assets´ official valuation is as follows:

	ISK	NOK
Municipal value of buildings	2.556.360	219.336
Municipal value of land	278.596	23.904
Insurance value of buildings	4.487.575	385.034
Insurance value of machinery and equipment	7.400.925	635.000

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 ehf	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	19.319	21.319
Finished goods	44.557	33.356
Spare parts and sundry goods.	26.852	27.868
	90.728	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)			6.391	6.391
Balance at period end	100.132	201.242	105.689	407.063

5. Long-term liabilities

Specification of long-term liabilities:

	NOK
Loans in USD Floating interest rate tied to LIBOR	104.196
Loans in EUR Floating interest rate tied to LIBOR	235.053
Total long term liabilities, including current portion	339.249

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

Year 2003	235.053
Year 2004	20.839
Year 2005	20.839
Year 2006	20.839
Year 2007	20.839
Year 2008	20.840
Total	339.249

Amounts in thousands

Notes

6. Income taxes

Accumulated losses to be carried forward for tax purposes amount to ISK 1.690.462 million (NOK 145,0 million) at end of December 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	474.347	40.699
Operating year 2008	933.738	80.115
Operating year 2009	282.377	24.228
Total	<u>1.690.462</u>	<u>145.042</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.

	NOK
Changes in deferred tax assets during the year:	
Deferred tax assets 1.1	20.112
Currency exchange gain (loss)	(169)
Calculated income tax for the year	(829)
	<u>19.114</u>

Deferred tax assets consist of the following items:

Property, plant and equipment	13.392
Accounts receivable	(1.272)
Unused losses	<u>26.108</u>
	38.228
Valuation allowance	<u>(19.114)</u>
	<u>19.114</u>

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

Five year summary

All amounts are shown in millions of NOK

	2002	2001	2000	1999	1998
Results					
Operating income	456	500	474	311	342
Operating profit	15	35	(17)	(20)	26
Net income	6	(14)	(65)	(23)	42
Financial trends					
Funds from operations	(8)	37	(21)	(8)	67
Investing activities	(13)	5	(56)	(248)	(154)
Changes in working capital	(297)	96	2	19	6
Financial position					
Total assets	821	906	888	815	506
Working capital	(33)	264	168	166	147
Equity	407	401	359	365	364
Key ratios in relation to total income					
Operating profit	3,3%	7,0%	-3,6%	-6,3%	7,7%
Net income	1,4%	-2,9%	-13,8%	-7,2%	12,2%
Other key ratios					
Working capital ratio *	0,9	4,6	2,8	4,2	6,1
Monetary working capital ratio	0,6	3,4	2,0	2,9	4,5
Equity in relation to total assets	49,6%	46,7%	40,4%	44,8%	71,9%
Net income in relation to equity	1,6%	-3,8%	-17,8%	-6,2%	13,0%

* Change in working capital ratio between 2001 and 2002 is mainly because of estimated payment of NOK 235 million long-term loan in August 2003, according to agreement with financial institutions from 1998 regarding credit facility for a specific period of time. It is the management intention to obtain new long-term loan to refinance the loan on its maturity date.