Brønnøysundregistrene

# ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2012 - GENERELL INFORMASJON

**Enheten**

| | |
|---|---|
| Organisasjonsnummer: | 911 382 008 |
| Organisasjonsform: | Allmennaksjeselskap |
| Foretaksnavn: | ELKEM ASA |
| Forretningsadresse: | Drammensveien 169<br>0277 OSLO |

**Regnskapsår**

| | |
|---|---|
| Årsregnskapets periode: | 01.01.2012 - 31.12.2012 |

**Konsern**

| | |
|---|---|
| Morselskap i konsern: | Ja |
| Konsernregnskap lagt ved: | Ja |

**Regnskapsregler**

| | |
|---|---|
| Regler for små foretak benyttet: | Nei |
| Benyttet ved utarbeidelsen av årsregnskapet til selskapet: | Regnskapslovens alminnelige regler |
| Benyttet ved utarbeidelsen av årsregnskapet til konsernet: | IFRS |

**Årsregnskapet fastsatt av kompetent organ**

| | |
|---|---|
| Bekreftet av representant for selskapet: | Øyvind Holen |
| Dato for fastsettelse av årsregnskapet: | 20.06.2013 |

**Grunnlag for avgivelse**

År 2012: Årsregnskapet er elektronisk innlevert

År 2011: Tall er hentet fra elektronisk innlevert årsregnskap fra 2012

*Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.*

Brønnøysundregistrene, 09.04.2023

# Resultatregnskap

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| **Inntekter** | | | |
| Revenue | | 5 587 322 000 | 6 912 674 000 |
| Other operating income | | 11 880 000 | 1 566 000 |
| **Sum inntekter** | 2 | **5 599 202 000** | **6 914 240 000** |
| | | | |
| **Kostnader** | | | |
| Cost of goods sold | | 4 227 105 000 | 5 068 972 000 |
| Salaries and related expenses | 3,4 | 552 856 000 | 463 695 000 |
| Amortisation, depreciation and impairment losses | 9 | 111 586 000 | 104 458 000 |
| Nedskrivning av varige driftsmidler og immaterielle eiendeler | | 4 010 000 | 1 111 000 |
| Other operating expenses | 5,6 | 828 524 000 | 823 619 000 |
| **Sum kostnader** | | **5 724 081 000** | **6 461 855 000** |
| | | | |
| **Driftsresultat** | | **-124 879 000** | **452 385 000** |
| | | | |
| **Finansinntekter og finanskostnader** | | | |
| Income from subsidiaries | | 131 244 000 | 49 855 000 |
| Renteinntekt fra foretak i samme konsern | 7 | 147 257 000 | 136 982 000 |
| Finance income | 7 | 434 329 000 | 29 016 000 |
| **Sum finansinntekter** | | **712 830 000** | **215 853 000** |
| | | | |
| Write down on shares in subsidiaries | 1 | 383 259 000 | 1 719 000 |
| Rentekostnad til foretak i samme konsern | 7 | 270 204 000 | 159 510 000 |
| Finance expenses | 7 | 18 908 000 | 639 389 000 |
| **Sum finanskostnader** | | **672 371 000** | **800 618 000** |
| | | | |
| **Netto finans** | 7 | **40 459 000** | **-584 765 000** |
| | | | |
| **Ordinært resultat før skattekostnad** | | **-84 420 000** | **-132 380 000** |
| Tax (expenses)/income | 8 | 32 721 000 | -74 971 000 |
| **Ordinært resultat etter skattekostnad** | | **-117 141 000** | **-57 409 000** |
| | | | |
| **Årsresultat** | | **-117 141 000** | **-57 409 000** |

# Balanse

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| **EIENDELER** | | | |
| **Anleggsmidler** | | | |
| **Immaterielle eiendeler** | | | |
| Development | 9 | 9 123 000 | 9 123 000 |
| It systems and programs | 9 | 16 549 000 | 15 704 000 |
| Intangible assets under construction | 9 | 31 919 000 | 443 000 |
| Utsatt skattefordel | 8 | 3 252 000 | 24 329 000 |
| **Sum immaterielle eiendeler** | | **60 843 000** | **49 599 000** |
| **Varige driftsmidler** | | | |
| Land and other property | 9 | 16 310 000 | 15 890 000 |
| Buildings | 9 | 243 303 000 | 221 601 000 |
| Machinery and plants | 9 | 511 150 000 | 482 024 000 |
| Equipment, furniture and transportvehicles | 9 | 25 445 000 | 20 076 000 |
| Construction in progress | 9 | 153 689 000 | 107 847 000 |
| **Sum varige driftsmidler** | | **949 897 000** | **847 438 000** |
| **Finansielle anleggsmidler** | | | |
| Investering i datterselskap | 10 | 3 838 737 000 | 4 106 473 000 |
| Investering i annet foretak i samme konsern | 12 | 3 259 000 | 3 339 000 |
| Lån til foretak i samme konsern | 13 | 3 431 545 000 | 3 074 095 000 |
| Other non-current assets | 13 | 15 890 000 | 23 105 000 |
| **Sum finansielle anleggsmidler** | | **7 289 431 000** | **7 207 012 000** |
| **Sum anleggsmidler** | | **8 300 171 000** | **8 104 049 000** |
| **Omløpsmidler** | | | |
| **Varer** | | | |
| Inventories | 14 | 646 465 000 | 752 949 000 |
| **Sum varer** | | **646 465 000** | **752 949 000** |
| **Fordringer** | | | |
| Account receivables | 15 | 642 720 000 | 702 375 000 |
| Other current assets | 16 | 236 461 000 | 435 347 000 |
| **Sum fordringer** | | **879 181 000** | **1 137 722 000** |

# Balanse

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| **Bankinnskudd, kontanter og lignende** | | | |
| Cash and cash equivalents | 17 | 37 627 000 | 27 642 000 |
| **Sum bankinnskudd, kontanter og lignende** | | **37 627 000** | **27 642 000** |
| | | | |
| **Sum omløpsmidler** | | **1 563 273 000** | **1 918 313 000** |
| | | | |
| **SUM EIENDELER** | | **9 863 444 000** | **10 022 362 000** |
| | | | |
| **EGENKAPITAL OG GJELD** | | | |
| | | | |
| **Egenkapital** | | | |
| **Innskutt egenkapital** | | | |
| Share capital | 18 | 1 500 000 000 | 1 500 000 000 |
| Overkursfond | 18 | 1 094 315 000 | 1 094 315 000 |
| **Sum innskutt egenkapital** | | **2 594 315 000** | **2 594 315 000** |
| | | | |
| **Opptjent egenkapital** | | | |
| Fund | 18 | 1 260 000 | 1 401 000 |
| Udekket tap | 18 | 161 004 000 | 22 201 000 |
| **Sum opptjent egenkapital** | | **-159 744 000** | **-20 800 000** |
| | | | |
| **Sum egenkapital** | | **2 434 571 000** | **2 573 515 000** |
| | | | |
| **Langsiktig gjeld** | | | |
| Pensjonsforpliktelser | 4 | 70 598 000 | 73 828 000 |
| Provision an dother non-current liabilities | 22 | 13 360 000 | 1 963 000 |
| **Sum avsetninger for forpliktelser** | | **83 958 000** | **75 791 000** |
| **Annen langsiktig gjeld** | | | |
| Gjeld til kredittinstitusjoner | 20 | 6 459 000 | 12 339 000 |
| Langsiktig konserngjeld | 20 | 5 487 303 000 | 5 922 575 000 |
| Financial lease | 20 | 14 543 000 | 17 202 000 |
| **Sum annen langsiktig gjeld** | | **5 508 305 000** | **5 952 116 000** |
| | | | |
| **Sum langsiktig gjeld** | | **5 592 263 000** | **6 027 907 000** |
| | | | |
| **Kortsiktig gjeld** | | | |
| Bank financing | 20 | 527 119 000 | 257 120 000 |

# Balanse

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| Financial lease | 20 | 7 435 000 | 3 778 000 |
| Leverandørgjeld | | 510 302 000 | 557 355 000 |
| Kortsiktig konserngjeld | 20 | 529 417 000 | 325 085 000 |
| Other current liabilities | 23 | 255 875 000 | 262 740 000 |
| Accrued interest | 20 | 6 462 000 | 14 862 000 |
| **Sum kortsiktig gjeld** | | **1 836 610 000** | **1 420 940 000** |
| | | | |
| **Sum gjeld** | | **7 428 873 000** | **7 448 847 000** |
| | | | |
| **SUM EGENKAPITAL OG GJELD** | | **9 863 444 000** | **10 022 362 000** |

# Konsernets resultatregnskap

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| **Inntekter** | | | |
| Revenue | | 8 055 032 000 | 9 461 438 000 |
| Other operating income | | 128 684 000 | 86 375 000 |
| **Sum inntekter** | 2 | **8 183 716 000** | **9 547 813 000** |
| **Kostnader** | | | |
| Cost of goods sold | | 4 339 133 000 | 4 227 683 000 |
| Salaries and related expenses | 3,4 | 1 374 760 000 | 1 424 917 000 |
| Amortisation and depreciation | 10 | 651 311 000 | 651 875 000 |
| Nedskrivning av varige driftsmidler og immaterielle eiendeler | 10 | 5 841 000 | 34 740 000 |
| Other operating expenses | 5,6 | 2 114 640 000 | 2 506 149 000 |
| Other gains and losses | 7 | 551 915 000 | 86 778 000 |
| **Sum kostnader** | | **9 037 600 000** | **8 932 142 000** |
| **Driftsresultat** | | **-853 884 000** | **615 671 000** |
| **Finansinntekter og finanskostnader** | | | |
| Income from associates | 12 | 2 968 000 | 4 039 000 |
| Annen renteinntekt | 8 | 39 269 000 | 57 193 000 |
| Annen finansinntekt | 8 | 422 069 000 | 2 480 000 |
| **Sum finansinntekter** | 8 | **464 306 000** | **63 712 000** |
| Annen rentekostnad | 8 | 276 450 000 | 234 584 000 |
| Annen finanskostnad | | 14 134 000 | 587 141 000 |
| **Sum finanskostnader** | | **290 584 000** | **821 725 000** |
| **Netto finans** | | **173 722 000** | **-758 013 000** |
| **Ordinært resultat før skattekostnad** | | **-680 162 000** | **-142 342 000** |
| Tax income | 9 | -225 168 000 | -48 023 000 |
| **Ordinært resultat etter skattekostnad** | | **-454 994 000** | **-94 319 000** |
| Profit for the year from discontinued operations | | | 1 802 000 |
| **Årsresultat** | | **-454 994 000** | **-92 517 000** |
| Minoritetsinteresser | | 17 598 000 | 20 996 000 |
| **Årsresultat etter minoritetsinteresser** | | **-472 592 000** | **-113 513 000** |

# Konsernets resultatregnskap

| Beløp i: NOK | Note | 2012 | 2011 |
| --- | --- | --- | --- |

# Konsernets balanse

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| **EIENDELER** | | | |
| **Anleggsmidler** | | | |
| **Immaterielle eiendeler** | | | |
| Development | 10 | 86 982 000 | 104 793 000 |
| Other intangible assets | 10 | 15 873 000 | 17 569 000 |
| It systems and programs | 10 | 35 619 000 | 33 324 000 |
| Intangible assets under construction | 10 | 42 482 000 | 443 000 |
| Utsatt skattefordel | 9 | 34 685 000 | 16 560 000 |
| Goodwill | 10 | 135 836 000 | 149 501 000 |
| **Sum immaterielle eiendeler** | | **351 477 000** | **322 190 000** |
| **Varige driftsmidler** | | | |
| Land and other property | 10 | 75 914 000 | 68 447 000 |
| Buildings | 10 | 2 793 138 000 | 2 916 868 000 |
| Machinery and plants | 10 | 3 462 417 000 | 3 599 117 000 |
| Equipment, furniture and transportvehicles | 10 | 113 976 000 | 189 406 000 |
| Construction in prograss | 10 | 466 960 000 | 364 163 000 |
| **Sum varige driftsmidler** | | **6 912 405 000** | **7 138 001 000** |
| **Finansielle anleggsmidler** | | | |
| Investering i annet foretak i samme konsern | 11,12 | 25 216 000 | 26 629 000 |
| Other non-current assets | 13 | 315 021 000 | 836 979 000 |
| **Sum finansielle anleggsmidler** | | **340 237 000** | **863 608 000** |
| **Sum anleggsmidler** | | **7 604 119 000** | **8 323 799 000** |
| **Omløpsmidler** | | | |
| **Varer** | | | |
| Inventories | 14 | 1 989 926 000 | 2 262 862 000 |
| **Sum varer** | | **1 989 926 000** | **2 262 862 000** |
| **Fordringer** | | | |
| Accounts receivables | 15 | 915 115 000 | 987 182 000 |
| Other current assets | 16 | 424 105 000 | 709 019 000 |
| **Sum fordringer** | | **1 339 220 000** | **1 696 201 000** |

# Konsernets balanse

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| **Bankinnskudd, kontanter og lignende** | | | |
| Cash and cash equivalents | 17 | 673 725 000 | 688 578 000 |
| **Sum bankinnskudd, kontanter og lignende** | | **673 725 000** | **688 578 000** |
| | | | |
| **Sum omløpsmidler** | | **4 002 871 000** | **4 647 641 000** |
| | | | |
| **SUM EIENDELER** | | **11 606 990 000** | **12 971 440 000** |
| | | | |
| **EGENKAPITAL OG GJELD** | | | |
| | | | |
| **Egenkapital** | | | |
| **Innskutt egenkapital** | | | |
| Share capital | | 1 500 000 000 | 1 500 000 000 |
| Overkursfond | | 1 094 314 000 | 1 094 314 000 |
| Annen innskutt egenkapital | | 55 465 000 | 55 465 000 |
| **Sum innskutt egenkapital** | | **2 649 779 000** | **2 649 779 000** |
| | | | |
| **Opptjent egenkapital** | | | |
| Annen Egenkapital | | 1 571 077 000 | 2 263 570 000 |
| Minoritetsinteresser | | 84 008 000 | 79 476 000 |
| **Sum opptjent egenkapital** | | **1 655 085 000** | **2 343 046 000** |
| | | | |
| **Sum egenkapital** | | **4 304 864 000** | **4 992 825 000** |
| | | | |
| **Langsiktig gjeld** | | | |
| Pensjonsforpliktelser | 4 | 217 575 000 | 236 053 000 |
| Utsatt skatt | 9 | 39 076 000 | 336 611 000 |
| Provision an other non-current liabilities | 22,24 | 207 237 000 | 165 101 000 |
| **Sum avsetninger for forpliktelser** | | **463 888 000** | **737 765 000** |
| **Annen langsiktig gjeld** | | | |
| Non-current interest-bearing debt | 20 | 5 473 764 000 | 31 049 000 |
| **Sum annen langsiktig gjeld** | | **5 473 764 000** | **31 049 000** |
| | | | |
| **Sum langsiktig gjeld** | | **5 937 652 000** | **768 814 000** |
| | | | |
| **Kortsiktig gjeld** | | | |
| Leverandørgjeld | | 596 679 000 | 634 021 000 |

## Konsernets balanse

| Beløp i: NOK | Note | 2012 | 2011 |
|---|---|---|---|
| Income tax payable | 9 | 6 104 000 | 62 342 000 |
| Interest-bearing current liabilities | 20 | 285 374 000 | 5 920 276 000 |
| Other current liabilities | 23 | 476 317 000 | 593 160 000 |
| **Sum kortsiktig gjeld** | | **1 364 474 000** | **7 209 799 000** |
| **Sum gjeld** | | **7 302 126 000** | **7 978 613 000** |
| **SUM EGENKAPITAL OG GJELD** | | **11 606 990 000** | **12 971 438 000** |

# FINANCIAL STATEMENT

## Elkem AS

2012

## INCOME STATEMENT - ELKEM AS

| *Amounts in NOK 1000*<br>*1st January - 31st December 2012* | Note | 2012 | 2011 |
|---|---|---|---|
| Revenue | | 5 587 322 | 6 912 674 |
| Other operating income | | 11 880 | 1 566 |
| **Total operating income** | 2 | **5 599 202** | **6 914 240** |
| Cost of goods sold | | (4 227 105) | (5 068 972) |
| Salaries and related expenses | 3,4 | (552 856) | (463 695) |
| Other operating expenses | 5,6 | (828 524) | (823 619) |
| Amortisation, depreciation and impairment losses | 9 | (115 596) | (105 569) |
| **Total operating costs** | | **(5 724 081)** | **(6 461 855)** |
| **Operating profit** | | **(124 879)** | **452 385** |
| Finance income | | 581 586 | 165 998 |
| Finance expenses | | (289 112) | (798 899) |
| Finance expenses net | 7 | 292 474 | (632 901) |
| Income from subsidiaries | | 131 244 | 49 855 |
| Write down on shares in subsidiaries | 1 | (383 259) | (1 719) |
| Net loss from investments in subsidiaries | 10 | (252 015) | 48 136 |
| **Profit before income tax** | | **(84 420)** | **(132 380)** |
| Tax (expenses)/income | 8 | (32 721) | 74 971 |
| **Profit for the year** | | **(117 141)** | **(57 409)** |

## BALANCE SHEET - ELKEM AS

| *Amounts in NOK 1000* | Note | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 9 | 949 897 | 847 438 |
| Intangible assets | 9 | 57 591 | 25 270 |
| Deferred tax assets | 8 | 3 252 | 24 329 |
| Investments in subsidiaries | 10 | 3 838 737 | 4 106 473 |
| Investments in associates and other companies | 12 | 3 259 | 3 339 |
| Other non-current assets | 13 | 3 447 435 | 3 097 200 |
| **Total non-current assets** | | **8 300 171** | **8 104 049** |
| Inventories | 14 | 646 465 | 752 949 |
| Accounts receivables | 15 | 642 720 | 702 375 |
| Other current assets | 16 | 236 461 | 435 347 |
| Cash and cash equivalents | 17 | 37 627 | 27 642 |
| **Total current assets** | | **1 563 273** | **1 918 313** |
| **TOTAL ASSETS** | | **9 863 444** | **10 022 362** |
| **EQUITY AND LIABILITIES** | | | |
| Paid-in capital | | 2 594 315 | 2 594 315 |
| Retained earnings | | (159 744) | (20 800) |
| **Total equity** | 18 | **2 434 571** | **2 573 515** |
| Non-current interest-bearing liabilities | 20 | 5 508 305 | 5 952 116 |
| Pension liabilities | 4 | 70 598 | 73 828 |
| Provisions and other non-current liabilities | 22 | 13 360 | 1 963 |
| **Total non-current liabilities** | | **5 592 263** | **6 027 907** |
| Accounts payables | | 510 302 | 557 355 |
| Current interest-bearing liabilities | 20 | 1 070 433 | 600 845 |
| Other current liabilities | 23 | 255 875 | 262 740 |
| **Total current liabilities** | | **1 836 610** | **1 420 940** |
| **TOTAL EQUITY AND LIABILITIES** | | **9 863 444** | **10 022 362** |

Oslo, 19. June 2013

Xiaobao Lu
Chairman of the board

Einar Støfringshaug

Espen Sortevik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

The notes 1 to 27 and the accounting policies are an integrated part of these financial statements.

## CASH FLOW STATEMENT - ELKEM AS

| *Amounts in NOK 1000*<br>*1st January - 31st December 2012* | 2012 | 2011 |
|---|---|---|
| Operating profit | (124 879) | 452 385 |
| Profit sold companies | | (174 790) |
| | | |
| Amortisation, depreciation and impairment changes | 115 596 | 105 569 |
| Changes in net working capital | 288 182 | (306 626) |
| Interest payments received | 83 871 | 116 137 |
| Interest payments made | (289 722) | (198 514) |
| Income taxes paid | (3 433) | (1 860) |
| **Cash flow from operating activities** | **69 615** | **(7 700)** |
| | | |
| Investments in property, plant and equipment and intangible assets | (201 987) | (177 517) |
| Sale of property, plant and equipment | 4 140 | 138 |
| Sale of subsidiary | 0 | 1 066 715 |
| Acquisition of subsidiary | (158 047) | (97 506) |
| Increase / decrease in loans to subsidiaries | (232 502) | 88 484 |
| Dividend received | 76 643 | 15 990 |
| **Cash flow from investing activities** | **(511 753)** | **896 304** |
| | | |
| Group contribution paid | | (470 314) |
| Capital reduction | | (4 861 493) |
| Repayment of loans former shareholder | | (2 378 577) |
| New loans raised new shareholder | | 6 848 054 |
| New loans raised | 499 526 | |
| Repayment of loans | (47 475) | (57 699) |
| **Cash flow from financing activities** | **452 051** | **(920 029)** |
| | | |
| **Change in Cash and cash equivalents** | **9 913** | **(31 425)** |
| | | |
| Currency exchange differences | 72 | (51) |
| | | |
| **Net change in cash and cash equivalents** | **9 985** | **(31 476)** |
| | | |
| **Cash and cash equivalents Opening balance** | **27 642** | **59 118** |
| **Cash and cash equivalents Closing balance** | **37 627** | **27 642** |

**GENERAL INFORMATION**

Elkem AS is a company located in Norway, producing Silicon Metal, FerroSilicon and Microsilica. The company was aquired by Bluestar Elkem International Co. Ltd. S.A.R.L, Luxembourg, on April 14th 2011. Through the acquisition Elkem AS is fully owned by China National Bluestar (Group) Co. Ltd ("Bluestar").

**SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway. The accounts are prepared on the basis of a going concern assumption.

**Changes in accounting policies**
Changes in accounting policies are recognized directly in the equity, and the opening balance is adjusted as if the new accouting policy had always been applied. Last year's figures are changed correspondingly, for comparative purposes.

**Accounting estimates**
In the event of uncertainty, the best estimate is applied, based on the information available when the annual accounts are prepared. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The use of estimates and assumptions have affected assets, liabilities, incomes, expences and information on potential liabilities, in accordance with generally accepted accounting principles in Norway. See also note 1.

**Foreign currency translation**
Elkem AS' functional currency is Norwegian Kroner (NOK).
Transactions in currencies other than the entity's functional currency are translated using the transaction date's currency rate, if the transaction is not a part of a hedging relationship. If the transaction is hedged the currency rate of the hedging instrument is used. Monetary items in foreign currencies are presented at the exchange rate applicable on the balance sheet date.

**Revenue recognition**
Sales revenues are presented net of VAT and discounts. Revenues from goods sold are recognized when the significant risk and reward of the ownership of the goods are transferred to the buyer, according to the actual delivery term for each sale. Revenues and sales expenses, related to the same transaction, are recognized in the same period.
Income from insurance settlements are recognized in the profit and loss when there is reasonable assurance that the Elkem AS will receive the compensation. Interest income is recognized on accrual basis. Dividend is recognized when shareholders right to receive dividend are resolved by the shareholder's meeting.

**Investment in subsidiaries, associates and jointly controlled entities**
Subisidiaries are companies where Elkem AS have controlling interests, normally obtained when Elkem AS own more than 50% of the shares.
Associates are those entities in which Elkem AS has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when Elkem AS holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities Elkem AS has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

<u>Subsidiaries</u>
Interests in subsidiaries are recognized at cost less any writedown for impairment. An impairment loss is recognized if the impairment is considered not to be temporary.

<u>Associates</u>
Investments in associates are accounted for using the equity method and are recognized initially at cost.
Elkem AS' share of the associates' profit and loss are included in Elkems' Financial Statement and presented on a single line in the Income Statement and Balance Sheet.

<u>Joint ventures</u>
Elkem AS' interests in jointly controlled entities are accounted for by proportionate consolidation. Elkem AS combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the financial statements.

**Intangible assets**
Intangible assets are stated in the financial statement at cost less subsequent accumulated amortization and subsequent accumulated impairment losses. Intangible assets with a finite useful life are amortized, using the straight-line method. The estimated useful lives and amortization method are reviewed at the end of each reporting period.

An intangible asset is derecognized on disposal, or when no future economic benefits from its use is expected to be derived. Gain or loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the income statement.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An intangible asset arising from an internal development project is recognized where technically feasibility of completing the intangible asset is demonstrated and the company has intention and ability to complete and to use the asset. In addition, costs related to internal development projects that are recognized as assets must be determined reliably and probable future benefits must be demostrated.

**Property, plant and equipment**
Property, plant and equipment are presented at cost, less accumulated depreciations and any accumulated impairment losses. Construction in progress are carried at cost, less any recognized impairment loss. Such assets are classified to the appropriate class of property, plant and equipment when completed and ready for it's intended use. Significant parts of an item of property, plant and equipment which have different useful lives, are accounted for as separate items. Depreciation commences when the assets are ready for their intended use.

Initial costs include expenditures that are directly attributable to the acquisition of the asset. Self-constructed assets include the cost of materials and direct labor, any other costs directly attributable to bringing the assets to working condition for their intended use, including estimated dismantling or removing charges if applicable, and capitalized borrowing costs.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when future benefits are probable and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. Major periodic maintenance that is carried out less frequently than every year is capitalized and depreciated over the period until the next periodic maintenance is performed. All other repairs and maintenance are charged to the income statement when incurred.

Depreciation is recognized using the straight-line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each reporting period.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the income statement.

**Impairment of tangible and intangible assets**
At the end of each reporting period, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indications exist, the recoverable amount of the individual asset is estimated in order to determine the extent of the impairment loss/write down. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the lowest possible cash generating unit, to which the asset belongs, is estimated. The recoverable amount is the higher of fair value less costs to sell, or its value in use. Value in use is the present value of the future cash flows expected to be derived from use of the cash generating unit, after taking into accounts all other relevant information. If an impairment loss for assets other than goodwill is recognized in a previous period, the entity assesses whether there are indications that the impairment may have decreased or no longer exist. If so, the impairment loss/writedown is reversed, based on an updated estimate of the recoverable amount, but not exceeding the carrying amount that would have been determined had no impairment loss been recognized for the asset.

**Leasing**
Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease.
Assets held under finance leases are initially recognized as assets at the present value of the minimum lease payment.
The corresponding liability to the lessor is included in the financial statements as a finance lease obligation.
Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the obligation.

**Non-derivative financial assets and liabilities**
Purchases and sales of financial assets are recognized at the date of transaction on which Elkem AS is committed to the purchase or sale of the asset.

At initial recognition, the financial assets are carried in the balance sheet at fair value plus any transaction costs directly attributable to the acquisition or issue of the asset. Financial assets are derecognized once the right to future cash flows have expired or when substantially all risks and rewards related to control of the assets are transferred to a third party.

Financial assets with a maturity exceeding one year are classified as non-current financial assets. Short term investments that do not meet the definitions of a cash equivalent and financial assets with a maturity of less than one year are classified as current financial assets.

Non-current financial assets are recognized and subsequently measured at cost less any impairment loss, if the impairment is assesed not to be temporary.

Financial assets classified as held for trading are assets that have been acquired for the purpose of selling in the near term. These assets are carried in the balance sheet at fair value with gains or losses recognized in the income statement.

**Loans and Receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. They are recognized at amortized cost using the effective interest method.
Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. An impairment loss is recognized when the carrying amount exceeds the estimated recoverable amount.

The category includes operating receivables, deposits, guarantees and loans. These assets are classified in the balance sheet as non-current assets or other current assets, if the repayment schedule is less than one year.

**Trade and other receivables**
Trade and other receivables are recognized at nominal value less provisions for doubtful accounts.

**Cash and cash equivalents**
Cash and cash equivalents are held for the purpose of meeting short term fluctuations in liquidity, rather than for investment purposes. Cash and cash equivalents comprise cash fund and short term deposits. Bank overdrafts are shown within current interest bearing liabilitie in the balance sheet. Deposits and drawings within the Group Bank Accounts are netted by offsetting deposits against withdrawals.

**Derivative financial instruments**
Derivatives are initially recognized at fair value at the date when derivative contracts are entered into, and are subsequently remeasured to their fair value at the end of the reporting period, except contracts for the entity's own use. The resulting gain or loss is recognized in the income statement immediately, unless the derivative is designated and is effective as a hedging instrument. If the derivative is designated as a hedging instrument, timing of recognition in the income statement depends on the nature of the hedging relationship.

Contracts for the entity's own use are contracts which are entered into and continue to be held for the purpose of the receipt of a non-financial item according to the Group's usage requirements. This is related to purchase of power for use in the plants production processes.

**Hedge accounting**
Elkem AS designates certain derivatives as hedging instruments for fair value hedges and cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges, are recognized in profit or loss immediately together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, are recognized in the equity and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that where reported in equity is immediately transferred to the income statement.

**Inventories**
Inventories are recognized at the lowest of cost and net realizable value. The cost of inventory comprice the costs incurred in bringing the goods to their current condition and location, like raw materials, energy for smelting, direct labor, other direct costs and production overhead costs based on normal capasity. Net realizable value represents the estimated selling price for inventories less estimated costs of completion and variable selling expenses.

**Taxation**
Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Current tax payable includes any adjustment to tax payable in respect of previous years. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity. Income tax relating to items recognized directly in equity is recognized in equity, not in the income statement.
Uncertain tax positions are included when it is probable that the tax position will be sustained in a tax review, and provisions are made relating to uncertain or disputed tax positions at the amount expected to be paid. The provision is reversed when the disputed tax position is settled in favor of the entity and can no longer be appealed.

Deferred tax
Deferred tax assets and liabilities are calculated using the liability method with full allocation for all temporary differences between the tax base and the carrying amount of assets and liabilities in the financial statements, including tax losses carried forward.
Deferred tax relating to items outside profit or loss is recognized outside profit and loss. Deferred tax items are recognized in correlation to the underlying transaction either in other profit and loss or directly in equity.
Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.
Deferred tax assets are recognized in the statement of financial position to the extent it is more likely than not that the tax assets will be utilised. The enacted tax rate at the end of the reporting period and undiscounted amounts are used.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

**Employee benefits**
Employees benefits are calculated and accounted for based on IAS 19, according to NRS 6.67.
Elkem AS changed it's policy 1.1.2011 and has from then recognized actuarial gains/losses directly in the equity.

Defined contribution plans
Defined contribution plans comprise arrangements whereby the company makes monthly contributions to the employees' pension plans, and where the future pensions are determined by the amount of the contributions and the return on the pension plan asset. The company's contribution constitute from 4 to 8 % of the basic salary between 1 and 12 G (G stands for the Norwegian Public Pension Base Rate, which is adjusted annually. In 2012 1G was equal to 81 153 NOK). A separate contribution plan is established for salary above 12 G. Payments related to the contribution plans are expensed as incurred.

Defined benefit plans
Defined benefit plan is recognized at present value of future liabilities considered retained at the end of reporting period.
Plan assets are recorded at fair value. Changes in benefit liabilities due to changes in benefit plan, is distributed over average remaining contribution time. Actuarial gains/losses due to changes in financial and actuarial assumptions are from 1.1.2011 recognized directly in the equity. Net pension benefit costs are classified as part of Salary and other employee remunerations.

**Provisions**
A provision is recognized when a present obligation exists and it is probable that an outflow of resources is required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation, known at the end of the reporting period. Provisions are measured at present value, unless the timevalue is assessed to be immaterial.

**Government grants**
Government grants are recognized when there is reasonable assurance that Elkem AS will comply with the conditions attaching them, and that the grants will be received. Government grants are recognized in the income statement over the periods necessary to match them with the cost they are intended to compensate.

**Contingent assets and liabilities**
Contingent assets are not recognized, but presented in the notes if probable.
Contingent liabilities are liabilities which is not recognized because they are possible obligations that not yet have been confirmed, or they are present obligations where an outflow of resources are not probable. Any significant contingent liabilities are disclosed in the notes.

**Events after the reporting period**
Events after the reporting period related to Elkem AS' financial position at the end of the reporting period, are considered in the financial statement. Events after the reporting period that have no effect on the Group's financial position at the end of the reporting period, but will have effect on future financial position, are disclosed if the future effect is material.

**NOTES TO FINANCIAL STATEMENT - ELKEM AS**
*NOK 1000*

## 1. ACCOUNTING ESTIMATES

In the event of uncertainty, the best estimate is applied, based on the information available when the annual accounts are prepared.
The most significant accoutning estimates in the figures as of 31.12.2012 are shares in Elkem AS's subsidiary Elkem Solar AS, with a cost price of 2 811 362 TNOK. The difficult market situation for Elkem Solar and a temporary shut down of the plant have resultet in accumulated losses. The shares are therefore written down to 2 428 075 TNOK, equal to Elkem Solar AS' equity as of 31.12.2012, see note 10 Investment in subsidiaries. Also a long term interest bearing receivable on Elkem Solar is included in the financial statement, with a booked value of 1 848 016 TNOK, specified in note 13 Other non-current assets.
Based on the difficult market situation and a temporary shut down of the production, Elkem Solar has been tested for impairment. The estimated discounted cash flows were assesed to be in line with net booked value of the assets, hence no write down of fixed assets has been booked in Elkem Solar financial statements as of 31.12.2012. See note 10 Property, plant and equipment and intangible assets, in Elkem AS Group's consolidated statement, for information about sensitivity of the impairment test.

## 2. INCOME

| Bye type | 2012 | 2011 |
|---|---|---|
| Revenue from sale of goods | 4 770 163 | 5 947 680 |
| Revenue - group | 626 549 | 649 917 |
| Other operating revenue | 39 062 | 217 685 |
| Other operating revenue - group | 151 548 | 97 392 |
| Total revenue | 5 587 322 | 6 912 674 |
| Other operating income | 11 880 | 1 566 |
| **Total operating income** | **5 599 202** | **6 914 240** |

| Revenue by geographic market | 2012 | 2011 |
|---|---|---|
| Nordic Countries | 624 778 | 714 533 |
| Great Britain | 285 810 | 392 042 |
| Germany | 1 353 685 | 1 290 378 |
| France | 190 741 | 237 664 |
| Italy | 321 877 | 147 413 |
| Switzerland | 25 195 | 632 564 |
| The Netherlands | 73 947 | 223 734 |
| Poland | 140 806 | 142 730 |
| Other European countries | 493 374 | 556 593 |
| Africa | 15 542 | 9 247 |
| The Americas | 283 767 | 281 404 |
| China | 3 247 | 2 605 |
| Japan | 424 695 | 479 644 |
| South Korea | 191 308 | 565 748 |
| Other Asian countries | 315 196 | 247 145 |
| The rest of the world | 26 195 | 24 236 |
| **Revenue from sale of goods** | **4 770 163** | **5 947 680** |

## 3. PAYROLL EXPENSES AND AUDIT FEE

| | 2012 | 2011 |
|---|---|---|
| Wages. Salaries | 465 641 | 383 319 |
| Social security tax | 54 990 | 44 676 |
| Pension expenses (see note 4) | 27 056 | 27 600 |
| Other employee related costs | 5 170 | 8 100 |
| **Salary, wages and other compensation** | **552 856** | **463 695** |

| **Including the following compensation** | **2012** | **2011** |
|---|---|---|
| Members of the board | 465 | 336 |

In 2012 the number of full time employees in Elkem AS was 703, in 2011 the number was 593.

**Senior staff compensation**
Helge Aasen is CEO of Elkem AS. Salary and other compensations have been paid by Elkem AS to CEO Helge Aasen according to the following specification:

| | |
|---|---|
| Salary, including holiday pay | 2 782 837 |
| Bonus | 1 121 734 |
| Free car | 130 000 |
| Other compensation | 24 900 |
| Pension cost | 298 778 |

Retirement age for the CEO is 67 years. Any benefits from occupational pension schemes and other public pension plans the CEO is entitled to are deducted. Old-age pension from the age of 67 and other pensions regarding spouse, children and disability are paid in accordance with the general pension rules of the company.
For salaries up to 12 G, the pension provided by the company is a defined contribution plan. Pension for salaries above 12 G will be paid according to the company's current guidelines through operations.

The CEO is also entitled to:
A yearly compensation as a fixed bonus in total equivalent to 50% of the base salary.
A retention fee, in total equivalent to 36 months of base salary, to be paid in Q2 2014 depending on continued engagement.

For the CEO, the following applies upon termination by the company:
-Termination payment equal to 12 months salary is paid on the last working day.
-Severance payment equivalent to 18 months salary paid in connection with any termination

**Senior staff options**
Some members of Elkem management have continued holding options previously awarded by Orkla ASA.

**Loans and guarantees to employees**
There are no loans or payments to board members.

| **Audit and other services** | |
|---|---|
| Audit fee | 3 226 |
| Other assurance services | 182 |
| Other services | 1 379 |
| Tax services | 941 |
| **Total audit fees** | **5 728** |

Fees to auditors are reported exclusive of VAT.

## 4. RETIREMENT BENEFITS

**Defined contribution plan**
Employees in Elkem AS are mainly covered by pension plans that are classified as contribution plans.

Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employees' pension plans, and where the future pension is determined by the amount of the contributions and the return on the pension plan assets. Contribution plans also comprise pension plans that are common to several companies and where the pension premium is determined independently of the demographic profile in the individual companies (multiemployer plans).

The early retirement scheme, effective from 2011, "ny AFP ordning" is defined as a multi-employer plan and cost are accounted for based on annual premiums from 'Fellesordningen for AFP' (separate legal entity). The plan is accounted for as defined contribution plan, as the plans administrators have not been able to calculate the pension obligation for each entity participating in the plan.

All defined benefit plans are unfunded and relates to closed early retirement scheme ("gammel AFP ordning"), a top hat on the closed early retirement scheme and pension on salary above 12G. From 2011 actuarial gains/losses for the defined benefit plans are recognized directly in equity.

The company's retirement schemes meet minimum requirement in the Norwegian Act of Mandatory Occupational Pension.

| **Breakdown of net pension cost** | **2012** | **2011** |
|---|---|---|
| Current service cost | (919) | (6 545) |
| Interest on obligation | (1 674) | (2 238) |
| Accrued employer's national insurance contribution | (641) | (2 235) |
| Expected return on plan assets | 0 | 0 |
| General administration cost | 0 | 0 |
| Curtailments/settlements | 0 | 0 |
| **Net pension cost, defined benefit plan** | **(3 234)** | **(11 018)** |
| | | |
| **Defined contribution plan** | **(20 489)** | **(13 982)** |
| **Early retirement scheme (AFP)** | **(3 333)** | **(2 600)** |
| **Total pension cost** | **(27 056)** | **(27 600)** |

| **Calculated pension obligation** | **2012** | **2011** |
|---|---|---|
| Present value of pension obligation (PBO) | (70 598) | (73 828) |
| Fair value of plan assets | 0 | 0 |
| **Net unfunded pension obligation** | **(70 598)** | **(73 828)** |
| | | |
| Active participants in pension scheme for salary above 12G | 38 | 43 |
| Participants in closed pension scheme for early retirement (AFP)/Top-hat early retirement | 118 | 134 |

| **Summary of pension obligation and actuarial gain/losses:** | **2012** | **2011** |
|---|---|---|
| Pension obligations | (70 598) | (73 828) |
| | | |
| Changes in actuarial gain/(losses) in pension obligation recognized in Equity/Deferred tax | (669) | (10 323) |
| Total actuarial gains/(losses) recognized in Equity/Deferred tax as of 31. December | (10 800) | (10 131) |

| Economical assumptions | 2012 | 2011 |
|---|---|---|
| Discount rate (%)[1] | 2,0 | 2,0 |
| Expected return on plan asset (%) | - | - |
| Expected rate of salary increase (%) | 3,50 | 3,50 |
| Change in public pension rate (G) (%) | 3,50 | 3,50 |
| Annual regulation of pensions paid (%) | 0,5 | 0,5 |

1) The discount rate is based on a 5 year Governmental Bond.

The Company's chosen assumptions are in line with "Guide to Pension Assumptions" published by The Norwegian Accounting Standard Board January 2012.

## 5. OTHER OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Travel expenses | 31 028 | 33 809 |
| Machinery, Toools, fixtures and fittings | 120 279 | 100 239 |
| Repair and maintenance cost and other operating expenses | 63 755 | 63 753 |
| Other external costs (fees, transport, IT services, etc.) | 132 301 | 152 183 |
| Loss on accounts receivable | (955) | 2 258 |
| Other Energy and Fuel | 53 188 | 60 173 |
| Commision cost | 37 742 | 54 277 |
| External distribution cost | 211 829 | 209 553 |
| Rental/leasing expenses | 29 971 | 28 407 |
| Misc manufacturing, admin and selling expenses | 149 386 | 118 967 |
| **Total other operating costs** | **828 524** | **823 619** |

During 2012, Elkem AS has expensed 44.460 TNOK related to research and development, which are included in the figures above.

## 6. OPERATING LEASE

| 2012 | Machinery and plant | Land, buildings and other properties | Equipments, furnitures, systems and vehicles | Total |
|---|---|---|---|---|
| Lease expenses 2012 | 13 544 | 15 732 | 695 | **29 971** |
| Lease in accordance with contract due: | | | | |
| Within one year | 7 031 | 13 869 | 179 | **21 079** |
| In the second to fifth year inclusive | 10 303 | 5 310 | | **15 613** |
| Over five years | 2 000 | 2 000 | | **4 000** |

Most leasing agreements have escalation clause. This is not included in the future lease cost in the table above.

| 2011 | Machinery and plant | Land, buildings and other properties | Equipments, furnitures, systems and vehicles | Total |
|---|---|---|---|---|
| Lease expenses 2011 | 9 985 | 17 406 | 1 016 | **28 407** |
| Lease in accordance with contract due: | | | | |
| Within one year | 4 061 | 13 174 | 832 | **18 067** |
| In the second to fifth year inclusive | 5 000 | 17 038 | 1 453 | **23 491** |
| Over five years | 2 000 | 2 000 | 0 | **4 000** |

## 7. FINANCE INCOME AND EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Interest income | 11 893 | 28 881 |
| Interest income - group | 147 257 | 136 982 |
| Dividend | 175 | 135 |
| Foreign exchange gain [1] | 420 847 | 0 |
| Other financial income | 1 413 | 0 |
| Total finance income | 581 586 | 165 998 |
| Interest expenses | (11 118) | (54 052) |
| Interest expenses - group | (270 204) | (159 510) |
| Foreign exchange loss [1] | 0 | (573 227) |
| Other financial expenses | (7 790) | (12 110) |
| Total finance expenses | (289 112) | (798 899) |
| **Finance expenses, net** | **292 474** | **(632 901)** |

1) Foreign exhange gain/loss is mainly related to gain/loss from shareholder loans denominated in USD.

8. TAXES

| Income tax recognized in profit and loss | 2012 | 2011 |
|---|---|---|
| Current tax expenses | (3 216) | (310) |
| Previous year tax adjustment | (381) | (394) |
| Tax effect group contribution | (15 337) | (9 520) |
| Deferred tax | (13 787) | 85 195 |
| **Total tax (expenses)/income recognized in profit and loss** | **(32 721)** | **74 971** |

| Calculatioin of taxable income | 2012 | 2011 |
|---|---|---|
| Profit before tax and group contribution | (139 196) | (166 380) |
| Group contribution taxable | 54 776 | 34 000 |
| Permanent differences | 187 297 | (137 961) |
| Change in net timing differences | 33 786 | 558 815 |
| Transferred from/(to) tax loss carried forward | (136 663) | (288 474) |
| **Taxable income** | **(0)** | **0** |

The table below show the reconciliation of accounting profit and tax (expense) income. Accounting profit is multiplied by applicable tax rate.

| | 2012 | 2011 |
|---|---|---|
| **Profit before tax and group contribution** | **(139 196)** | **(166 380)** |
| Group contribution from subsidiaries (financial income) | 54 776 | 34 000 |
| **Profit before tax** | **(84 420)** | **(132 380)** |
| Applicable tax rate Norway | 28 % | 28 % |
| Tax expense at applicable tax rate | 38 975 | 46 586 |
| Tax effect group contribution | (15 337) | (9 520) |
| **Permanent differences** | | |
| Impairment of shares in subsidiaries | (107 320) | |
| Tax effect of income from Norwegian controlled foreign companies (NOKUS) | (5 225) | (4 759) |
| Ext.gain/loss on shares within the Tax Exemption Method | - | 49 038 |
| Dividend within the Tax Exemption Method | 21 411 | 4 467 |
| Tax effect of other permanent income | 524 | (6 512) |
| Imparement of shares/reversal of imparement | - | (123) |
| Tax effect of expense not deductible in determining taxable profit (tax loss) | 7 060 | (3 736) |
| Tax effect of transaction related parties | 31 050 | - |
| **Other effects** | | |
| Previous year tax adjustment | (381) | 651 |
| Other | (3 477) | (1 122) |
| **Income tax for the year** | **(32 721)** | **74 971** |
| | | |
| Effective tax rate | -39 % | 57 % |

| Deferred tax asset and deferred tax liability | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Hedges recognized in equity | 1 266 | 9 490 |
| Property, Plant, Equipment and Intangible asset | 37 301 | 59 791 |
| Pension fund | (17 018) | (16 250) |
| Other differences | (2 236) | (9 578) |
| Accounts receivable | (399) | (1 020) |
| Inventory | 24 357 | 14 011 |
| Provisions | (4 016) | - |
| Tax losses to carry forward | (42 507) | (80 773) |
| **Deferred tax (assets)/liabilities** | **(3 252)** | **(24 329)** |
| Not capitalised deferred tax asset to tax loss carry forward | - | - |
| **Net deferred tax (assets)/liabilities recognized** | **(3 252)** | **(24 329)** |

| Deferred tax | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Opening balance - net deferred tax asset (+) liabilities (-) | 24 329 | (60 466) |
| Charged to Profit & Loss | (29 125) | 75 675 |
| Ch. def. tax hedges charge to equity | 8 224 | 6 014 |
| Change due to merger/demerger | - | (808) |
| Other items charged to equity | (176) | 3 914 |
| **Net deferred tax asset (+) liabilities (-)** | **3 252** | **24 329** |

| Gross tax loss carry forward | Temporary difference | Capitalized deferred tax assets | Not capitalized deferred tax assets | Total deferred tax assets loss carry forward |
|---|---|---|---|---|
| Norway | (151 811) | (42 507) | 0 | (42 507) |
| **Total related to loss carry forward** | **(151 811)** | **(42 507)** | **0** | **(42 507)** |

The taxable loss carry forward can be indefinitely carried forward. Capitalized deferred tax asset is expected to be utilized based on expectations of future profit.

**Deferred tax assets not recognized current year**
Deferred tax asset arising from unused tax losses is recognized only to the extent that there is convincing evidence that sufficient future taxable profit will be generated.

**9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

**PROPERTY, PLANT AND EQUIPMENT**

| 2012 | Land and other property | Buildings | Machinery and plants | Equipment, furniture and transport-vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2012** | **15 890** | **221 601** | **482 024** | **20 076** | **107 847** | **847 438** |
| Additions 2012 | 0 | 0 | 9 | 358 | 166 399 | **166 766** |
| Addition merger Elkem Technology | 1 184 | 28 475 | 8 618 | 1 057 | 13 218 | **52 552** |
| Disposals 2012 | 0 | 0 | (3 890) | (250) | 0 | **(4 140)** |
| Transferred from CiP | 636 | 15 991 | 106 167 | 10 981 | (133 775) | **0** |
| Impairment losses 2012 | (10) | (160) | (3 840) | 0 | 0 | **(4 010)** |
| Depreciation expenses 2012 | (1 389) | (22 603) | (77 925) | (6 768) | 0 | **(108 685)** |
| Foreign currency exchange differences | 0 | 0 | (13) | (10) | 0 | **(23)** |
| **Closing Balance Net Booked Value 2012** | **16 311** | **243 304** | **511 150** | **25 445** | **153 689** | **949 897** |
| | | | | | | |
| Fixed assets under financial leasing included in Net Booked value | 25 840 | 0 | 0 | 2 937 | 0 | **28 777** |
| | | | | | | |
| Historical cost | 46 576 | 668 948 | 1 788 720 | 89 925 | 153 689 | **2 747 858** |
| Accumulated depreciation | (29 981) | (425 484) | (1 262 955) | (64 480) | 0 | **(1 782 901)** |
| Accumulated impairment losses | (284) | (160) | (14 616) | 0 | 0 | **(15 060)** |
| **Closing Balance Net Booked Value 2012** | **16 311** | **243 304** | **511 150** | **25 445** | **153 689** | **949 897** |
| | | | | | | |
| Estimated useful life | 5-50 yrs | 5-40 yrs | 3-30 yrs | 3-20 yrs | | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | Straight-line | | |

Depreciations start when the asset is ready for use. Land is not depreciated.
Impairment losses 2012 are related to Salten Verk of 4 010 TNOK.

| 2011 | Land and other property | Buildings | Machinery and plants | Equipment, furniture and transport-vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2011** | **11 969** | **206 431** | **481 688** | **23 725** | **77 145** | **800 957** |
| Additions 2011 | 0 | 11 548 | 42 379 | 1 996 | 97 257 | **153 179** |
| Disposals 2011 | 0 | 0 | (138) | 0 | 0 | **(138)** |
| Disposal of subsidiary | 0 | 0 | (1 580) | (68) | 0 | **(1 648)** |
| Reclassification | (2) | 976 | (48) | (926) | 0 | **0** |
| Transferred from CiP | 5 191 | 19 778 | 40 838 | 748 | (66 555) | **0** |
| Impairment losses 2011 | (31) | 0 | (1 071) | (9) | 0 | **(1 111)** |
| Depreciation expenses 2011 | (1 237) | (17 132) | (79 964) | (5 386) | 0 | **(103 720)** |
| Foreign currency exchange differences | 0 | 0 | (80) | (3) | 0 | **(83)** |
| **Closing Balance Net booked value 2011** | **15 890** | **221 601** | **482 024** | **20 076** | **107 847** | **847 438** |
| | | | | | | |
| Fixed assets under financial leasing included in Net Booked value | 31 200 | 0 | 0 | 0 | 0 | **31 200** |
| | | | | | | |
| Historical cost | 44 716 | 637 020 | 1 779 488 | 84 092 | 107 847 | **2 653 163** |
| Accumulated depreciation | (28 543) | (415 419) | (1 286 667) | (64 016) | 0 | **(1 794 644)** |
| Accumulated impairment losses | (284) | 0 | (10 797) | 0 | 0 | **(11 081)** |
| **Closing Balance Net booked value 2011** | **15 890** | **221 601** | **482 024** | **20 076** | **107 847** | **847 438** |
| | | | | | | |
| Estimated useful life | 5-50 yrs | 5-40 yrs | 3-30 yrs | 3-20 yrs | | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | Straight-line | | |

**INTANGIBLE ASSETS**

| 2012 | Other intangible assets | Development | IT systems and programs | Intangible assets under construction | Total intangible assets |
|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2012** | **0** | **9 123** | **15 704** | **443** | **25 270** |
| Additions 2012 | 0 | 90 | 3 213 | 31 919 | **35 222** |
| Reclassification | 0 | (90) | 90 | 0 | **0** |
| Reclassification / Transferred from CiP | 0 | 0 | 443 | (443) | **0** |
| Amortisation | 0 | 0 | (2 901) | 0 | **(2 901)** |
| **Closing Balance Net Booked Value 2012** | **0** | **9 123** | **16 549** | **31 919** | **57 591** |
| | | | | | |
| Historical cost | 1 951 | 21 048 | 72 191 | 31 919 | **127 110** |
| Accumulated amortisation | (1 951) | (11 925) | (55 643) | 0 | **(69 519)** |
| **Closing Balance Net Booked Value 2012** | **0** | **9 123** | **16 549** | **31 919** | **57 591** |
| | | | | | |
| Estimated useful life | 3-10 yrs | 3-16 yrs | 3-10 yrs | | |
| Amortisation plan | Straight-line | Straight-line | Straight-line | | |

The investments related to intangible assets mainly consists of an upgrade of current ERP system of 31 382 TNOK.

| 2011 | Other intangible assets | Development | IT systems and programs | Intangible assets under construction | Total intangible assets |
|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2011** | **0** | **0** | **1 670** | 0 | **1 670** |
| Additions 2011 | 0 | 9 212 | 14 683 | 443 | **24 338** |
| Amortisation | 0 | (89) | (649) | 0 | **(738)** |
| **Closing Balance Net Booked Value 2011** | **0** | **9 123** | **15 704** | **443** | **25 270** |
| | | | | | |
| Historical cost | 1 951 | 21 138 | 68 460 | 443 | **91 992** |
| Accumulated amortisation | (1 951) | (12 015) | (52 756) | 0 | **(66 722)** |
| **Closing Balance Net Booked Value 2011** | **0** | **9 123** | **15 704** | **443** | **25 270** |
| Estimated useful life | Indefinite/ 3-10 yrs | 3-16 yrs | 3-10 yrs | | |
| Amortisation plan | Straight-line | Straight-line | Straight-line | | |

## 10. INVESTMENTS IN SUBSIDIARIES

Investment in subidiaries of Elkem AS as of 31.12.2012:

| Owned by Elkem AS | Company address | Country | Owner share Vote rights (%) | Profit 31.12.12 | Book value 31.12.12 |
|---|---|---|---|---|---|
| Elkem Power AS | Oslo | Norway | 100 | 9 981 | 100 000 |
| Elkem Iceland Ltd. | Akranes | Iceland | 100 | 62 139 | 783 789 |
| Elkem Thamshavn AS | Orkanger | Norway | 100 | (39 849) | 128 442 |
| Elkem Bjølvefossen AS | Ålvik | Norway | 100 | 31 840 | 71 381 |
| Elkem Carbon AS | Oslo | Norway | 100 | 54 195 | 112 915 |
| Solar Invest AS | Kristiansand | Norway | 100 | 0 | 119 |
| Elkem Meraker AS | Kopperå | Norway | 100 | 2 420 | 27 601 |
| Elkem Iberia SL | Barcelona | Spain | 100 | 269 | 476 |
| Elkem Ltd. | Sheffield | England | 100 | 21 | 21 840 |
| Elkem Finanz AG | Zug | Sveits | 100 | 146 | 166 |
| Elkem SRL | Milano | Italy | 100 | 4 344 | 6 397 |
| Elkem SARL | Paris | France | 100 | 1 084 | 0 |
| Elkem Metal Canada Inc. | Chicoutimi | Canada | 100 | 94 666 | 5 870 |
| Elkem Nordic A.S. | Vedbæk | Denmark | 100 | 1 628 | 5 139 |
| Elkem Tana AS | Tana | Norway | 100 | 46 137 | 5 000 |
| Elkem International AS | Oslo | Norway | 100 | 44 067 | 5 427 |
| Elkem South Asia Private Ltd. | Mumbai | India | 100 | 8 297 | 2 026 |
| Elkem GmbH | Düsseldorf | Germany | 100 | 1 674 | 1 309 |
| Elkem Chartering Holding AS | Oslo | Norway | 80 | 9 834 | 747 |
| Elkem International Trade Co Ltd. [1] | Shanghai | China | 11 | 9 103 | 558 |
| Elkem Distribution Center BV | Ridderkerk | Netherlands | 100 | 256 | 186 |
| Elkem Singapore Materials | Singapore | Singapore | 100 | 1 903 | 46 |
| Nor-Kvarts AS [2] | Oslo | Norway | 45 | 29 | 19 057 |
| Hoffsvn. 65 B Invest AS | Oslo | Norway | 100 | 167 | 50 |
| Elkem Japan K.K. | Tokyo | Japan | 100 | 4 745 | 15 |
| Elkem Oilfield Chemicals FZCO | Dubai | e Arab Emirates | 51 | 31 481 | 12 546 |
| Elkem Materials Processing (Tianjin) Co Ltd | Tianjin | China | 100 | 217 | 793 |
| Elkem Materials Processing Services BV | Dordrecht | Netherlands | 100 | 2 081 | 962 |
| Elkem Madencilik Metalurji Sanayi Ve Ticart Limited Si | Istanbul | Turkey | 100 | (595) | 77 |
| Elkem Solar AS [3] | Kristiansand | Norway | 100 | (656 463) | 2 428 075 |
| NEH LLC | Pittsburgh | USA | 100 | 0 | 97 506 |
| Elkem Milling Services GmbH | Dusseldorf | Germany | 100 | 0 | 224 |
| Elkem Malaysia Sdn. Bhd. | Kuala Lumpur | Malaysia | 100 | 0 | 0 |
| **Total subsidiaries** | | | | | **3 838 737** |

[1] Elkem AS and subsidiaries owns 100 % of Elkem International Trade Co Ltd.

[2] Elkem AS and subsidiaries owns 67 % of Nor-Kvarts AS.

[3] For information about sensitivity for the value of the shares in Elkem Solar AS, see note 1 Accounting estimates.

| Income on investments in subsidiaries | 2012 | 2011 |
|---|---|---|
| Dividend from subsidiaries | 76 468 | 15 855 |
| Contribution received | 54 776 | 34 000 |
| **Total income** | **131 244** | **49 855** |

| Write down / reversal of write down on investments in subsidiaries | 2012 | 2011 |
|---|---|---|
| Reversal of write down subsidiaries | 28 | 0 |
| Write down subsidiaries | (383 287) | (1 719) |
| **Total write down** | **(383 259)** | **(1 719)** |
| | | |
| **Net loss from investments in subsidiaries** | **(252 015)** | **48 136** |

## 11. JOINT VENTURES

| | Company address | Country | Owner share Voith rights(%) | Paid in capital |
|---|---|---|---|---|
| Dehong Ltd [1] | Wanding, Dehong | China | 50 | 1 449 |

[1] Investment in Dehong is accounted for by proportionate consolidation.

Main figures for Dehong Ltd:

| | Part of operating income | Part of operating cost | Part of operating profit | Part of profit before tax |
|---|---|---|---|---|
| 2012 | 765 | (1 092) | 190 | 204 |
| 2011 | 801 | (1 032) | (231) | (231) |

| | Part of non-current assets | Part of current assets | Part of liabilities and provision | Part of current liabilities |
|---|---|---|---|---|
| 2012 | 221 | 1 643 | (117) | 164 |
| 2011 | 417 | 1 380 | 0 | 21 |

## 12. INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES

| | Ownership | Book value 31.12.2012 | Book value 31.12.2011 |
|---|---|---|---|
| Teknova AS | 24,53 | 1 626 | 1 583 |
| Apartment, Fauske Hotell | | 765 | 765 |
| Indre Salten Vekst AS | 20,73 | 139 | 133 |
| Other companies | | 729 | 858 |
| **Total investments in associates and other companies** | | **3 259** | **3 339** |

## 13. OTHER NON-CURRENT ASSETS

| | 2012 | 2011 |
|---|---|---|
| Long term deposit pension guarantee | 13 008 | 12 500 |
| Pension Contribution Fund, long-term | 1 943 | 9 628 |
| Non-current interest-bearing deposits - group [1] | 3 431 545 | 3 074 095 |
| Other non-current assets | 939 | 977 |
| **Total other non-current assets** | **3 447 435** | **3 097 200** |

1) Hereof interest-bearing loan to Elkem Solar AS 1 848 016 TNOK.

For information about sensitivity of the value of receivables against Elkem Solar AS, see note 1 Accounting estimates.

## 14. INVENTORIES

| | 2012 | 2011 |
|---|---|---|
| Finished goods | 389 238 | 508 856 |
| Work in progress | 84 318 | 54 287 |
| Raw materials | 95 902 | 113 842 |
| Operating materials and spare parts | 77 008 | 75 964 |
| **Total inventories** | **646 465** | **752 949** |

Inventories are valued at the lower of cost and fair value, ie net realizable value.
As at 31 December 2012 inventories were written down by MNOK 3,8.
As at 31 December 2011 inventories were written down by MNOK 2,8.

## 15. RECEIVABLES

| | 2012 | 2011 |
|---|---|---|
| Accounts receivables | 492 017 | 557 247 |
| Short-term receivables – group | 152 127 | 148 772 |
| Provision for doubtful accounts | (1 424) | (3 644) |
| **Total receivables** | **642 720** | **702 375** |

The following is an analysis of gross accounts receivables by age, presented based on the due date:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Not due | 589 143 | 617 217 |
| 1 - 30 days | 46 279 | 73 935 |
| 31 - 60 days | 5 914 | 2 956 |
| 61 - 90 days | 447 | 2 748 |
| More than 90 days | 937 | 5 520 |
| **Total accounts receivables** | **642 720** | **702 375** |

Elkem had an average granted credit period of 42 days for 2012 and actual credit days were 44 days. Interest has been charged on late payments with a rate of 9% per year with exception of certain markets and customers where interest charging has not been appropriate.

Elkem applies for credit insurance for all new customers. In cases where credit insurance coverage is refused other metods of securing the sales income is used. Other methods used for securing the sales are amongst others prepayment, letter of credit, documentary credit, guarantee etc.

| Movement in allowance for doubtful debts | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Opening Balance | (3 644) | 0 |
| Impairment losses recognized on receivables | (1 424) | (3 644) |
| Reversed impairment losses | 3 644 | 0 |
| **Balance at 31 December** | **(1 424)** | **(3 644)** |

The following is an analysis of current receivables that are past due date and written down, by age:

| Overdue by: | 31.12.2012 | 31.12.2011 |
|---|---|---|
| less than 90 days | - | (2 007) |
| more than 90 days | (1 424) | (1 637) |
| **Total receivables written down** | **(1 424)** | **(3 644)** |

## 16. OTHER CURRENT ASSETS

| | 2012 | 2011 |
|---|---|---|
| Collateral call power trading | - | 211 400 |
| Shares (see specification below) | 1 759 | 1 731 |
| Derivatives (see note 24) | 63 960 | 10 297 |
| VAT receivables | 48 218 | 61 261 |
| Prepayments | 23 561 | 12 630 |
| Other current assets - group | 88 776 | 81 481 |
| Other current assets | 10 187 | 56 547 |
| **Total other current assets** | **236 461** | **435 347** |

**Specification of shares:**

| | Proportion of shares | Number of shares (1.000) | Purchase price | Market value 31.12.2012 |
|---|---|---|---|---|
| Alcoa, USA | 0,004 % | 33 | 10 000 | 1 759 |

Share portfolio are valued at the lower of cost and market value.

## 17. CASH AND CASH EQUIVALENTS

| | 2012 | 2011 |
|---|---|---|
| Cash and bank balances | 37 627 | 27 642 |
| Restricted deposits | 0 | 0 |
| **Cash and cash equivalents** | **37 627** | **27 642** |

## 18. EQUITY

**Changes in equity**

| 2012 | Share capital | Share premium account | Total paid in capital | Fund | Other equity | Total retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity 31.12.11** | **1 500 000** | **1 094 315** | **2 594 315** | **1 401** | **(22 201)** | **(20 800)** | **2 573 515** |
| Hedging | | | **0** | | (21 148) | **(21 148)** | **(21 148)** |
| Actuarial gain/loss | | | | | (482) | **(482)** | **(482)** |
| Other | | | **0** | (141) | (32) | **(173)** | **(173)** |
| Profit for the year | | | **0** | | (117 141) | **(117 141)** | **(117 141)** |
| **Equity 31.12.12** | **1 500 000** | **1 094 315** | **2 594 315** | **1 260** | **(161 004)** | **(159 744)** | **2 434 571** |

**Fund**
Fund is valuation variances in conjunction with Dehong who is consolidated by proportionate consolidation.

**Shareholders**
Elkem AS is the parent company of Elkem Group.
As of 31 December 2012 Elkem AS is 100% owned by Bluestar Elkem International Co. Limited S.A.R.L.
Elkem AS has its registered company address: Hoffsveien 65B 0377 Oslo.

**Share Capital**
Share capital as of 31.12.2011 in Elkem AS is NOK 1.500.000.000, divided in 1 share.

**Changes in equity**

| 2011 | Share capital | Share premium account | Other paid in capital | Fund | Other equity | Total equity |
|---|---|---|---|---|---|---|
| **Equity 31.12.10** | **883 262** | **4 677 178** | **0** | **1 298** | **1 476** | **5 563 214** |
| Actuarial changes posted to equity | **0** | **0** | **0** | **0** | **32** | **32** |
| **Equity 31.12.10 adjusted** | **883 262** | **4 677 178** | **0** | **1 298** | **1 508** | **5 563 246** |
| Merger | 388 | 346 926 | 55 465 | | | **402 779** |
| Capital reduction | (184 315) | (4 677 179) | | | | **(4 861 494)** |
| Capital increase/debt conversion | 800 665 | 747 389 | | | | **1 548 054** |
| Hedging | | | | | (15 463) | **(15 463)** |
| Actuarial gains/losses pensions - change 2011 | | | | | (7 354) | **(7 354)** |
| Other | | | | 103 | 1 054 | **1 157** |
| Profit for the year | | | (55 465) | | (1 944) | **(57 409)** |
| **Equity 31.12.11** | **1 500 000** | **1 094 315** | **0** | **1 401** | **(22 201)** | **2 573 515** |

**Merger**
Related to the sale from Orkla to Bluestar Group, Elkem AS was merged with Elkem Solar Holding AS and Opperud Gård from Meraker Eiendom Holding AS.

**Capital reduction**
Related to the sale to Bluestar Group the paid in capital in Elkem AS was reduced by repayment to shareholder (Orkla ASA) 23.3.2011.

**Capital increase/debt conversion**
Elkem AS is funded from the parent company. 1 548 054 TNOK of this funding was converted from loan to equity 5.12.2011.

## 19. FINANCE LEASE LIABILITIES

Elkem AS leases certain of its manufacturing equipment under finance lease. Interest rates range from 3,50 % to 6,99 %.
Elkem AS' obligations under finance lease are secured by the lessors title to the leased assets. Elkem AS has right to prolong some leasing agreements and right to keep the leased equipments after closed leasing period for some leasing agreements.

| Overview of finance lease | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Within one year | 8 786 | 4 505 |
| Between 1 and 5 years | 15 212 | 16 699 |
| Over 5 years | | 1 955 |
| Total lease cost | 23 998 | 23 159 |
| Less future finance charges | (2 020) | (2 179) |
| **Present value of lease obligations** | **21 978** | **20 980** |
| | | |
| Less amount due for settlement within 12 months | 7 435 | 3 778 |
| **Total non-current finance lease obligations** | **14 543** | **17 202** |
| | | |
| Leasing cost current year | 4 092 | 4 498 |
| Minimum lease cost as of 31 December | 22 245 | 20 980 |

## 20. NET INTEREST-BEARING DEBT

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Non-current interest-bearing debt** | | |
| Financing from Bluestar companies | 5 451 770 | 5 869 291 |
| Financing from subsidiaries | 35 533 | 53 284 |
| Financial leases (see note 19) | 14 543 | 17 202 |
| Bank financing and other debt | 6 459 | 12 339 |
| **Total non-current interest-bearing debt** | **5 508 305** | **5 952 116** |
| | | |
| **Current interest-bearing debt** | | |
| Financing from subsidiaries | 529 417 | 325 085 |
| Financial leases (see note 19) | 7 435 | 3 778 |
| Bank financing | 527 119 | 257 120 |
| Accrued interest - group | 6 463 | 14 862 |
| Accrued interest | - | - |
| **Total current interest-bearing debt** | **1 070 433** | **600 845** |
| | | |
| **Total interest-bearing debt** | **6 578 738** | **6 552 961** |
| | | |
| **Interest-bearing assets** | | |
| Non-current loans to subsidiaries | 3 431 545 | 3 074 095 |
| Financial assets | 722 | 212 141 |
| Current deposits - group | 0 | 47 481 |
| Cash and cash equivalents | 37 627 | 27 642 |
| **Total interest-bearing assets** | **3 469 894** | **3 361 359** |
| | | |
| **Net interest-bearing debt** | **3 108 844** | **3 191 602** |

| **Interest-bearing debt by currency** | **Currency amount 31.12.2012** | **NOK 31.12.2012** | **NOK 31.12.2011** |
|---|---|---|---|
| EUR | 10 058 | 57 897 | 40 031 |
| USD | 988 680 | 5 503 388 | 5 983 490 |
| JPY | 465 674 | 20 334 | 26 642 |
| NOK | 958 551 | 958 551 | 431 203 |
| Other currencies | | 38 568 | 71 595 |
| **Total interest-bearing debt** | | **6 578 738** | **6 552 961** |

| **Maturity of interest-bearing debt at 31.12.2012** | **Group financing** | **Financial leases** | **Bank financing** | **Other loans** | **Accrued interest** | **Total** |
|---|---|---|---|---|---|---|
| 2013 | 529 417 | 7 435 | 527 119 | | 6 463 | 1 070 433 |
| 2014 | 35 531 | 4 899 | | | | 40 430 |
| 2015 | | 3 864 | | | | 3 864 |
| 2016 | | 3 778 | | | | 3 778 |
| 2017 | | 2 002 | | | | 2 002 |
| 2018 and later | 5 451 772 | | | 6 459 | | 5 458 231 |
| **Total** | **6 016 720** | **21 978** | **527 119** | **6 459** | **6 463** | **6 578 738** |

**Loan covenant**

Elkem AS has external credit facilities with banks to cover capital fluctuations in the Group. These credit facilities contain a financial covenant that the equity ratio of the Elkem AS Group shall at all times be above 30 per cent. As at 31.12.2012 the Group's equity ratio was 37 per cent. See also information about a debt conversion approved by the BoD in note 28 Other matters for Elkem AS Group.

## 21. GUARANTEES

Guarantees for Elkem AS per 31.12.2012 beyond the balance sheet commitments:

| **Guarantee commitments** | **31.12.2012** | **31.12.2011** |
|---|---|---|
| Guarantees given on behalf of subsidiaries | 4 618 | 4 618 |

## 22. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Currency effects bond loan | 11 510 | 0 |
| Other non-current liabilities Group companies | 0 | 333 |
| Site restoration | 1 850 | 1 630 |
| **Provisions** | **13 360** | **1 963** |

**Currency effects bond loan**
Elkem has participated in the Central Bank of Icelands Investment Programme and purchased a bond loan in ISK, with payment in EUR. The gain from the purchase in EUR is dependent on retaining the ownership of the securities in 5 years, the currency gain is therefore recognized as deferred income and will be amortized over the required ownership period.

**Site restoration**
Elkem has worldwide operations representing potential exposure towards environmental consequences. Elkem has established clear procedures to minimize environmental emissions, well within public emission limits. However, in some cases Elkem faces potential claims regarding environmental issues.

## 23. OTHER CURRENT LIABILITIES

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Derivates | 0 | 38 203 |
| Value Added Tax, Vacation pay and Employee tax payable | 59 637 | 71 379 |
| Current payroll, Soc. Sec. Payables | 72 275 | 63 599 |
| Other short-term liabilities | 123 963 | 89 559 |
| | **255 875** | **262 740** |

## 24. FINANCIAL DERIVATIVE INSTRUMENTS

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging intrument, and if so, the nature of the hedging. The basis for the recognition routine is that gains and losses from both the hedged objects and the corresponding hedging instruments shall be recognized in the same period. According to the Group's updated policy (Oct 2012) derivatives are used as hedging instruments to reduce the net currency exposure on corporate level.

**Fair value hedges**
Elkem AS have been using foreign exchange contracts to minimise its currency exposure to fair value changes of its customer orders and receivables. Changes in the fair value of derivatives that are designated as and qualified as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged assets or liabilities, both classified as currency gains or losses.
Elkem AS has, from October 2012, terminated the hedging programme for customers order, and replaced it by another hedging programme, covering Elkem Group's net foreign exchange exposure. At the end of the reporting period the fair value hedge is related only to orders received before October 1st. 2012, where goods are not yet delivered.

**Cash flow hedges**
The effective portion of changes in fair value of derivatives that are designated and qualified as cash flow hedges is recognized to equity. The gain or losses relating to the ineffective portion is recognized immediately in the income statement.
Elkem AS has terminated it's former hedging programme for future sales and raw materials. At the end of the reporting period Elkem have remaining gains/losses from these hedging relationships recognized as Hedging Reserve in equity of 3 256 TNOK (after tax).
The amount relates to hedging instruments which are sold, but where the objects are due in 2013.

The old hedging programs are replaced by a new hedging programme from October 2012, covering the net foreign exchange exposure for Elkem Group. Hedge Accounting is not applied for this hedging program.

**Other derivatives**
Elkem AS' Treasury Department also handles currency hedging for its subsidiaries. As internal contracts can not be designated as hedging objects, both the external and the internal contracts are recognized at fair value through the income statement. In addition, fair value of hedging instruments related to the new hedging programme are classified as other derivatives, as Hedge Accounting is not applied.

The table below shows fair value for the derivative financial instruments, classified by type of hedging, and if not designated as a hedging instrument, as held for trading.

| Derivative financial instruments, NOK 1000 | 2012 Assets Fair value | 2012 Liabilities Fair value | 2011 Assets Fair value | 2011 Liabilities Fair value |
|---|---|---|---|---|
| Forward foreign exchange contracts - fair value hedges | 57 914 | 0 | 0 | 37 384 |
| Forward foreign exchange contracts - cash flow hegdes | 0 | 0 | 7 945 | 0 |
| Forward exchange options - cash flow hedges | 0 | 0 | 2 352 | 0 |
| Forward exchange contracts - held for trading | 6 046 | 0 | 0 | 819 |
| **Total derivative instruments** | **63 960** | **0** | **10 297** | **38 203** |

Realized effects from fair value hedge related to customer orders and receivables were 105 492 TNOK in 2012. The effects were booked as part of the revenues.

Accumulated gains/losses from cash flow hedges, related to future sales, recognized in equity as of 31 December 2012 is 3 256 TNOK. The whole amount relates to hedging instruments which are sold in 2011, when phasing out cash flow hedging of future sales. 19 073 TNOK related to this hedging relationship were recycled from equity to P&L during the year.

During the year 17 024 was booked against equity related to cash flow hedge of raw materials. As of 31 December 2012 all effects booked through equity are realized, resulting in a loss of 6 726 TNOK through P&L during the year.

Realized effects from hedging av future sales are booked as part of revenues, and the effects from hedging of raw materials are booked as an adjustment of Cost of Goods Sold.

**Details of foreign exchange contracts as of 31. December 2012**

| Purchase Currency | Purchase NOK 1000 | Sale Currency | Sale NOK 1000 | Type of instrument | Currency rate rate | Due | Fair value in NOK 1000 [1] | Notional amount in NOK 1000 [2] |
|---|---|---|---|---|---|---|---|---|
| AUD | 657 | JPY | 57 000 | Forward | 0,0115 | 2013 | 50 | 3 685 |
| AUD | 300 | USD | 310 | Forward | 0,9692 | 2013 | 8 | 1 723 |
| EUR | 500 | AUD | 599 | Forward | 0,8344 | 2013 | 214 | 3 462 |
| EUR | 930 | JPY | 100 000 | Forward | 0,0093 | 2013 | 366 | 6 465 |
| NOK | 1 062 368 | EUR | 137 000 | Forward | 7,7545 | 2013 | 48 315 | 1 005 719 |
| NOK | 25 369 | EUR | 3 000 | Forward | 8,4564 | 2014 | 2 944 | 22 023 |
| NOK | 16 435 | GBP | 1 800 | Forward | 9,1305 | 2013 | 140 | 16 192 |
| NOK | 23 974 | JPY | 357 000 | Forward | 0,0672 | 2013 | 813 | 23 079 |
| NOK | 438 226 | USD | 76 500 | Forward | 5,7284 | 2013 | 11 164 | 425 830 |
| USD | 592 | DKK | 3 400 | Forward | 0,1740 | 2013 | -53 | 3 346 |
| **Total fair value currency forward contracts** | | | | | | | **63 960** | |

1) The forward currency contracts are measured at fair value based on the observed forward exchange rate for contracts with a corrensponding maturity term, on the balance sheet date.
2) Notional value of underlying asset.

## 25. RELATED PARTY TRANSACTIONS

100 % of shares in Elkem AS are held by Bluestar Elkem International Co., Limited S.A.R.L
Details of transactions between Elkem AS and other related parties are disclosed below.

| Parent company: | Trade sales 2012 | Trade purchases 2012 | Provided services 2012 | Interest expenses 2012 | Interest income 2012 |
|---|---|---|---|---|---|
| China National Bluestar (group) Co Ltd | | | | | |
| Bluestar Elkem Investment Co., Ltd | | | 565 | 73 151 | |
| Bluestar Elkem International Co., Ltd. S.a.r.l | | | 485 | 185 350 | |
| Other related parties Bluestar Group | 217 826 | | 1 188 | | 2 947 |
| **Subsidiaries:** | | | | | |
| Elkem SRL | 136 326 | 3 058 | | | |
| NEH LLC | 110 558 | | | | |
| Elkem Bjølvefossen AS | 94 576 | 689 148 | | | 8 568 |
| Elkem Power AS | 52 084 | 361 386 | | | 30 715 |
| Elkem Solar AS | 74 383 | 34 552 | | | 79 559 |
| Elkem Iceland Ltd. | 21 280 | 1 100 879 | | 10 084 | |
| Elkem Thamshavn AS | 53 189 | 748 199 | | | 18 428 |
| Other Subsidiaries | 247 477 | 467 761 | | 1 619 | 9 985 |
| **Totalt** | **1 007 699** | **3 404 983** | **2 238** | **270 204** | **150 202** |

| Loans from/to related parties | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Non-current loans from parent company | (5 451 770) | (5 869 291) |
| Non-current loans from subsidiaries | (35 533) | (53 284) |
| Current loans from subsidiaries | (529 417) | (325 085) |
| Accrued interest parent company | (6 463) | (14 862) |
| Non-current deposit subsidiaries | 3 431 545 | 3 074 095 |
| Current deposit subsidiaries | 0 | 47 481 |
| | | |
| Accounts receivables from parent company | 1 135 | 0 |
| Accounts receivables from subsidiaries | 147 959 | 140 312 |
| Accounts receivables from other related parties | 3 033 | 8 459 |
| Other receivables from subsidiaries | 88 776 | 81 481 |
| Accounts payables from subsidiaries | (360 355) | (409 487) |

Transactions with related parties are done in accordance with group agreements of an arm-length principle.

**Information about transactions between related parties within Elkem AS**
Elkem follows internationally accepted principles for transactions between related parties within the Group. In general Elkem seeks to use transaction based methods (Comparable uncontrolled price, cost plus and resale price method) in order to set the price for the transaction. The majority of the transactions between related parties, relates to products involving:

- Raw materials (quartz) from quarries to plants
- Electrode paste from Carbon plants to FeSi and Silicon plants
- Surplus raw materials between plants
- Ad-hoc supplies of finished goods to Elkem's internal distributors

Elkem's set-up for sales is based on an agent structure, rather than a distribution network. Elkem has also sourcing companies that purchase key raw materials and other supplies from selected suppliers world-wide. In both activities above, the transaction between the related parties is a delivered service, either sales-service or sourcing-service. In addition Elkem has internal help chains that is established to serve several operating units more efficiently.

## 26. GOVERNMENT GRANTS

| Elkem has received the following grants: | 2012 | 2011 |
|---|---|---|
| Funding from Norwegian research-fund (NFR) | 8 999 | 1 636 |
| Enova | 450 | - |
| Skattefunn | - | - |
| Sørlandets kompetansefond [1] | 5 500 | - |
| Other | - | 108 |
| **Total grants received** | **14 949** | **1 744** |

1) Hereof 3 069 recognized as deferred income in 2012, as the project which the grant is related to is not completed yet.

The grants are booked through P&L in the period in which the projects related to the grants are expensed and any conditions related to the grants are fulfilled.

## 27. OTHER MATTERS

Elkem AS purchased the Elkem Technology department from Elkem Solar AS in 2012, in order to assemble the R&D know-how in one entity in the Group. Elkem AS paid 153,4 MNOK for Elkem Technology. The transaction is recorded according to continuity principle according to NGAAP and the difference between purchase price and the booked value of transferred net assets (42,5 MNOK) is booked as capital contribution in Elkem Solar AS (110,9 MNOK).

# CONSOLIDATED FINANCIAL STATEMENT

## Elkem AS Group

2012

## CONSOLIDATED INCOME STATEMENT

| *Amounts in NOK 1000*<br>*1st January - 31st December 2012* | Note | 2012 | 2011 |
|---|---|---|---|
| Revenue | | 8 055 032 | 9 461 438 |
| Other operating income | | 128 684 | 86 375 |
| **Total operating income** | 2 | **8 183 716** | **9 547 813** |
| Cost of goods sold | | (4 339 133) | (4 227 683) |
| Salaries and related expenses | 3,4 | (1 374 760) | (1 424 917) |
| Other operating expenses | 5,6 | (2 114 640) | (2 506 149) |
| Amortisation and depreciation | 10 | (651 311) | (651 875) |
| **Operating profit before other items** | | **(296 128)** | **737 187** |
| Other gains and losses | 7 | (551 915) | (86 778) |
| Impairments | 10 | (5 841) | (34 738) |
| **Operating profit** | | **(853 884)** | **615 671** |
| Finance income | 8 | 461 338 | 59 673 |
| Finance expenses | 8 | (290 584) | (821 725) |
| Finance expenses net | | 170 754 | (762 052) |
| Income from associates | 12 | 2 968 | 4 039 |
| **Profit before income tax** | | **(680 162)** | **(142 342)** |
| Tax income | 9 | 225 168 | 48 023 |
| **Profit for the year from continued operations** | | **(454 994)** | **(94 319)** |
| Profit for the year from discontinued operations | | **0** | 1 802 |
| **Profit for the year** | | **(454 994)** | **(92 517)** |
| Non-controlling interest share of profit | | 17 598 | 20 996 |
| Owners of the parent share of profit | | (472 592) | (113 513) |

## STATEMENT OF COMPREHENSIVE INCOME

| *Amounts in NOK 1000*<br>*1st January - 31st December 2012* | Note | 2012 | 2011 |
|---|---|---|---|
| **Profit for the year** | | **(454 994)** | **(92 517)** |
| Gain/loss foreign currency translation | | (143 837) | (14 251) |
| Fair value adjustment to hedged items | | (82 597) | (211 481) |
| Tax hedge items | 9 | 23 127 | 59 215 |
| Actuarial gains and losses | 4 | (24 374) | (43 260) |
| Tax acturial items | 9 | 3 815 | 12 978 |
| **Net gain / (loss) directly recognized to equity** | | **(223 867)** | **(196 799)** |
| **Total comprehensive income for the year** | | **(678 861)** | **(289 316)** |
| Non-controlling interest share of comprehensive income | | 13 632 | 21 849 |
| Owners of the parent share of comprehensive income | | (692 493) | (311 165) |

The notes 1 to 28 and the accounting policies are an integrated part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

| *Amounts in NOK 1000* | Note | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| **ASSETS** | | | |
| Property, plant and equipment | 10 | 6 912 405 | 7 138 001 |
| Goodwill | 10 | 135 836 | 149 501 |
| Other intangible assets | 10 | 180 956 | 156 128 |
| Deferred tax assets | 9 | 34 685 | 16 560 |
| Interest in associated and other companies | 11,12 | 25 216 | 26 629 |
| Other non-current assets | 13 | 315 021 | 836 979 |
| **Total non-current assets** | | **7 604 120** | **8 323 798** |
| Inventories | 14 | 1 989 926 | 2 262 862 |
| Accounts receivables | 15 | 915 115 | 987 182 |
| Other current assets | 16 | 424 105 | 709 019 |
| Cash and cash equivalents | 17 | 673 725 | 688 578 |
| **Total current assets** | | **4 002 871** | **4 647 641** |
| **TOTAL ASSETS** | | **11 606 991** | **12 971 439** |
| **EQUITY AND LIABILITIES** | | | |
| Paid-in capital | | 2 649 780 | 2 649 780 |
| Retained earnings | | 1 571 077 | 2 263 570 |
| Non-controlling interest | | 84 008 | 79 476 |
| **Total equity** | | **4 304 865** | **4 992 826** |
| Non-current interest-bearing debt | 20 | 5 473 764 | 31 049 |
| Deferred tax liabilities | 9 | 39 076 | 336 611 |
| Pension liabilities | 4 | 217 575 | 236 053 |
| Provisions and other non-current liabilities | 22,24 | 207 237 | 165 101 |
| **Total non-current liabilities** | | **5 937 652** | **768 814** |
| Accounts payables | | 596 679 | 634 021 |
| Income tax payables | 9 | 6 104 | 62 342 |
| Interest-bearing current liabilities | 20 | 285 374 | 5 920 276 |
| Other current liabilities | 23 | 476 317 | 593 160 |
| **Total current liabilities** | | **1 364 474** | **7 209 799** |
| **TOTAL EQUITY AND LIABILITIES** | | **11 606 991** | **12 971 439** |

Oslo, 19. June 2013

Xiaobao Lu
Chairman of the board

Einar Støfringshaug

Espen Sortevik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

The notes 1 to 28 and the accounting policies are an integrated part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *Amounts in NOK 1000* | Share capital | Share premium fund | Other paid-in equity | Total paid in capital | Foreign currency translation reserve | Cash flow hedge reserve | Other retained earnings | Total retained earnings | Total Owners share | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance 1st January 2012** | 1 500 000 | 1 094 314 | 55 465 | **2 649 780** | 147 495 | 10 929 | 2 105 146 | 2 263 570 | **4 913 350** | 79 476 | **4 992 826** |
| Profit for the year | | | | | | | (472 592) | (472 592) | **(472 592)** | 17 598 | **(454 994)** |
| Other comprehensive income for the year | | | | | (139 970) | (59 470) | (20 461) | (219 901) | **(219 901)** | (3 966) | **(223 867)** |
| Total comprehensive income for the year | | | | | (139 970) | (59 470) | (493 053) | (692 493) | **(692 493)** | 13 632 | **(678 861)** |
| Capital contribution | | | | | | | | | | 3 333 | **3 333** |
| Dividends to equity holders | | | | | | | | | | (12 433) | **(12 433)** |
| **Balance 31st December 2012** | **1 500 000** | **1 094 314** | **55 465** | **2 649 780** | **7 525** | **(48 541)** | **1 612 093** | **1 571 077** | **4 220 857** | **84 008** | **4 304 865** |

| *Amounts in NOK 1000* | Share capital | Share premium fund | Other paid-in equity | Total paid in capital | Foreign currency translation reserve | Cash flow hedge reserve | Other retained earnings | Total retained earnings | Total Owners share | Non-controlling interest | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance 31st December 2010** | 883 262 | 4 677 178 | 0 | **5 560 440** | 162 599 | 163 195 | 2 988 632 | **3 314 426** | **8 874 866** | 179 110 | **9 053 976** |
| Effect of transition to recognition at fair value [1)] | | | | | | | 100 800 | | | | |
| **Balance 1st January 2011** | 883 262 | 4 677 178 | 0 | **5 560 440** | 162 599 | 163 195 | 3 089 432 | **3 415 226** | **8 975 666** | 179 110 | **9 154 776** |
| | | | | | | | | **0** | | | |
| Profit for the year | | | | | | | (113 513) | **(113 513)** | **(113 513)** | 20 996 | **(92 517)** |
| Other comprehensive income for the year | | | | | (15 104) | (152 266) | (30 282) | **(197 652)** | **(197 652)** | 853 | **(196 799)** |
| Total comprehensive income for the year | 0 | 0 | 0 | **0** | (15 104) | (152 266) | (143 795) | **(311 165)** | **(311 165)** | 21 849 | **(289 316)** |
| | | | | | | | | **0** | | | |
| Merger | 388 | 346 926 | 55 465 | **402 779** | | | 798 958 | **798 958** | **1 201 737** | | **1 201 737** |
| Capital reduction | (184 314) | (4 677 179) | | **(4 861 493)** | | | | **0** | **(4 861 493)** | | **(4 861 493)** |
| Conversion of liabilities | 800 665 | 747 389 | | **1 548 054** | | | | **0** | **1 548 054** | | **1 548 054** |
| Capital contribution | | | | | | | | **0** | **0** | 7 874 | **7 874** |
| Dividends to equity holders | | | | | | | | **0** | **0** | (13 223) | **(13 223)** |
| Contribution paid | | | | | | | (934 946) | **(934 946)** | **(934 946)** | | **(934 946)** |
| Contribution paid company held for sale | | | | | | | (707 856) | **(707 856)** | **(707 856)** | | **(707 856)** |
| Other changes | | | | | | | 3 353 | **3 353** | **3 353** | | **3 353** |
| Change in non-controlling interest | | | | | | | | | **0** | (116 134) | **(116 134)** |
| **Balance 31 December 2011** | **1 500 000** | **1 094 314** | **55 465** | **2 649 780** | **147 495** | **10 929** | **2 105 146** | **2 263 570** | **4 913 350** | **79 476** | **4 992 826** |

1) Effect of transiton to reconition at fair value - Statkraft power contrakt. See note 24.

**Merger**
Related to the sale from Orkla to Bluestar Group, Elkem AS was merged with Elkem Solar Holding AS and Opperud Gård from Meraker Eiendom Holding AS.

**Capital reduction**
Related to the sale to Bluestar Group the paid in capital in Elkem AS was reduced by repayment to shareholder (Orkla ASA) 23.3.2011.

**Conversion of liabilities**
Elkem AS is mainly funded from the parent company. 1 548 054 TNOK of this funding was converted from loan to equity 5.12.2011.

The notes 1 to 28 and the accounting policies are an integrated part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

| *Amounts in NOK 1000*<br>*1st January - 31st December 2012* | Note | 2012 | 2011 |
|---|---|---|---|
| Operating profit | | (853 885) | 615 671 |
| Operating profit discontinued operations | | 0 | 1 802 |
| | | | |
| Changes fair value Power contract | 7 | 551 915 | 86 778 |
| Amortisation, depreciation and impairment changes | 10 | 657 152 | 686 613 |
| Changes in net working capital | | 320 231 | (358 903) |
| Interest payments received | | 41 875 | 64 260 |
| Interest payments made | | (284 566) | (219 833) |
| Income taxes paid | | (131 106) | (128 910) |
| **Cash flow from operating activities** | | **301 616** | **747 478** |
| | | | |
| Investments in property, plant and equipment and intangible assets | 10 | (507 913) | (749 941) |
| Sale of property, plant and equipment | 10 | 5 038 | 12 381 |
| Dividend received | | 4 528 | 611 193 |
| Acquired shares | | 0 | (100 138) |
| Sale of subsidiaries | | 0 | 1 066 715 |
| **Cash flow from investing activities** | | **(498 347)** | **840 210** |
| | | | |
| Dividend paid | | (12 433) | (12 323) |
| New equity | | 3 124 | 7 873 |
| Capital reduction | | 0 | (4 861 493) |
| Repayment of loans to former shareholder | | 0 | (3 833 663) |
| Loans raised with new shareholder | | 0 | 6 848 054 |
| Repayment of loans | | (11 835) | (57 699) |
| New loans raised | | 259 704 | 230 672 |
| **Cash flow from financing activities** | | **238 560** | **(1 678 579)** |
| | | | |
| **Change in Cash and cash equivalents** | | 41 829 | (90 891) |
| | | | |
| Currency exchange differences | | (56 682) | 11 363 |
| | | | |
| **Cash and cash equivalents 1st January 2012** | | **688 578** | **768 106** |
| **Cash and cash equivalents 31 December 2012** | 17 | **673 725** | **688 578** |

The notes 1 to 28 and the accounting policies are an integrated part of these consolidated financial statements.

## GENERAL INFORMATION

Elkem AS is a limited liability company located in Norway. Elkem AS is fully owned by Bluestar Elkem International Co. Ltd. S.A.R.L., Luxembourg, a subsidiary of Bluestar Elkem Investment Co. Ltd. Elkem AS and its subsidiaries (hereafter Elkem AS Group / the Group) was acquired by Bluestar Elkem International Co. Ltd. on April 14th 2011.

Bluestar Elkem Investment Co. Ltd is a limited company registered and domiciled in Hong Kong, owned by China National Bluestar (Group) Co. Ltd ("Bluestar").

Elkem AS Group is one of the world's leading companies in environmentally friendly manufacture of metals and materials.
The main activities are related to production and sale of Solar Grade Silicon, Silicon Metal, Ferrosilicon Alloys, Carbon products and Microsilica.
Elkem AS Group serves several global industries, such as construction, transport, engineering, packaging, aluminium, chemical and electronic markets, and has organized its business to handle market presence and customer focus. Elkem AS Group has multiple production facilities located in Europe, North America, South America Africa and Asia, and an extensive network of sales offices and agents covering most important markets.
Core production processes are focused on converting high quality raw material to specialized metals and materials through high temperature smelting processes and further processing. Thus, the business has high consumption of electrical power, and is also capital intensive, due to requirement for large and complex processing plants.

The presentation currency of Elkem AS Group is NOK (Norwegian kroner). All financial information is presented in NOK thousand, unless otherwise stated.

## SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statement is prepared in accordance with International Financial Reporting Standards as adopted by EU.

**New interpretations and changes to existing standards**
As of date of authorisation of these financial statements, the following standards, amendments and interpretations to existing standards have been issued by the IASB. These standards will be implemented in later years:

- IAS 19 R - Employee benefits; effective date 1 January 2013
- IFRS 10 - Consolidated Financial Statements; effective date 1 January 2014
- IFRS 11 - Joint Arrangements; effective date 1 January 2014
- IFRS 12 - Disclosure of Interests in Other Entities; effective date 1 January 2014
- IFRS 13 - Fair Value Measurement; effective date 1 January 2013

IAS19 R is a revised version of IAS 19. The key purpose of the revision is to create a greater consistency in acconting for employee benefits by elimination of the recognition and presentation options that exists under current IAS19. The main change is that the accounting options for actuarial gains/losses are removed, according to IAS19R they shall be recognized in Other Comprehensive Income as they occur. As Elkem AS Group's accounting principle already are in line with requirements under IAS19R, the impact for the Elkem AS Group financial statement is therefore expected to be minor.

IFRS 10 Consolidated Financial Statements establishes principles for presentation and preparation of consolidated financial statements when a entity controls one or more entities. The fully effects of the standard are not analyzed.

It is expected that IFRS 11 Joint Arrangements will have a impact on how Elkem AS Group recognize and disclose the related financial information about Joint Ventures, as proportionate consolidation is not an option under this standard. According to IFRS 11 accounting and presentation is determined by the classification of the joint arrangement. The classification and the accounting is divided into two types, joint venture which shall be accounted for according to the equity method, and joint arrangements where assets and liabilities shall be accounted for directly. The fully effects from implementing the standard is not yet analysed.

IFRS 12 Disclosure of Interests in Other Entities is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. The standard is not expected to have impact on the consolidated financial statement, only the disclosures.

IFRS 13 *Fair Value Measurement* applies to IFRSs that require or permit fair value measurements or disclosures. It provides a single IFRS framework for measuring fair value and requirements of disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific measurement. Effects from the standard is not yet analysed.

There are not any other new standards, amendments or interpretations that are expected to have material impact on Elkem AS Groups financial statements.

**The principal accounting policies applied in the preparations of the financial statements are set out below:**

**General**
The financial statement is based on a historical cost basis, with the exception of derivatives and financial assets held for trading which are measured at fair value. For assets and liabilities designated as hedged items in a fair value hedge the recognized amounts are adjusted with the change in the fair value caused by the hedged risk.

**Going concern**
The management believes that the basis for preparation of the consolidated accounts of Elkem AS Group as of 31. December 2012 are in accordance with the conventional accounting principles of going concern (see note 28).

**Changes in accounting policies, changes in accounting estimates and errors**
Change in accounting treatment based on renewed assessment of an item are treated as an error in prevous accounting period, according to IAS 8 Accoutning policies, Changes in accounting estimates and Errors. The change is recognized retropectively by restating the comparative amounts for the prior period presented, including the opening balance of the prior year.

**Use of estimates and judgments**
The preparation of the consolidated financial statements according to IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant items subject to estimates and management judgment i include the carrying amount of property, plant and equipment, intangible assets (including goodwill), inventories, deferred tax asset and utilization of tax losses, measurement of defined benefit obligations, provisions and contingencies. See also information in note 1.

**Basis of consolidation**
The consolidated financial statements incorporate the financial statements of Elkem AS and entities controlled by Elkem AS. Control is achieved where Elkem AS has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Elkem AS is assumed to exercise control when it acquires, directly or indirectly, more than 50% of voting rights.

Subsidiaries are included in the financial statements as from the date of obtaining control or significant influence. They are excluded from the financial statements as from the date which control or significant influence cease.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. Goodwill is measured as the excess of the sum of consideration transferred and net identifiable value of transferred assets and liabilities.

All subsidiaries are using accounting policies consistent within the Group, and all intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control is based on a proportionate amount of the net assets of the subsidiary.

**Investment in associates and jointly controlled entities**
Associates are those entities in which the Group has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

**Associates**
Investments in associates are accounted for using the equity method and are recognized initially at cost.
The Groups share of the associates' profit and loss and other comprehensive income of associates are incorporated in the consolidated financial statement and presented on single lines in the Income Statement and Other Comprehensive Income.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date.

**Joint ventures**
The group's interests in jointly controlled entities are accounted for by proportionate consolidation. The group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the group's financial statements.
The main transactions between Elkem and the joint ventures is purchase of materials and services. The group does not recognize its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until the assets are resold to an independent party.

**Foreign currency**
Each entity in the group determines its functional currency based on the economical environment in which it operate, and items included in the financial statements of each entity are measured using that functional currency.
In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognized in the functional currency using the transaction date's currency rate.
Items in the income statement in other currencies than the group's presentation currency are monthly converted to the groups presentation currency using the month's average currency rate, and items in the balance sheet are monthly converted to presentation currency at the exchange rate on the balance sheet date. Translation differences are reported in Other Comprehensive Income.

Any goodwill arising on the acquisition of a foreign operation, and any fair value adjustment to the carrying amount of assets and liabilities arising on the acquisition, are treated as assets and liabilities of the foreign operation and translated at the closing rate.
On disposal of a foreign entity, the deferred cumulative amount recognized in Other Comprehensive Income relating to that particular foreign operation is recognized in profit and loss.

Monetary items denominated in foreign currencies are presented at the exchange rate on the balance sheet date, and any gains/losses is reported in the Income Statement included in Finance expenses.

**Net investments in foreign operations**
Foreign currency differences arising on the translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in other comprehensive income to the extent that the hedge is effective, and are presented in the translation reserve within equity. To the extent that the hedge is ineffective, such differences are recognized in profit and loss. The effective portion will be booked in profit or loss on disposal of the foreign operation.

**Goodwill**
Goodwill are non-physical assets that have been capitalised through acquistions.
Goodwill is initially measured as the excess of the cost of an acquisition over the group's share of the fair values of of the acquired entity's net identifiable assets at the acquisition date. If the fair value of the groups' interest in the net assets of the acquired subsidiary exceeds the cost of the acquisition (negative goodwill), the differences is recognized directly in profit and loss. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently when there is an indication of impairment. An impairment loss recognized for goodwill is not reversed in subsequent periods.

**Intangible assets**
Intangible assets are stated in the consolidated financial statement at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in business combinations are recognized at fair value at the acquisition date. Intangible assets with a finite useful life are amortized, using the straight-line method. The estimated useful lives and amortization method are reviewed at the end of each reporting period.

An intangible asset is derecognized on disposal, or when the Group expects no future economic benefits from its use to be derived. Gain or loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An intangible asset arising from an internal development project is recognized if the group can demonstrate technically feasibility of completing the intangible asset, has intention to complete it, ability to use it, can demonstrate that it will generate probable future economic benefits and the cost can be reliably measured.

**Property, plant and equipment**
Property, plant and equipment are stated in the consolidated statement of financial position at cost, less accumulated depreciations and accumulated impairment losses. Property, plant and equipment acquired in business combinations are recognized at fair value at the acquisition date. Properties in the course of construction are carried at cost, less any recognized impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. Depreciation commences when the assets are ready for their intended use.

Initial costs include expenditures that are directly attributable to the acquisition of the asset. Self-constructed assets include the cost of materials and direct labor, any other costs directly attributable to bringing the assets to working condition for their intended use, estimated dismantling or removing charges and capitalized borrowing costs.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, when future benefits are probable and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. Major periodic maintenance that is carried out less frequently than every year is capitalized and depreciated over the period until the next periodic maintenance is performed. All other repairs and maintenance are charged to the income statement when incurred.

Depreciation is recognized using the straight-line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each reporting period.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in profit or loss.

**Impairment of tangible and intangible assets**
At the end of each reporting period, the Group's management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of fair value less the costs to sell, or its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or the lowest independent cash generating unit to which it belongs, after taking into accounts all other relevant information.

The Group's main cash generating units are reflecting the company's business areas, which are the basis for the Management review and Monthly Report. The capitalised value of tangible and intangible assets within the cash generating units is measured against the value in use of tangible and intangible assets within these units.

**Leasing**
Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating lease. Assets held under finance leases are initially recognized as assets of the Group at the lower of the fair value of the asset and the present value of the minimum lease payment. The corresponding liability to the lessor is included in the consolidated financial statement of financial position as a finance lease obligation. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

**Non-derivative financial assets not at fair value through profit or loss**
Purchases and sales of financial assets are recognized at the date of transaction on which the Group is committed to the purchase or sale of the asset.

At initial recognition, the financial assets are carried in the balance sheet at fair value plus any transaction costs directly attributable to the acquisition or issue of the asset. Financial assets are derecognized once the right to future cash flows have expired or been transferred to a third party and once the group has transferred substantially all the risks and rewards of control of these assets.

Financial assets with a maturity exceeding one year are classified as non-current financial assets. Short term investments that do not meet the definitions of a cash equivalent, and financial assets with a maturity of less than one year, are classified as current financial assets.

**Financial assets at fair value through profit or loss**
These are financial assets classified as held for trading as the Group has acquired the assets for the purpose of selling it in the near term. The assets are carried in the balance sheet at fair value with gains or losses recognized in the income statement.

**Financial assets available for sale**
Available-for-sale financial assets are non-derivatives which are either designated in this category or not classified in any of the other categories. These assets are included in non-current assets, unless the management intend to sell the investment within 12 months from the balance sheet date.

**Loans and Receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. After initial recognition they are recognized at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

This category includes operating receivables, loans, guarantee deposits, and cash and cash equivalents.

Trade and other receivables are initially recognized at fair value, which in most cases corresponds to their nominal amount. The carrying amount is subsequently measured at amortized cost using the effective interest rate method, less any impairment provision. Short term receivables with no stated interest rate are recognized at their nominal amount.

Cash and cash equivalents are held for the purpose of meeting short term fluctuations in liquidity, rather than for investment purposes. Cash and cash equivalents comprise cash fund and short term deposits. Bank overdrafts are shown within interest bearing current liabilties on the balance sheet. Deposits and drawings within the Group Bank Accounts are netted by offsetting deposits against withdrawals.

If there is objective evidence of impairment, or if there is a risk that the Group may not recover the contractual amounts at the contractual maturity dates, an impairment loss is recognized in the income statement. The provision is equal to the difference between the carrying amount and the estimated future recoverable cash flows.

**Non derivative financial liabilities**
Non-derivative financial liabilities include borrowings and trade payables. The liabilities are initially recognized at fair value of the amount required to settle the associated obligation, net of related costs. Subsequently and insofar as they are not designated as liabilities at fair value through profit or loss, such liabilities are recognized at amortized cost using the effective interest rate method, and the difference between the cost and the amount of repayment being recognized in the income statement over the term of the borrowing.

**Derivative financial instruments including derivative hedging instruments and non-financial contracts with net settlements that are to be treated as financial derivatives**
Derivatives are initially recognized at fair value at the date when the derivative contracts are entered into. Transaction costs that are directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss, are recognized immediately in profit or loss. Subsequently the derivatives are remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in the income statement immediately, unless the derivative is designated and is effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge accounting
The Group designates certain derivatives as hedging instruments for fair value hedges and cash flow hedges. At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions.

i) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges, are recognized in profit or loss immediately together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

ii) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, are recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in comprehensive income at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that where reported in equity is immediately transferred to the income statement.

Non-financial contracts for the entity's own use but with net settlement
Contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument are inside the scope of IAS39 Financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. Contracts for own use but with net settlements are not exempted from IAS39, and shall be recognized at fair value through Profit or Loss. This applies for power contracts where part of the volume is sold and for contracts with delivery in a price area where the Group don't have a corresponding consumption. Thus the Group needs to sell the power in one price area to buy it back in another.

**Inventories**
Inventories are measured at the lower of cost and net realizable value. The cost of inventory is measured at the cost of raw materials, energy for smelting, direct labor, other direct costs and production overhead cost based on the higher of actual and normal capacity. Net realizable value represents the estimated selling price for inventories less estimated costs of completion and variable selling expenses.

**Taxation**
Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Current tax payable includes any adjustment to tax payable in respect of previous years. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity or in comprehensive income.
The Group includes deductions for uncertain tax positions when it is probable that the tax position will be sustained in a tax review. The Group records provisions relating to uncertain or disputed tax positions at the amount expected to be paid. The provision is reversed if the disputed tax position is settled in favor of the Group and can no longer be appealed.

Deferred tax
Deferred tax assets and liabilities are calculated using the liability method with full allocation for all temporary differences between the tax base and the carrying amount of assets and liabilities in the consolidated financial statements, including tax losses carried forward. Deferred tax relating to items outside profit or loss are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.
Deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.
Deferred tax assets are recognized in the statement of financial position to the extent it is more likely than not that the tax assets will be utilized. The tax rates at the end of the reporting period and undiscounted amounts are used.
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

**Employee benefits**
Defined contribution plans
Defined contribution plans comprise arrangements whereby the company makes monthly contributions to the employees' pension plans, and where the future pensions are determined by the amount of the contributions and the return on the pension plan asset. The company's contribution constitute from 4 to 8 % of the basic salary between 1 and 12 G (G stands for the norwegian Public pension base rate, which is adjusted annually. In 2012 1G was equal to 81 153 NOK). A separate contribution plan is established for salary above 12 G. Payments related to the contribution plans are expensed as incurred.

Defined benefit plans
Defined benefit plan is recognized at present value of future liabilities considered retained at the end of reporting period. Plan assets are recorded at fair value. Changes in benefit liabilities due to changes in benefit plan, is distributed over average remaining contribution time. Accumulated effects of changes in estimates and financial and actuarial conditions are recognized to Other Comprehensive Income. Net pension benefit costs are classified as part of Salary and other employee remuneration.

**Provisions**
A provision is recognized when the Group has a present obligation and it is probable that an outflow of resources is required to settle the obligation. The amount recognized is the best estimate of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding the obligation, known at the end of the reporting period. Provisions are measured at present value, unless the time value is assessed to be immaterial.

**Contingent liabilities**
Contingent liabilities are liabilities which is not recognized because they are possible obligations that not yet have been confirmed, or they are present obligations where an outflow of resources are not probable. Any significant contigent liabilities are disclosed in the notes.

**Contingent assets**
Contingent assets are not recognized, but presented in the notes if probable.

**Revenue recognition**
Revenues are recognized when it is probable that transactions will generate future economic benefits for the Group and the amount can be measured reliably. Sales revenue is presented net of VAT and discounts. Revenue from goods sold are recognized when the significant risk and reward of the ownership of the goods are transferred to the buyer, according to the actual delivery term for each sale. Revenues and sales expenses, related to the same transaction are recognized in the same period.

Income from insurance settlements are recognized when it is virtually certain that the Group will receive the compensation, and presented as Other operating income. Interest income is recognized on accrual basis. Dividend is recognized when shareholders right to receive dividend are determined by the shareholder's meeting.

**Government grants**
Government grants are recognized when it is virtually certain that the Group will comply with the conditions attaching them, and the grants will be received. Government grants relating to property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognized as income over the lifetime of a depreciable asset by reducing the depreciation charge. Grants related to expenses are classified as Other operating income.

**Events after the reporting period**
Events after the reporting period related to the Groups financial position at the end of the reporting period, is considered in the financial statement. Events after the reporting period that has no effect on the Groups financial position at the end of the reporting period, but will have effect on future financial position are disclosed if the future effect is material.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENT

*Amounts in NOK 1000*

### 1. ACCOUNTING ESTIMATES

Preparation of the consolidated financial statements according to IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts. The most significant accounting estimates included in the Financial Statements for Elkem AS Group as of 31 December 2012 are valuation of assets held by Elkem Solar and long term power contracts booked at fair value.
For Elkem Solar this applies for Intangible assets, Property plant and equipment and Operating materials and spare parts, where the booked values are 107 TNOK, 3 998 TNOK and 115 TNOK respectively. See note 10 Property, plant and equipment and intangible assets for further information about the sensitivity of the impairment test.
Fair value for the long term power contratcts are based on assumptions derived from observable prices for comparable instruments. Booked value as of 31.12.2012 is in total 313 TNOK, see note 24 Financial instruments for further details and sensitivity.

### 2. INCOME

| By type | 2012 | 2011 |
|---|---|---|
| Revenue from sale of goods | 7 736 385 | 8 960 668 |
| Revenue - China National Bluestar group | 226 141 | 26 077 |
| Miscellaneous operating revenue | 92 506 | 479 841 |
| Total revenue | 8 055 032 | 9 466 586 |
| Other operating income | 128 684 | 81 227 |
| **Total operating income** | **8 183 716** | **9 547 813** |

| Revenue by geographic market | 2012 | 2011 |
|---|---|---|
| *Nordic countries* | 1 289 636 | 1 583 146 |
| *United Kingdom* | 287 934 | 406 969 |
| *Germany* | 1 370 518 | 1 339 705 |
| *France* | 424 395 | 253 338 |
| *Italy* | 296 558 | 330 159 |
| *Switzerland* | 48 333 | 647 670 |
| *Netherland* | 181 784 | 333 177 |
| *Poland* | 190 369 | 215 329 |
| *Other European countries* | 569 580 | 677 330 |
| **Europe** | **4 659 108** | **5 786 823** |
| **Africa** | **133 247** | **123 628** |
| **America** | **1 563 575** | **1 074 560** |
| *China* | 166 445 | 186 533 |
| *Japan* | 486 792 | 572 484 |
| *South Korea* | 209 168 | 600 012 |
| *Other Asian countries* | 690 671 | 596 738 |
| **Asia** | **1 553 076** | **1 955 767** |
| **Rest of the world** | **53 519** | 45 967 |
| **Revenue from sale of goods** | **7 962 526** | **8 986 745** |

The Elkem AS Group has several smaller and larger external customers. No single customer constitute a substancial part of the revenues.

Other operating income consists of income from insurance settlements 108 609 TNOK and government grants of 20 075 TNOK. The corresponding figures for 2011 are 71 458 TNOK from insurance settlements and government grants of 9 769 TNOK. See further information about received government grants in note 27.

### 3. PAYROLL EXPENSES AND AUDIT FEE

| | 2012 | 2011 |
|---|---|---|
| Salaries and other benefits | 1 133 829 | 1 173 992 |
| Employer's national insurance contribution | 145 088 | 151 169 |
| Pension cost, see Note 4 | 75 175 | 74 082 |
| Other payments / benefits | 20 668 | 25 674 |
| **Total salaries and other benefits** | **1 374 760** | **1 424 917** |

| **Including the following compensation** | 2012 | 2011 |
|---|---|---|
| Members of the board | **465** | **336** |

In 2012 the number of full time employees in Elkem AS Group was 2318 , in 2011 the number was 2371 .

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**Senior staff compensation**
Helge Aasen is CEO of Elkem AS Group. Salary and other compensation paid by Elkem to CEO Helge Aasen according to the following specification:

| | |
|---|---|
| Salary, including holiday pay | 2 782 837 |
| Bonus | 1 121 734 |
| Free car | 130 000 |
| Other compensation | 24 900 |
| Pension cost | 298 778 |

Retirement age for the CEO is 67 years. Any benefits from occupational pension schemes and other public pension plans the CEO is entitled to are deducted. Old-age pension from the age of 67 and other pensions regarding spouse, children and disability are paid in accordance with the general pension rules of the company. For salaries up to 12 G, the pension provided by the company is a defined contribution plan. Pension for salaries above 12 G will be paid according to the company's current guidelines through operations.

The CEO is also entitled to :
A yearly compensation as a fixed bonus in total equivalent to 50% of the base salary.
A retention fee, in total equivalent to 36 months of base salary, to be paid in Q2 2014 depending on continued engagement.
For the CEO, the following applies upon termination by the company:
-Termination payment equal to 12 months salary is to be paid on the last working day.
-Severence payment equivalent to 18 months salary paid in connection with any termination

**Senior staff options**
Some members of Elkem management have continued holding options previously awarded by Orkla ASA.

**Loans and guarantees to employees**
There are no loans or payments to board members.

| AUDIT AND OTHER SERVICES | |
|---|---|
| Audit fee | 7 236 |
| Other assurance services | 1 861 |
| Other services | 1 342 |
| Tax services | 1 736 |
| **Total audit fees** | **12 175** |

Fees to auditors are reported exclusive of VAT.

## 4. RETIREMENT BENEFITS

Elkem AS Group has both defined contribution and defined benefit plans. For defined contribution plans the cost is equal to the Groups' contribution to the employee's pension savings in the period. For defined benefit plans the cost is caculated based on actuarial valuation methods, taking assumptions related to the employee's salaries, turnover, mortality, rate of return of pension assets, discount rate etc. into consideration.

**Defined contribution plan**
Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employees' pension plans, and where the future pension is determined by the amount of the contributions and the return on the pension plan assets. Contribution plans also comprise pension plans that are common to several companies companies and where the pension premium is determined independently of the demographic profile in the individual companies (multiemployer plans). Employees in the Elkem AS Group are mainly covered by pension plans that are classified as contribution plans.
The new early retirement scheme effective from 2011 in Norway is defined as a multi-employer plan, and the costs are accounted for based on received invoices from 'Fellesordningen for AFP'.
The plan is accounted for as a defined contribution plan, as the plan's administrators have not been able to calculate the pension obligation for each entity participating in the plan.

**Defined benefit plan**
Defined benefit plans are pension plans where the Group is responsible for paying pensions on a certain level, based on the employees' salaries when retiring.
The Group has funded and unfunded benefit plans in Norway, Germany, UK, Canada, Japan and South Africa distributed as follows: Norway 40%, Europe 28%, Canada 29%, Other 3% based on Net Pension Obligation.
In Norway - all defined benefit plans are unfunded, except for Elkem Chartering, and relates to salary above a certain level, closed early retirement scheme (AFP) and a top hat on the closed early retirement scheme. In Canada provisions are made for medical insurance as well as pension benefit plans.

**The principal assumptions used for the purposes of the acturial valuations in 2012 were as follows:**

| | Norway | Canada | Germany | UK |
|---|---|---|---|---|
| Discount rate | 2,0 % | 4,5 % | 5,5 % | 4,5 % |
| Expected return on plan assets | - | 5,5 % | - | 5,0 % |
| Expected rate of salary increase | 3,5 % | 3,5 % | 3,0 % | 3,9 % |
| Annual regulation of pensions paid | 0,5 % | - | 2,2 % | - |
| Change in Public pension base rate (G) | 3,5 % | - | - | - |

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| Breakdown of net pension cost: | 2012 | 2011 |
|---|---|---|
| Current service cost | (13 403) | (15 232) |
| Interest on obligation | (17 025) | (17 517) |
| Accrued employer's national insurance contribution | (944) | (3 007) |
| Expected return on plan assets | 11 372 | 12 571 |
| General administration costs | (906) | (866) |
| Past service cost | - | (3 192) |
| Net pension benefit costs, actuarial | (20 906) | (27 243) |
| | | |
| Defined contribution plan | (46 343) | (40 108) |
| Early retirement scheme AFP (Norway) | (7 926) | (6 731) |
| Pension contribution costs | (54 269) | (46 839) |
| | | |
| **Net pension costs total** | **(75 175)** | **(74 082)** |

| Net liability arising from defined benefit obligation | 2012 | 2011 |
|---|---|---|
| Present value of funded pension obligation | (287 477) | (288 779) |
| Fair value of plan assets | 228 391 | 212 261 |
| Net funded pension obligation | (59 086) | (76 520) |
| Present value of unfunded pension obligation | (158 489) | (139 388) |
| | | |
| Net value of funded and unfunded obligations | (217 575) | (215 908) |
| Unrecognized past service cost | - | 620 |
| **Net pension liabilities** | **(217 575)** | **(215 288)** |
| | | |
| Net booked pension assets | - | 20 765 |
| Net booked pension liabilities | (217 575) | (236 053) |
| **Net pension liabilities** | **(217 575)** | **(215 288)** |

**Movement in the present value of the defined benefit obligation and plan assets:**

| Movement in defined benefit obligation | 2012 | 2011 |
|---|---|---|
| Pension obligation OB | (428 167) | (381 197) |
| Current service cost and social contribution tax | (14 347) | (35 756) |
| Interest cost | (17 025) | - |
| Actuarial gains/(losses) | (31 693) | (29 935) |
| Unrecognized past service cost | - | - |
| Liabilities extinguished on settlements | 2 512 | - |
| Benefits paid | 29 622 | 37 667 |
| Other | - | (16 768) |
| Currency translation | 13 132 | (2 178) |
| Pension obligation as of 31 December | (445 966) | (428 167) |

| Movement in fair value of plan assets | 2012 | 2011 |
|---|---|---|
| Fair value of plan assets OB | 212 261 | 208 756 |
| Expected return on plan assets | 11 372 | 12 571 |
| Administration cost | (906) | (866) |
| Actuarial gains/(losses) | 7 319 | (13 587) |
| Contributions from employer and plan participants | 20 746 | 10 082 |
| Benefits paid | (11 013) | (11 546) |
| Settlements | (2 503) | - |
| Other | | 5 125 |
| Currency translation | (8 885) | 1 726 |
| Fair value of plan assets as of 31 December | 228 391 | 212 261 |

**Breakdown of pension plan assets (fair value) as of 31. December:**

| | Distribution % 2012 | Fair value of plan assets 2012 | Distribution % 2011 | Fair value of plan assets 2011 |
|---|---|---|---|---|
| Cash, cash equivalent and money market investments | 3 % | 6 702 | 5 % | 9 798 |
| Bonds | 38 % | 87 843 | 35 % | 74 964 |
| Shares | 56 % | 128 714 | 57 % | 121 964 |
| Property | 2 % | 5 132 | 3 % | 5 535 |
| Total pension fund | 100 % | 228 391 | 100 % | 212 261 |

The actual return on pension plan assets was 19,7 MNOK in 2012, and 3,3 MNOK in 2011.

In addition some Norwegian entities have pension contribution fund, mainly based on excess pension assets from settlement of the defined benefit plans in 2010. The pension contribution funds are classified as long term pension funds, except next year's expected contributions which are classified as short term, see note 13 and 16.

| | 2012 | 2011 |
|---|---|---|
| **Pension contribution funds** | **35 738** | **52 511** |
| Current part of contribution fund | 15 053 | 19 618 |
| Long term part of contribution fund | 20 685 | 32 893 |

**Summary of pension liabilities and actuarial gain/losses:**

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Pension obligations | (445 966) | (427 549) |
| Pension plan assets | 228 391 | 212 261 |
| **Net pension liabilities** | **(217 575)** | **(215 288)** |
| | | |
| Changes in actuarial gain/(loss) in pension obligation recognized in Other Comprehensive Income | (31 693) | (29 935) |
| Changes in actuarial gain/(loss) in pension assets recognized in Other Comprehensive Income | 7 319 | (13 325) |
| **Total actuarial gain/(losses) recognized in Other Comprehensive Income this period** | **(24 374)** | **(43 260)** |
| | | |
| Total actuarial gains/losses recognized in equity as of 31. December | (103 327) | (78 953) |

## 5. OTHER OPERATING EXPENSES

| | 2012 | 2011 |
|---|---|---|
| Loss on disposal of fixed assets | 916 | 1 722 |
| Freight and commission expenses | 531 202 | 517 762 |
| Machinery, equipment, spareparts and operating materials | 382 421 | 513 408 |
| Leasing expenses | 89 617 | 92 792 |
| Repairs and maintenance services | 281 679 | 285 220 |
| External services | 201 320 | 252 913 |
| Travel expenses | 72 736 | 63 959 |
| Energy and fuel | 112 212 | 114 503 |
| Operating expenses vehicles | 30 635 | 29 985 |
| Insurance expenses | 50 233 | 50 474 |
| Losses on accounts receivables | 3 809 | 7 437 |
| Other operating costs | 357 860 | 575 974 |
| **Total other operating expenses** | **2 114 640** | **2 506 149** |

During 2012, the Elkem AS Group have expensed 54 032 TNOK related to research and development, which are included in the figures above.

## 6. OPERATING LEASE

| | Machinery and plant | Land, buildings and other properties | Equipments, furnitures, systems and vehicles | Total |
|---|---|---|---|---|
| Lease expenses 2012 | 22 789 | 34 992 | 31 837 | **89 617** |
| | | | | |
| Lease in accordance to contract due: | | | | |
| Within one year | 11 070 | 25 278 | 24 013 | **60 362** |
| In the second to fifth year inclusive | 15 993 | 19 696 | 1 399 | **37 088** |
| Over five years | 5 060 | 5 370 | 313 | **10 743** |

Most leasing agreement have escalation clause. This is not included in the future lease cost in the table above.

| | Machinery and plant | Land, buildings and other properties | Equipments, furnitures, systems and vehicles | Total |
|---|---|---|---|---|
| Lease expenses 2011 | 14 499 | 33 339 | (44 954) | **2 884** |
| | | | | |
| Lease in accordance to contract due: | | | | |
| Within one year | 3 583 | 18 448 | 20 093 | **42 124** |
| In the second to fifth year inclusive | 10 066 | 28 949 | 7 898 | **46 913** |
| Over five years | - | 4 745 | 2 124 | **6 869** |

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**7. OTHER GAINS AND LOSSES**

| | 2012 | 2011 |
|---|---|---|
| Change in fair value commodity contracts | (551 915) | (86 778) |

Power commodity contracts for own use but with net settlement, are not exempted from IAS 39 and they are measured at fair value throug profit or loss. The fair value of commodity contracts recognized in the balance sheet is calculated by using quotes from actively traded markets when available. Otherwise, price forecasts from acknowledged external sources are used as basis for the calculation of estimated fair value.

See note 24 for further details.

**8. FINANCE INCOME AND EXPENSES**

| | 2012 | 2011 |
|---|---|---|
| Interest income | 39 269 | 57 193 |
| Dividend | 661 | 901 |
| Net foreign currency translation income | 413 260 | 0 |
| Other financial income | 8 148 | 1 579 |
| Total finance income | **461 338** | **59 673** |
| | | |
| Interest expenses borrowings | (276 450) | (234 584) |
| Amortization of time value currency options (not a part of a hedging relationship) | (244) | (8 315) |
| Unwinding of discounted liabilities | (4 666) | (6 596) |
| Net foreign currency translation expenses | 0 | (561 662) |
| Other financial expenses | (9 224) | (10 568) |
| Total finance expenses | **(290 584)** | **(821 725)** |
| | | |
| **Finance expenses, net** | **170 754** | **(762 052)** |

**9. TAXES**

| **Income tax recognized in profit and loss** | 2012 | 2011 |
|---|---|---|
| Current tax expense | (94 637) | (153 433) |
| Previous year tax adjustment | 13 696 | (4 890) |
| Deferred tax income | 306 109 | 206 346 |
| **Total income tax recognized in profit and loss** | **225 168** | **48 023** |
| | | |
| **Income taxes charged directly to Other Comprehensive Income (OCI)** | | |
| Net gain/(loss) related to actuarial gain/losses | 3 815 | 12 978 |
| Net gain/(loss) on revaluation on cash flow hedges | 23 127 | 11 650 |
| Tax charged to OCI related to assets held for sale (CF hedges) | - | 47 565 |
| **Total tax charged to OCI** | **26 942** | **72 193** |

| **Amounts in TNOK** | **31.12.2012** | **31.12.2011** |
|---|---|---|
| Profit before tax, continuing operations | (680 162) | (144 144) |
| Profit before tax, discontinued operations | - | 1 802 |
| **Profit before tax, total** | **(680 162)** | **(142 342)** |
| | | |
| Expected income taxes (28 percent) of profit before tax | 190 445 | 39 856 |
| **Tax effects of:** | | |
| Difference in tax rates from 28 percent | 9 085 | 24 850 |
| **Permanent differences** | | |
| Tax effect of income from Norwegian controlled foreign companies (NOKUS) | (4 307) | (4 785) |
| Tax effect of other permanent income | 17 226 | (3 988) |
| Tax effect of profit subject to Shipping tax | 5 932 | 1 583 |
| Tax effect of expense not deductible in determining taxable profit (tax loss) | 5 031 | (2 577) |
| **Other effects** | | |
| Tax effect of not capitalised deferred tax assets this year | (3 048) | 2 319 |
| Currency effect on tax expense | (6 127) | (1 409) |
| Previous year tax adjustment | 13 692 | (4 215) |
| Other | (2 761) | (3 610) |
| **Income tax income for the year** | **225 168** | **48 023** |
| | | |
| Effective tax rate | 34 % | 34 % |
| Tax effect of differences | 34 723 | 8 167 |

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| Deferred tax asset and deferred tax liability | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Hedges recognized in other comprehensive income | (18 878) | 4 250 |
| Property, Plant, Equipment and Intangible assets | 572 038 | 561 129 |
| Pension fund | (45 158) | (43 225) |
| Other differences | 42 430 | 4 136 |
| Accounts receivables | 664 | (188) |
| Inventories | (30 488) | (4 951) |
| Provisions | (129 335) | 21 338 |
| Tax losses to carry forward | (399 515) | (232 705) |
| **Deferred tax liabilities** | **-8 242** | **309 784** |
| Not capitalised deferred tax asset to tax loss carry forward | 12 632 | 10 268 |
| **Net deferred tax liabilities recognized** | **4 390** | **320 052** |

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Deferred tax assets | 34 685 | 16 560 |
| Deferred tax liabilities | 39 076 | 336 611 |
| **Net deferred tax liabilities** | **4 390** | **320 051** |

| Gross tax loss carry forward | Temporary difference | Capitalised deferred tax assets | Not capitalised deferred tax assets | Total deferred tax assets loss carry forward |
|---|---|---|---|---|
| Norway | 1 372 788 | 384 134 | 247 | 384 381 |
| France | 26 422 | - | 8 807 | 8 807 |
| Egypt | 2 293 | - | 456 | 456 |
| Brazil | 10 816 | 2 749 | - | 2 749 |
| Singapore | 17 501 | - | 2 975 | 2 975 |
| China | 263 | - | 66 | 66 |
| Turkey | 404 | - | 81 | 81 |
| **Total related to loss carry forward** | **1 430 487** | **386 883** | **12 632** | **399 515** |

The major part of the taxable loss carry forward can be indefinitely carried forward.

**Deferred tax assets not recognized current year**

When an entity has a history of recent losses, the deferred tax asset arising from unused tax losses is recognized only to the extent that there is convincing evidence that sufficient future taxable profit will be generated.
The recognized deferred tax asset relates primarly to items other than tax loss carry forward. There is no enities with recognized deferred tax asset who have a history of tax losses.

**Pending tax issues with the tax authorities**

The Elkem AS Group includes deductions for uncertain tax positions when it is probable that the tax position will be sustained in a tax review.

Elkem Solar has a pending tax issue related to classification of assets in taxable groups. The Norwegian tax authorities have in a ruling reclassified a substantial part of what Elkem claims is equipment with depreciation rate of 20%, into groups with depreciation rates as low as 4 %. Elkem Solar has appealed the ruling. If the appeal from Elkem Solar is rejected, the taxable income for 2008 will be increased by TNOK 59.640. A rejection will also have effects for asset allocation in recent years. However, there will be no effects on tax payable or tax cost due to losses carried forward, with the exception of 2010 where the impact is estimated to be reclassification between deferred tax liability and tax payable at TNOK 37.415.

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**10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

**PROPERTY, PLANT AND EQUIPMENT**

| 2012 | Land and other property | Buildings | Machinery and plants | Equipment, furniture and transport-vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2012** | **68 447** | **2 916 868** | **3 599 117** | **189 406** | **364 163** | **7 138 001** |
| Additions 2012 | 367 | 6 077 | 62 567 | 8 331 | 389 412 | **466 754** |
| Disposals 2012 | (25) | (854) | (3 280) | (878) | 0 | **(5 038)** |
| Reclassification [1] | (984) | 1 036 | 54 934 | (58 486) | 3 500 | **0** |
| Transfered from CiP | 15 887 | 24 534 | 230 641 | 9 610 | (280 672) | **0** |
| Impairment losses 2012 | (10) | (160) | (5 330) | (340) | 0 | **(5 841)** |
| Depreciation expenses 2012 | (5 413) | (144 900) | (453 714) | (31 916) | 0 | **(635 943)** |
| Foreign currency exchange differences | (2 355) | (9 463) | (22 518) | (1 750) | (9 444) | **(45 530)** |
| **Closing Balance Net Booked Value 2012** | **75 914** | **2 793 138** | **3 462 417** | **113 976** | **466 959** | **6 912 405** |
| ***Hereof Net Booked Value Elkem Solar*** | ***2 896*** | ***2 035 505*** | ***1 873 816*** | ***16 768*** | ***69 022*** | ***3 998 008*** |
| Fixed assets under financial leasing included in Net Booked value | 25 840 | 0 | 3 553 | 5 124 | 0 | **34 517** |
| Historical cost | 171 186 | 4 275 394 | 8 068 983 | 368 305 | 466 959 | **13 350 827** |
| Accumulated depreciation | (94 648) | (1 470 087) | (4 492 768) | (253 564) | 0 | **(6 311 067)** |
| Accumulated impairment losses | (624) | (12 170) | (113 797) | (764) | 0 | **(127 355)** |
| | **75 914** | **2 793 138** | **3 462 417** | **113 976** | **466 959** | **6 912 405** |
| Estimated useful life | 5-50 yrs | 5-40 yrs | 3-30 yrs | 3-20 yrs | | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | Straight-line | | |

1) The reclassification refers to updated assessment of categories of PPE at Thamshavn Verk.

Depreciation starts when the asset is ready for use. Land is not depreciated.
Impariment losses 2012 are mainly related to Salten Verk (4 000 TNOK) and some minor write-downs due to damage on machinery, technical obsolenscence and adjustment to market price.

| 2011 | Land and other property | Buildings | Machinery and plants | Equipment, furniture and transport-vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2011** | **57 004** | **686 002** | **1 585 284** | **87 357** | **193 558** | **2 609 205** |
| Merger | 3 753 | 2 230 678 | 2 235 317 | 23 280 | 42 071 | **4 535 099** |
| Additions 2011 | 6 587 | 27 248 | 140 681 | 22 356 | 493 605 | **690 477** |
| Disposals 2011 | (33) | (90) | (1 148) | (1 410) | 0 | **(2 681)** |
| Disposal of subsidiary | 0 | (956) | (2 338) | (514) | 0 | **(3 808)** |
| Reclassification | 0 | (2 207) | (4 447) | 6 654 | 0 | **0** |
| Transfered from CiP | 6 400 | 130 466 | 146 132 | 84 548 | (367 546) | **0** |
| Impairment losses 2011 | (31) | (3 423) | (30 150) | (1 134) | 0 | **(34 738)** |
| Depreciation expenses 2011 | (5 147) | (146 427) | (458 547) | (31 702) | 0 | **(641 823)** |
| Reversal of impairment losses | 0 | 0 | 0 | 0 | 0 | **0** |
| Foreign currency exchange differences | (87) | (4 423) | (11 666) | (30) | 2 475 | **(13 730)** |
| **Closing Balance Net booked value 2011** | **68 447** | **2 916 868** | **3 599 117** | **189 406** | **364 163** | **7 138 001** |
| ***Hereof Net Booked Value Elkem Solar*** | ***3 892*** | ***2 144 878*** | ***2 030 252*** | ***21 006*** | ***112 305*** | ***4 312 334*** |
| Fixed assets under financial leasing included in Net Booked value | 31 200 | 0 | 9 243 | 3 108 | 0 | **43 551** |
| Historical cost | 160 282 | 4 275 251 | 7 806 709 | 538 608 | 364 163 | **13 145 013** |
| Accumulated depreciation | (91 211) | (1 335 608) | (4 044 270) | (348 711) | 0 | **(5 819 800)** |
| Accumulated impairment losses | (624) | (22 776) | (163 322) | (491) | 0 | **(187 212)** |
| | **68 447** | **2 916 868** | **3 599 117** | **189 406** | **364 163** | **7 138 001** |
| Estimated useful life | 5-50 yrs | 5-40 yrs | 3-30 yrs | 3-20 yrs | | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | Straight-line | | |

Impairment losses on fixed assets are mainly related to Solar 11 859 TNOK and Thamshavn Verk 16 738 TNOK.

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**INTANGIBLE ASSETS**

| 2012 | Goodwill | Other intangible assets | Development | IT systems and programs | Intangible assets under construction | Total Other intangible assets |
|---|---|---|---|---|---|---|
| **Opening Balance Net Booked Value 2012** | **149 501** | **17 569** | **104 793** | **33 324** | **443** | **156 128** |
| Additions 2012 | **0** | 736 | 89 | 3 366 | 36 968 | **41 159** |
| Reclassification / Transfered from CiP | **0** | 0 | (9 458) | 4 387 | 5 071 | **0** |
| Amortisation | **0** | (1 500) | (8 442) | (5 426) | 0 | **(15 369)** |
| Foreign currency exchange differences | **(13 665)** | (931) | 0 | (31) | 0 | **(962)** |
| **Closing Balance Net Booked Value** | **135 836** | **15 873** | **86 982** | **35 619** | **42 482** | **180 956** |
| ***Hereof Net Booked Value Elkem Solar*** | | | ***77 859*** | ***18 513*** | ***10 310*** | ***106 682*** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Historical cost | **135 841** | 54 977 | 132 975 | 95 621 | 42 482 | **326 055** |
| Accumulated amortisation | **0** | (39 104) | (45 993) | (60 002) | 0 | **(145 099)** |
| Accumulated write-downs | **(5)** | | | | | **0** |
| **Closing Balance Net Booked Value 2012** | **135 836** | **15 873** | **86 982** | **35 619** | **42 482** | **180 956** |
| Estimated useful life | Indefinite | 3-10 yrs | 3-16 yrs | 3-10 yrs | | |
| Amortisation plan | | Straight-line | Straight-line | Straight-line | | |

The investments related to intangible assets mainly consists of an upgrade of current ERP system of 36 431 TNOK.

During 2012, the Elkem AS Group has expensed 54 032 TNOK as research and development related to improval of processes and products, and partially for long-term technology- and business development. Capitalized development relates to Technology and Pilot Plant for new/improved production processes.

In 2012, intangible asset related to purchase of power contract is reclassified to financial instrument, the change in accounting treatment is implemented retrospectively, and thus the Opening Balance has been adjusted. See further description in note 24 Financial Instruments.

| 2011 | Goodwill | Other intangible assets | Development | IT systems and programs | Intangible assets under construction | Total Other intangible assets |
|---|---|---|---|---|---|---|
| **Opening balance Net Booked value 2011** | **94 186** | **7 704** | **0** | **2 255** | **0** | **9 959** |
| Merger | **0** | 0 | 94 726 | 1 113 | | **95 839** |
| Additions 2011 | **60 290** | 9 259 | 18 580 | 31 183 | 443 | **59 466** |
| Amortisation | **0** | (272) | (8 514) | (1 266) | | **(10 052)** |
| Foreign currency exchange differences | **(4 975)** | 878 | 0 | 38 | | **916** |
| **Closing Balance Net Booked Value 2011** | **149 501** | **17 569** | **104 793** | **33 324** | **443** | **156 128** |
| ***Hereof Net Booked Value Elkem Solar*** | | | ***95 670*** | ***16 964*** | | ***112 634*** |

The investments related to intangible assets include a pilot project for new operations of 18 471 TNOK and an ERP project of 24 671 TNOK, where amortising are not commenced. Intangible assets under construction are tested for impairment at year end. Amortisation will start when the assets are ready for use. During 2011, the Elkem AS Group has expensed 76 402 TNOK as research and development related to improval of processes and products, and partially for long-term technology- and business development.

| | | | | | | |
|---|---|---|---|---|---|---|
| Historical cost | **149 506** | 57 238 | 142 433 | 87 953 | 443 | **288 067** |
| Accumulated amortisation | **0** | (39 669) | (37 641) | (54 629) | 0 | **(131 939)** |
| Accumulated write-downs | **(5)** | | | | | **0** |
| **Closing Balance Net Booked Value** | **149 501** | **17 569** | **104 793** | **33 324** | **443** | **156 128** |
| Estimated useful life | Indefinite | 3-10 yrs | 3-16 yrs | 3-10 yrs | | |
| Amortisation plan | | Straight-line | Straight-line | Straight-line | | |

**Valuation of fixed assets, intangible assets and goodwill**
Fixed assets and intangible assets are stated in the consolidated financial statement at cost less subsequent accumulated depreciation and amortization. Fixed assets are tested for impairment whenever there is an indication of such. Goodwill and intangible assets with an indefinite useful life are not amortised, and are tested for impairment annually. If fair value of the assets are lower than carrying amount, a write down will be recognized.

**Goodwill**
The impairment test is performed comparing the carrying amount for the asset or the Cash Generating Unit (CGU) including goodwill, with the recoverable amount. The recoverable amount is based on value in use, calculated using the discounted cash flow method. A Cash Generating Unit (CGU) is the lowest level at which independent cash inflows can be measured.

| Goodwill per entity/CGU | Foundry | Silicon Materials | Carbon | Total |
|---|---|---|---|---|
| Elkem Oilfield Chemical FZCO | | 12 988 | | **12 988** |
| Elkem Materials Process Services BV | | 165 | | **165** |
| Elkem Participacòes Indústria e - Comércio Limitada | | | 11 111 | **11 111** |
| Ferroveld JV | | | 48 557 | **48 557** |
| Elkem Carbon China Comp Ltd | | | 1 000 | **1 000** |
| NEH Inc. | 37 767 | 14 574 | 9 674 | **62 015** |
| **Closing Balance** | **37 767** | **27 727** | **70 342** | **135 836** |
| **WAAC before tax** | **10,7-10,9%** | **8-10,9%** | **9,5-12,4%** | |

The discounted cash flow method is based on discounting the future cash flows with WACC (weighted average cost of capital) respective for the asset/CGU being evaluated. WACC is based on cost of debt and cost of equity which is based on the Capital Asset Pricing Model (CAPM). 10 year Norwegian government bond is basis for risk free interest rate. This rate has been adjusted for specific country risk or company risk of the CGU. The WACC used in the impairment test of each CGU is shown in the table above.

The future cash flows are based on specified assumptions and plans adopted by the entity.
The sales prices are determined by management in each CGU based on current market prices and estimated future development in both cost and supply/demand. Prices for input factors are based on available market prices and forward prices as well as management assessment. Currency rates and power prices are based on external official sources such as Reuters and Nasdaq. Future cash flows are calculated on the basis of the estimate for next year and forecasts for the following two years. As from year four, a terminal value is calculated. Terminal values are adjusted by a growth rate of 2,5%.

Discounted value higher than the capital employed, means that the value of the intangible assets or goodwill is recoverable. If the discounted value of future cash flows is lower than the unit's capital employed, the asset is written down to the recoverable amount.

Impairment tests of goodwill, included in each CGU shown above, are done annually. The tests indicated no need for write-down as of December 2012.

**Elkem Solar**
Due to significant overcapacity of Solar Grade Silicon, the production at Elkem Solar was temporarily halted by the end of 2012. Sales have been low, and production capacity has not been fully utilised during the year. From January to May, only the first two process steps were in operation, whereas the last three process steps operated during April to August. From September all production has been idled. Most of the employees are engaged in projects or with other work within the Elkem Group, and Elkem Solar is prepared to restart production on short notice when the market conditions improve. The current market is depressed, but the Solar business has historically been volatile and recovery is expected. The fundamentals for the Solar business are positive based on overall improved competitiveness of the industry, and need for more renewable energy in the world.

Based on this situation with negative market conditions, Elkem Solar' assets have been tested for impairment. The recoverable amount is estimated based on fair value less cost of disposal. As there is not an active market for such assets, nor observable comparable transactions as basis for the estimation of fair value, the discounted cash flow method has been used. The discounted cash flow for Elkem Solar is based on the following assumptions:
Elkem Solar Silicon production is capital intensive and the equipment is expected to have a long technical lifetime, comparable to other plants in Elkem. Re-investments and maintenance are keept at a level where the equipment standard is maintained, hence the net present value is based on an eternal cash flow. Production and sales volume is estimated at 7.500 mt per year. The Polysilicon price has historically been volatile due to high degree of capital intensity and long lead time from deciding to build new capacity until the plant is ramped-up. On top of this, the Solar market is still in a growth phase, making it hard to predict future demand. Today, the Polysilicon price is at historically low levels of 16-18 USD/kg due to significant oversupply. The currently depressed pricing is assumed to continue until supply and demand are more balanced. At some point in time price is expected to exceed fully absorbed cost (including depreciation) to give an incentive to build new capacity. Photon Consulting has, on Elkem's request, estimated the long term price range for Polysilicon to 20-28 USD/kg. Based on this estimate, Elkem Solar has applied a Polysilicon price of 24 USD/kg. The Elkem Solar Silicon price is estimated somewhat below the Polysilicon price, as Elkem Solar has had to share some of the cost advantage with the customers. Weighted cost of capital is calculated according to CAPM and equals 10.7% nominal pre tax.

*Sensitivity of estimated cash flows*
The estimated recoverable amount of Elkem Solar AS is based on judgments, and the assumptions and estimates underlying the calculations are uncertain. The cash flow is most sensitive to changes in estimated sales price, useful life of the assets and sales volume. The recoverable amount equals the carrying amount of NOK 4.2 billion as at 31 December 2012, and any negative changes in the assumptions would result in impairment of the carrying amount. A change in the estimated Polysilicon sales price of 4 USD/kg will result in a change in net present value of the discounted cash flows (NPV DCF) amounting to NOK 2.1 billion, a reduction of the estimated useful life of the plant from eternity to 25 years would reduce the NPV DCF by NOK 1.2 billion, and a reduction of the estimated sales volume by 20% would reduce the NPV DCF by NOK 1.9 billion. A nominal WACC before tax decrease/increase by 2% will change the NPV DCF by +1.7 BNOK or -0.9 BNOK respectively.

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## 11. JOINT VENTURES

As of 31 December 2012 the Elkem AS Group has interests in the following jointly controlled ventures:

| Name of entity | Business office | Country | Proportion of shares/votes (%) | Principal activities |
|---|---|---|---|---|
| Elkem Ferroveld JV (ZA) | Moses Contane Drive, Ferrobank Emalahleni 1035 | South Africa | 50 % / 50 % | Electrode paste production |
| Dehong Elkem Materials Co. Ltd | Dehong, Yunnan | China | 50 % / 50 % | Microsilica production |
| North Sea Container Line | Haugesund | Norway | 50 % / 50 % | Shipping services |
| Klafi | Grundartangi, Akranes | Iceland | 50 % / 50 % | Transportation/harbour services |

The Joint Ventures' proportionate share of revenues, expenses, assets, liabilities and cash flows are included in the consolidated financial statement as follows:

| | Elkem Ferroveld JV (ZA) including excess value | Dehong Elkem Materials Co. Ltd | North Sea Container Line | Klafi | Total 2012 |
|---|---|---|---|---|---|
| Current assets | 27 444 | 1 643 | 53 637 | 1 905 | 84 629 |
| Non-current assets | 73 400 | 221 | 4 574 | 1 675 | 79 870 |
| Current liabilities | 14 400 | 164 | 11 040 | 1 963 | 27 567 |
| Non-current liabilities | 2 830 | (117) | - | 1 193 | 3 906 |
| Net assets | 83 614 | 1 818 | 47 171 | 424 | 133 027 |
| | | | | | |
| Total revenue | 102 883 | 1 282 | 169 210 | 6 468 | 279 843 |
| Total expenses | (86 051) | (1 128) | (156 057) | (6 282) | (249 518) |
| Total profit for the year | 16 831 | 154 | 13 153 | 187 | 30 325 |

There is limited business transactions between the consolidated Joint Ventures and the consolidated entities within the Elkem AS Group.

## 12. INTEREST IN ASSOCIATED AND OTHER COMPANIES

| | 2012 | 2011 |
|---|---|---|
| Interest in associates | 15 318 | 16 795 |
| Interest in other companies | 9 897 | 9 834 |
| **Total interest in associates and other companies** | **25 216** | **26 629** |

| | 2012 | 2011 |
|---|---|---|
| Total interest in associates at opening balance | 16 795 | 15 302 |
| Share of profit | 2 968 | 4 039 |
| Other changes | (4 445) | (2 547) |
| **Total interest in associates** | **15 318** | **16 795** |

As of 31 December 2012 the Elkem AS Group has interest in following associates:

| Name of entity | Business office | Country | Proportion of shares/votes (%) | Principal activities | Net assets | Total operating income | Group's share of profit of associates | Carrying amount |
|---|---|---|---|---|---|---|---|---|
| GT Tækni | Grundartangi | Iceland | 47,0 % | Mechanical maintenance | 6 527 | 19 327 | (632) | 2 926 |
| Euro partner ship | NL Moerdijk | Netherland | 50,0 % | Administer participations | 11 144 | 367 | 1 800 | 9 719 |
| Combined Cargo Warehousing | NL Moerdijk | Netherland | 33,0 % | Warehousing | 8 872 | 20 577 | 1 800 | 2 672 |
| **Total interest in associates** | | | | | | | **2 968** | **15 318** |

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## 13. OTHER NON-CURRENT ASSETS

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Long term pension contribution fund [1] | 20 685 | 32 893 |
| Defined benefit pension asset [1] | - | 20 765 |
| Long term deposit pension guarantee | 13 008 | 12 500 |
| Commodity contracts at fair value [2] | 255 000 | 758 222 |
| Other long term receivable | 26 328 | 12 599 |
| **Total non-current assets** | **315 021** | **836 979** |

1) See note 4 Retirement benefits
2) Commodity contract at fair value see note 7 and 24

Long term deposit pension guarantee is related to unfunded pension liabilites for salary above 12G

## 14. INVENTORIES

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Finished goods | 1 008 749 | 1 090 652 |
| Work in progress | 220 605 | 232 733 |
| Raw materials | 443 461 | 614 232 |
| Operating materials and spare parts | 317 111 | 325 245 |
| **Total inventories** | **1 989 926** | **2 262 862** |
| | | |
| Including provisions for write down of inventories as of December 31st. | 435 005 | 214 316 |

Current year's write down of raw materials, work in progress and finished goods is mainly related to decreasing market prices for Solar Grade Silicon. Net write down of 213 824 TNOK is included in Profit or Loss as Cost of goods sold, and 6 865 TNOK is related to operating materials and spare parts as Other operating expenses in 2012. For 2011 a write down of 173 287 TNOK was recognized as a part of Cost of sold goods, and 12 441 TNOK as a part of Other operating expenses.

**Hereof Elkem Solar**

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Finished goods | 85 364 | 85 903 |
| Work in progress | 1 708 | 85 570 |
| Raw materials | 29 646 | 66 273 |
| Operating materials and spare parts | 115 044 | 116 663 |
| **Total inventories Elkem Solar** | **231 762** | **354 409** |

## 15. RECEIVABLES

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Accounts receivables (external) | 877 512 | 972 887 |
| Accounts receivables (Bluestar group companies) | 31 579 | 8 544 |
| Provision for doubtful accounts | (9 219) | (11 345) |
| Bills receivable [1] | 15 243 | 17 096 |
| **Total accounts receivable** | **915 115** | **987 182** |

1) A Bill receivable is a document that the customer formally agrees to pay at maturity date. The bill receivable document effectively replaces, for the related amount, the open debt exchanged for the bill. Bills receivable are used at Elkem entities located in China.

The following is an analysis of gross accounts receivables by age, presented based on the due date:

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Not due | 756 114 | 823 586 |
| 1 - 30 days | 102 827 | 111 990 |
| 31 - 60 days | 21 628 | 16 930 |
| 61 - 90 days | 7 097 | 6 437 |
| More than 90 days | 21 425 | 22 487 |
| **Total accounts receivables** | **909 091** | **981 431** |

Elkem had an average granted credit period of 42 days for 2012 and actual credit days were 44 days. Interest has been charged on late payments with a rate of 9% per year with exception of certain markets and customers where interest charging has not been appropriate.

Elkem applies for credit insurance for all new customers. In cases where credit insurance coverage is refused other metods of securing the sales income is used. Other methods used for securing the sales are amongst others prepayment, letter of credit, documentary credit, guarantee etc.

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| Movement in allowance for doubtful debts | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Opening Balance | (11 345) | (3 908) |
| Impairment losses recognized on receivables | (4 985) | (10 193) |
| Reversed impairment losses | 7 111 | 2 756 |
| **Balance at 31 December** | **(9 219)** | **(11 345)** |

The following is an analysis of current receivables that are past due date and impaired, by age:

| Overdue by: | 31.12.2012 | 31.12.2011 |
|---|---|---|
| less than 60 days | (1 316) | (3 177) |
| 61 - 90 days | (1 322) | (44) |
| more than 90 days | (6 580) | (8 124) |
| **Total impaired overdue receivables** | **(9 219)** | **(11 345)** |

## 16. OTHER CURRENT ASSETS

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Collateral call power trading | - | 211 400 |
| Pension contribution fund, short term part [1] | 15 053 | 19 618 |
| Fair value of hegded firm committments | - | 36 298 |
| Derivatives [2] | 65 421 | 27 144 |
| Commodity contracts at fair value [2] | 58 000 | 95 000 |
| VAT receivable | 118 608 | 138 328 |
| Corporate income tax receivable | 20 985 | 11 100 |
| Prepayments | 65 870 | 45 610 |
| Insurance settlement Elkem Thamshavn AS receivable | 34 023 | 63 800 |
| Other receivables | 46 146 | 60 721 |
| **Total current assets** | **424 105** | **709 019** |

1) Pension contribution fund see note 4 Retirement benefits
2) See note 24 Financial instruments

## 17. CASH AND CASH EQUIVALENTS

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Cash and bank balances | 611 057 | 620 986 |
| Restricted deposits | 62 668 | 67 592 |
| **Cash and cash equivalents** | **673 725** | **688 578** |

## 18. SHAREHOLDER INFORMATION

**Shareholders**
Elkem AS is the parent company of Elkem AS Group.
As of 31 December 2012 Elkem AS is 100% owned by Bluestar Elkem International Co. Limited S.A.R.L.
Elkem AS has its registered company address: Hoffsveien 65B 0377 Oslo

**Share Capital**
Share capital of Elkem AS is NOK 1.500.000.000, divided into 1 share of NOK 1.500.000.000.

## 19. FINANCE LEASE LIABILITIES

Elkem AS Group leases certain of its manufacturing equipment under finance lease. Interest rate range from 3,06 % to 6,99 %.
The Group has options to purchase the equipment for a nominal amount at the end of the lease term. The obligations under finance lease are secured by the lessors title to the leased assets.

| **Overview of finance lease** | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Within one year | 10 251 | 6 393 |
| Between 1 and 5 years | 17 074 | 20 077 |
| Over 5 years | - | 1 957 |
| Total lease payments | 27 325 | 28 427 |
| Less future finance charges | (2 212) | (2 477) |
| **Present value of lease obligations** | **25 113** | **25 950** |
| | | |
| Less amount due for settlement within 12 months | 8 815 | 5 411 |
| **Total non-current finance lease obligations** | **16 298** | **20 539** |
| | | |
| Leasing cost current year | 5 953 | 6 362 |
| Minimum lease payments as of 31 December | 24 106 | 26 247 |

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## 20. INTEREST-BEARING DEBT

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| **Non-current interest-bearing debt** | | |
| Financing from Bluestar group companies | 5 451 769 | - |
| Financial leases (see note 19) | 16 298 | 20 539 |
| Bank financing and other debt | 5 697 | 10 510 |
| **Total non-current interest-bearing debt** | **5 473 764** | **31 049** |
| | | |
| **Current interest-bearing debt** | | |
| Financing from Bluestar group companies | - | 5 869 291 |
| Financial leases (see note 19) | 8 815 | 5 411 |
| Bank financing | 270 096 | 30 712 |
| Accrued interest Bluestar group companies | 6 463 | 14 862 |
| **Total current interest-bearing debt** | **285 374** | **5 920 276** |
| | | |
| **Total interest-bearing debt** | **5 759 138** | **5 951 325** |
| | | |
| Cash and cash equivalents | 673 725 | 688 578 |
| Interest-bearing financial assets | 46 806 | 257 528 |
| **Cash, cash equivalents and other interest-bearing assets** | **720 531** | **946 106** |
| | | |
| **Net interest-bearing debt** | **5 038 607** | **5 005 219** |

| Interest-bearing debt by currency | Currency amount 31.12.2012 | NOK 31.12.2012 | NOK 31.12.2011 |
|---|---|---|---|
| EUR | 39 391 | 273 231 | 12 197 |
| USD | 984 897 | 5 441 340 | 5 884 153 |
| NOK | 42 432 | 42 432 | 47 904 |
| Other currencies | | 2 136 | 7 071 |
| **Total interest-bearing debt** | | **5 759 138** | **5 951 325** |

| Maturity of interest-bearing debt at 31.12.2012 | Group financing | Financial leases | Bank financing | Other loans | Accrued interest | Total |
|---|---|---|---|---|---|---|
| 2013 | | 8 815 | 270 096 | | 6 463 | 285 374 |
| 2014 | | 6 011 | 1 611 | 351 | | 7 973 |
| 2015 | | 4 507 | 448 | 351 | | 5 306 |
| 2016 | | 3 778 | 477 | 351 | | 4 606 |
| 2017 | | 2 002 | | 351 | | 2 353 |
| 2018 and later | 5 451 769 | | | 1 757 | | 5 453 526 |
| **Total** | **5 451 769** | **25 113** | **272 632** | **3 161** | **6 463** | **5 759 138** |

The intra-group loan agreements with Bluestar group companies have been amended in 2012. Any repayment of the loans are at the discretion of Elkem as the Borrower. The loans have no fixed final maturity date. As a result of these amendments the loans have been reclassified from current in 2011 to non-current in 2012. The intra-group loans are denominated in US dollars.

**Loan covenant**
Elkem AS has external credit facilities with banks to cover capital fluctuations in the Group. These credit facilities contain a financial covenant that the equity ratio of the Elkem AS Group shall at all times be above 30 per cent. As at 31.12.2012 the Group's equity ratio was 37 per cent. See also information about a debt conversion approved by the BoD, in note 28 Other matters for Elkem AS Group.

Of total granted external credit facilities of 1 395 MNOK, the Group has drawn 262 MNOK as of 31.12.2012.

| Covenant calculation Elkem AS Group 31.12.2012 | | Reported key figure | Loan covenant |
|---|---|---|---|
| Total Equity | NOK | 4 305 000 | |
| Total Assets | NOK | 11 607 000 | |
| **Equity ratio** | | **37 %** | **> 30%** |

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## 21. PLEDGE OF ASSETS AND GUARANTEES

The Elkem AS Group makes limited use of guarantees, see specification below.

| Guarantee commitments | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Guarantee commitment KLIF (Climate and Pollution Agency) | 4 618 | 4 618 |

## 22. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Financial derivates [1] | 62 470 | 25 017 |
| Provisions | 144 767 | 140 083 |
| **Provisions and other non-current liabilities** | **207 237** | **165 101** |

1) See note 23 Financial instruments

| Provisions include the following: | Contingencies due to litigations | Site restoration | Currency effects bond loan | Other provisions | Total provisions |
|---|---|---|---|---|---|
| **Balance 1 January 2012** | **97 407** | **37 884** | - | **4 793** | **140 083** |
| Provision net adjustments | 4 810 | 2 594 | 11 510 | 1 647 | 20 561 |
| Foreign currency exchange differences | (14 842) | (986) | - | (50) | (15 878) |
| **Balance 31 December 2012** | **87 375** | **39 492** | **11 510** | **6 390** | **144 767** |

**Contingencies due to litigations**
Contingencies relates to employee and tax litigations in Elkem's business in Brazil. The time of settlement is uncertain. In accordance with Brazilian regulations, the contingencies have been transferred to restricted bank accounts and is adjusted for interest on an annual basis. The restricted cash is included in the balances of cash and cash equivalents.

**Site restoration**
Elkem has worldwide operations representing potential exposure towards environmental consequences. Elkem has established clear procedures to minimize environmental emissions, well within public emission limits. However, in some cases Elkem faces potential claims regarding environmental issues.

**Currency effects bond loan**
Elkem has participated in the Central Bank of Icelands Investment Programme and purchased a bond loan in ISK, with payment in EUR. The gain from the purchase in EUR is dependent on retaining the ownership of the securities in 5 years, the currency gain is therefore recognized as deferred income and will be amortized over the required ownership period.

## 23. OTHER CURRENT LIABILITIES

| | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Employee witholding taxes, social security, vacation pay etc | 237 270 | 280 999 |
| VAT payable | 37 427 | 44 923 |
| Advance from customers | 5 977 | 14 594 |
| Commodity contract at fair value [1] | 11 693 | - |
| Financial derivatives [1] | 13 807 | 46 059 |
| Fair value hedged firm committments | 47 888 | - |
| Other current liabilities | 122 255 | 206 585 |
| **Other current liabilities** | **476 317** | **593 160** |

1) See note 24 Financial instruments

## 24. FINANCIAL INSTRUMENTS

**Financial assets and liabilities by category 31.12.2012**

| | Note | Assets at fair value through profit or loss | Derivatives used for hedging | Financial assets available for sale | Loans and receivable | Non-financial assets | Total |
|---|---|---|---|---|---|---|---|
| Interest in associated and other companies | 12 | 0 | 0 | 9 896 | 0 | 15 321 | **25 216** |
| Non-current assets | 13 | 255 000 | 0 | 0 | 60 021 | 0 | **315 021** |
| Trade and other receivable | 15 | 0 | 0 | 0 | 915 115 | 0 | **915 115** |
| Other current assets | 16 | 60 951 | 62 439 | 0 | 300 715 | 0 | **424 105** |
| Cash and cash equivalents | 17 | 0 | 0 | 0 | 673 725 | 0 | **673 725** |
| **Total** | | **315 951** | **62 439** | **9 896** | **1 949 576** | **15 321** | |

| | Note | Liabilities at fair value through profit or loss | Derivatives used for hedging | Financial liabilities at amortised cost | Non-financial liabilities | Total |
|---|---|---|---|---|---|---|
| Interest-bearing liabilities, non-current | 20 | 0 | 0 | 5 473 764 | 0 | **5 473 764** |
| Other non-current liabilities | 22 | 0 | 62 470 | 0 | 144 767 | **207 237** |
| Trade and other payables | | 0 | 0 | 596 679 | 0 | **596 679** |
| Interest bearing liabilities, current | 20 | 0 | 0 | 285 374 | 0 | **285 374** |
| Other current liabilities | 23 | 12 547 | 12 953 | 0 | 450 817 | **476 317** |
| **Total** | | **12 547** | **75 423** | **6 355 817** | **595 584** | |

**Financial assets and liabilities by category 31.12.2011**

| | Note | Assets at fair value through profit or loss | Derivatives used for hedging | Financial assets available for sale | Loans and receivable | Non-financial assets | Total |
|---|---|---|---|---|---|---|---|
| Interest in associated and other companies | 12 | 0 | 0 | 9 835 | 0 | 16 794 | **26 629** |
| Non-current assets | 13 | 758 222 | 0 | 0 | 57 992 | 20 764 | **836 979** |
| Trade and other receivable | 15 | 0 | 0 | 0 | 987 182 | 0 | **987 182** |
| Other current assets | 16 | 105 544 | 16 600 | 0 | 541 266 | 45 610 | **709 019** |
| Cash and cash equivalents | 17 | 0 | 0 | 0 | 688 578 | 0 | **688 578** |
| **Total** | | **863 766** | **16 600** | **9 835** | **2 275 019** | **83 168** | |

| | Note | Liabilities at fair value through profit or loss | Derivatives used for hedging | Finacial liabilities at amortised cost | Non-financial liabilities | Total |
|---|---|---|---|---|---|---|
| Interest bearing liabilities, non-current | 20 | 0 | 0 | 31 049 | 0 | **31 049** |
| Other non-current liabilities | 22 | 0 | 25 017 | 0 | 140 084 | **165 101** |
| Trade and other payables | | 0 | 0 | 634 021 | 0 | **634 021** |
| Interest bearing liabilities, current | 20 | 0 | 0 | 5 920 276 | 0 | **5 920 276** |
| Other current liabilities | 23 | 3 334 | 42 725 | 0 | 547 098 | **593 158** |
| **Total** | | **3 334** | **67 742** | **6 585 346** | **687 182** | |

**Change in accounting principle commodity contract**

Based on a new assessment of the power contract with Statkraft (bought from Norske Skog) it can not be regarded as a part of the own use exemption in IAS39. The contract has therefore, according to IAS 39, been recognized as an asset at fair value with changes through profit or loss. Elkem AS Group has adjusted the accounting principle applied in the financial statements for 2012, and the comparative figures for 2011. The change in accounting principles resulted in a reclassification from intangible asset to financial asset of 720 000 TNOK and a positive adjustment to fair value for the financial asset of 133 222 TNOK in the Closing Balance for 2011. Of this a loss of 6 778 TNOK is the effect in the Profit or Loss 2011, affecting the lines 'Amortizations and depreciations' with positive 80 000 TNOK, and 'Other gains/losses' with an fair value adjustment of negative 86 667 TNOK.

**Fair value measurement**

Financial instruments at fair value through profit or loss and financial assets available for sale are measured using different levels of input:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs are unobservable inputs for the asset or liability.

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**The following table shows Elkem AS Group's assets and liabilities measured at fair value as of 31. December 2012:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 2 951 | 0 | 313 000 | 315 951 |
| Derivatives designated in a hedging relationship | 62 439 | 0 | 0 | 62 439 |
| Financial assets available for sale [1] | 1 759 | 0 | 0 | 1 759 |
| **Total assets** | **67 149** | **0** | **313 000** | **380 149** |

1) Of the total amount of 9 896 TNOK reported as Financial assets available for sale, 1 759 TNOK is measured at fair value, 8 137 TNOK is recognized at cost.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities at fair value through profit or loss | 854 | 11 693 | 0 | 12 547 |
| Derivatives designated in a hedging relationship | 75 423 | 0 | 0 | 75 423 |
| **Total liabilities** | **76 277** | **11 693** | **0** | **87 970** |

Gain of 689 TNOK related to shares classified as available for sales is reported as Other financial income, and effects from derivatives classified as Financial assets and liabilities are included in Net foreign currency translation income. Derivatives designated as a part of a hedging relationship consist of both foreign exchange contracts and commodity contracts. The change in fair value of the commodity contracts of negative 75 423 TNOK is recognized in Other Comprehensive Income, together with 4 525 TNOK from the foreign forward contracts. The remaining part of the foreign exchange contracts, 57 914 TNOK, are part of a fair value hedge and are therefore recognized as Net foreign currency translation income, together with the opposite change in fair value for the hedged items. The financial assets and liabilities at fair value through profit or loss measured according to level 2, is a commodity contract measured at fair value using relevant FX rates and market prices for power. The total loss of 11 693 TNOK related to the contract is reported as a part of Other gains and losses.
The fair value categorized in level 3 is related to a power contract with Statkraft, the change in fair value is set out below:

| Specification of movements in measurement on level 3 | NOK 1000 |
|---|---|
| Opening balance 01.01.2012 | 853 222 |
| Transfer to/from other levels | 0 |
| Gains/Losses recognized in Profit or Loss as Other gains and losses | -540 222 |
| **Closing balance 31.12.2012** | **313 000** |

**The following table shows Elkem AS Group's assets and liabilities measured at fair value as of 31. December 2011:**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | 10 544 | 0 | 853 222 | 863 766 |
| Derivatives designated in a hedging relationship | 16 600 | 0 | 0 | 16 600 |
| Financial assets avaiable for sale [1] | 1 731 | 0 | 0 | 1 731 |
| **Total assets** | **28 875** | **0** | **853 222** | **882 097** |

1) Of the total amount of 9 835 TNOK reported as Financial assets available for sale, 1 731 TNOK is measured at fair value, 8 104 TNOK is recognized at cost.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial liabilities at fair value through profit or loss | 3 334 | 0 | 0 | 3 334 |
| Derivatives designated in a hedging relationship | 67 742 | 0 | 0 | 67 742 |
| **Total liabilities** | **71 076** | **0** | **0** | **71 076** |

Gain of 863 TNOK related to shares classified as available for sales is reported as Other financial items, and effects from derivatives classified as Financial assets and liabilities are included in Net foreign currency translation income. Derivatives designated as a part of a hedging relationship consist of both foreign exchange contracts and commodity contracts. The change in fair value of the commodity contracts of negative 25 017 TNOK is recognized in Other Comprehensive Income, together with 16 600 TNOK related the forward exchange contracts and options. The remaining part of the foreign exchange contracts, negative 42 725 TNOK, are part of a fair value hedge, and are therefore recognized as Net foreign currency translation income together with the opposite change in fair value for the hedged items.
The financial assets and liabilities at fair value through profit or loss measured according to level 2, are forward exchange contracts, not designated as a hedging instrument. The fair value categorized in level 3 is related to a power contract with Statkraft, the change in fair value is set out below:

| Specification of movements in measurement on level 3 | NOK 1000 |
|---|---|
| Opening balance 01.01.2011 | 940 000 |
| Transfer to/from other levels | |
| Gains/Losses recognized in Profit or Loss as Other gains and losses | -86 778 |
| **Closing balance 31.12.2011** | **853 222** |

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**Details of foreign exchange contracts as of 31. December 2012**

| Purchase Currency | Purchase NOK 1000 | Sale Currency | Sale NOK 1000 | Type of instrument | Currency rate rate | Due | Fair value in NOK 1000 | Notional amount in NOK 1000 [1] |
|---|---|---|---|---|---|---|---|---|
| AUD | 657 | JPY | 57 000 | Forward | 0,0115 | 2013 | 50 | 3 685 |
| AUD | 300 | USD | 310 | Forward | 0,9692 | 2013 | 8 | 1 723 |
| EUR | 500 | AUD | 599 | Forward | 0,8344 | 2013 | 214 | 3 462 |
| EUR | 930 | JPY | 100 000 | Forward | 0,0093 | 2013 | 366 | 6 465 |
| NOK | 1 062 368 | EUR | 137 000 | Forward | 7,7545 | 2013 | 48 315 | 1 005 719 |
| NOK | 25 369 | EUR | 3 000 | Forward | 8,4564 | 2014 | 2 944 | 22 023 |
| NOK | 16 435 | GBP | 1 800 | Forward | 9,1305 | 2013 | 140 | 16 192 |
| NOK | 23 974 | JPY | 357 000 | Forward | 0,0672 | 2013 | 813 | 23 079 |
| NOK | 438 226 | USD | 76 500 | Forward | 5,7284 | 2013 | 11 164 | 425 830 |
| USD | 592 | DKK | 3 400 | Forward | 0,1740 | 2013 | -53 | 3 346 |
| **Total fair value currency forward contracts** | | | | | | | **63 960** | |

1) Notional value of underlying asset.

In addition the Elkem AS Group has currency options related to earlier cash flow hedging of future sales amounting to 7 500 TEUR, which are closed by entering into opposite options with similar amounts and due terms.

**Details of energy contracts within scope of IAS39 as of 31. December 2012**

| | Volume GWh | Due | Fair value in NOK 1000 | Notional amount in NOK 1000 [1] |
|---|---|---|---|---|
| Forward contracts NASDAQ OMX Commodity | 291,9 | 2013 | -12 470 | 102 201 |
| Forward contracts NASDAQ OMX Commodity | 753 | 2014 | -35 231 | 242 898 |
| Forward contracts NASDAQ OMX Commodity | 421 | 2015 | -22 254 | 136 711 |
| Forward contracts NASDAQ OMX Commodity | 220 | 2016 | -4 987 | 66 453 |
| Commodity contracts "30-øringene" | 740 | 2013 | 0 | 196 034 |
| Commodity contracts "30-øringene" | 740 | 2014 | 0 | 200 935 |
| Commodity contracts "30-øringene" | 740 | 2015 | 0 | 205 959 |
| Commodity contracts "30-øringene" | 740 | 2016 | 0 | 211 108 |
| Commodity contracts "30-øringene" | 10360 | 2017-2030 | 0 | 3 615 808 |
| Commodity contract Solar | 158 | 2013 | -11 693 | 55 109 |
| Commodity contract Statkraft (bought from Norske Skog) | 10500 | 2020 | 313 000 | 3 429 105 |
| **Fair value energy contracts inside scope of IAS39** | | | **226 366** | |

1) Notional value of underlying asset.

**Hedge Accounting**

*Fair value hedges*
Elkem AS Group uses foreign exchange contracts to minimise its currency exposure to fair value changes of its customer orders and receivables. Changes in the fair value of derivatives that are designated as, and qualified as fair value hedges, are recorded in the income statement, together with the changes in fair value of the hedged assets or liabilities, both classified as currency gains or losses.

*Cash flow hedges*
The effective portion of changes in fair value of derivatives that are designated and qualified as cash flow hedges is recognized in Other Comprehensive Income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.
At the end of the reporting period, Elkem AS Group had foreign exchange forward contracts designated as highly effective hedging instruments in order to manage the Group's foreign currency exposure related to purchase of raw materials, mainly in USD and EUR.
Forward power contracts purchased from NASDAQ are used for hedging of cashflows related to the groups future need for electric power at the plants.

The table below shows fair value for the derivative financial instruments, classified by type of hedging:

| **Derivative financial instruments** | **2012 Assets Fair value** | **2012 Liabilities Fair value** | **2011 Assets Fair value** | **2011 Liabilities Fair value** |
|---|---|---|---|---|
| Forward foreign exchange contracts - fair value hedges | 57 914 | 0 | 0 | 42 725 |
| Forward foreign exchange contracts - cash flow hegdes | 4 525 | 0 | 14 248 | 0 |
| Forward exchange options - cash flow hedges | 0 | 0 | 2 352 | 0 |
| Forward power contracts NASDAQ - cash flow hedges | 0 | 75 423 | 0 | 25 017 |
| **Total derivative instruments** | **62 439** | **75 423** | **16 600** | **67 742** |
| *Less non-current portion:* | | | | |
| Forward foreign exchange contracts - fair value hedges | 0 | 0 | 0 | 0 |
| Forward foreign exchange contracts - cash flow hegdes | 0 | 0 | 0 | 0 |
| Forward exchange options -cash flow hedges | 0 | 0 | 0 | 0 |
| Forward power contracts NASDAQ - cash flow hedges | 0 | 62 470 | 0 | 25 017 |
| **Current portion of derivative instruments** | **62 439** | **12 953** | **16 600** | **42 725** |

Accumulated gains/losses from cash flow hedges recognized in OCI as of 31 December 2012 is negative 54 163 TNOK. Included in this amount is 3 456 TNOK related to hedging instruments which are sold when phasing out cash flow hedging of future sales.
Accumulated gains/losses from cash flow hedges recognized in OCI are expected to be recycled to profit or loss in the period 2013 - 2016.

## 25. FINANCIAL RISK AND CAPITAL MANAGEMENT

**Introduction**
Elkem is exposed to financial risks such as interest rate risk, currency risk, liquidity risk, credit risk and risks relating to prices of finished goods and raw materials. Elkem operates in an international and cyclical industry and financial risks related to the group's operations are monitored and handled centrally. Elkem has financial risk policies in place, approved by its Board of Directors.

**FINANCIAL RISK FACTORS**

**a) Interest rate risk**
Elkem has significant interest-bearing liabilities and is therefore exposed to fluctuating interest-rates. Industry conditions are cyclical and prices and sales volumes for Elkem's products tend to correlate with general economic conditions. During an economic downturn sales prices and volumes are expected to go down, while prices and volumes tend to go up during an economic upturn. Interest rates have historically shown a similar pattern. Therefore, a floating interest rate policy is seen as appropriate from a financial risk perspective. Consequently, with floating interest rates the Group will normally be in a position to benefit from lower interest rates in an economic downturn. A floating rate policy will however leave the Group exposed to increased future interest rates.

As at 31.12.2012 Elkem has the following interest bearing assets and liabilities:

| | **Floating** | **Fixed** | **Total** |
|---|---|---|---|
| Interest-bearing liabilities | 5 759 138 | 0 | 5 759 138 |
| Interest-bearing assets | (720 531) | 0 | (720 532) |
| **Net exposure** | **5 038 607** | **0** | **5 038 607** |

The interest rate sensitivity is based on a parallel shift in the interest rates which Elkem is exposed to. If interest rates had been 50 basis points higher/lower for the full year, with all other variables held constant, the profit after tax would have been NOK 17.9 million lower/higher. The interest rate on Elkem's main financial obligations is adjusted semi-annually. An overview of Elkem's debt portfolio is presented in note 20.

**b) Currency risk**
*Transaction risk - cash flow and fair value hedge*

Elkem has sales revenues and operating costs in various currencies. The prices of finished goods are to a large extent determined in international markets, primarily in USD and EUR. This is partly offset by purchase of raw materials denominated in the same currencies. Elkem has net positive cash flows in most currencies, however a net cost position in NOK and CAD. Until end of third quarter 2012 firm sales orders and trade receivables were hedged on a fair value basis and fair value hedge accounting was applied to these hedging transactions. Raw material costs were hedged based on annual frame contracts, and for these transactions cash flow hedge accounting was applied. In 2012 Elkem realised a gain of NOK 105.5 million connected to its fair value hedges and a loss of NOK 10.8 million on its cash flow hedges. The total realised gain from hedging of transaction risk was NOK 94.7 million. In addition a gain of NOK 19.1 million related to a cash flow hedge of future sales, terminated in 2011, was recycled to Profit and Loss from Other Comprehensive Income. The total gain from hedging recognized in Profit and Loss was NOK 113.8 million. All amounts referred to above are included in the company's operating profit.

With effect from fourth quarter of 2012 Elkem changed its hedging policy. Hedging of net cash flow for 0-3 months is based on a 90% hedging ratio target and net cash flow for 4-12 months is based on a 45% hedging ratio target. The hedging ratio for 4-12 months may vary between 25% and 75%. As a consequence of the change in hedging policy, fair value hedges was discountinued and cash flow hedges was designated. Elkem uses hedge accounting for transactions included in the 4-12 month cash flow hedge. Elkem did not have any realised gains or losses from this hedging programme in 2012.

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*Translation risk*
Elkem has assets and liabilities in various currencies. Elkem's equity and other financial ratios are therefore exposed to currency fluctuations. The debt financing is mainly denominated in US dollars, whereas most of the assets are denominated in other currencies. Elkem's subsidiaries have their main assets and liabilties in their respective functional currencies.

Effects related to translation of assets and liabilites in foreign currencies are partly recognized in Profit and Loss and partly recognized directly in the group's Equity through Other Comprehensive Income.

In 2012 Elkem had a total gain from currency translation recognized in financial items of NOK 413 million (in 2011 a loss of NOK 562 million). Of this amount NOK 418 million was due to a weakening (strengthening in 2011) of the US dollar, which has reduced the value of Elkem's US dollar denominated debt when translated into Norwegian kroner.

In addition, Elkem had a loss directly recognized in the group's Equity through Other Comprehensive Income of NOK 144 million in 2012. This loss is related to a stronger NOK, which has reduced the value of assets in foreign subsidiaries when translated into NOK

*Sensitivity on profit and loss and group equity from financial instruments*
Currency fluctuations related to financial instruments have effect on both the Group's Profit and Loss and Equity.

If the NOK strengthened/weakened by 10% against all other currencies the effect from financial instruments would have been an increased/reduced profit before tax of approximately NOK 656 million. The main effect is from lower or higher debt when the NOK is strengthening or weakning against the USD.

In addition, the Equity would have been reduced/increased by NOK 90 million if the NOK had strengthened/weakened by 10% against all other currencies. This effect does not include the effects from the sensitivity on Profit and Loss as calculated above. The main effect is due to translation of subsidiaries' financial instruments which increase/reduce value in NOK when the NOK weaken/strengthen against other currencies. These effects are recognized directly in Equity through Other Comprehensive Income.

**c) Liquidity risk**
Elkem is exposed to liquidity risk related to its operations and financing.

On operating level Elkem's cash flow will fluctuate due to economic conditions and financial performance. In order to assess its future operational liquidity risk the Group is providing short-term and long-term cash flow forecasts. The short-term forecast is updated each week and the long-term cash flow projection is updated each quarter.

In order to mitigate the operational liquidity risk Elkem has cash and revolving credit facilities with banks. As of 31.12.2012 Elkem has unrestricted cash of NOK 611million (in 2011 NOK 621 million). In addition, revolving credit facilities amount to NOK 1,395 million (in 2011 1,000 million), of which NOK 1,133 million is undrawn (in 2011 NOK 1,000 million).

According to new policy implemented during 2012, Elkem should have available credit facilities amounting to 10-20% of annual turnover. In addition the policy is to have an average maturity of the credit facilities of 12-24 months. Elkem complies with both these target as at 31.12.2012. The maturity profile of the credit facilities is shown below:

| Year / maturity | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|
| Total amount of credit facilities | 275 | 470 | 650 | 1395 |

Elkem had short-term credit facilities in place after the acquisition from Bluestar in order to cover the Elkem AS Group/Company's liquidity need. These facilities, totalling NOK 1,000 million, matured in 2012 and did not contain any financial covenants. All facilities were refinanced in 2012.

From 2012 the credit facilities contain a financial covenant that the equity ratio of Elkem AS Group shall be higher than 30 % at all times. As at 31.12.2012 the Group's equity ratio was 37%.

Elkem's financing mainly consists of shareholder loans provided by Bluestar-group companies. These loans are long-term and the repayment of the loans are at Elkem's discretion.

The table below shows the total cash outflow for payment of principal and interest related to the Group's interest-bearing debt as of 31. December 2012

| Yearly nominal cash outflows | Principal | Interest | Total |
|---|---|---|---|
| 2013 | 285 374 | 243 713 | 529 087 |
| 2014 | 7 973 | 239 012 | 246 985 |
| 2015 | 5 306 | 239 012 | 244 318 |
| 2016 | 4 606 | 239 012 | 243 618 |
| 2017 | 2 352 | 239 012 | 241 364 |
| 2018 and later (annual) [1] | 5 453 527 | 235 886 | 5 689 413 |
| **Total** | **5 759 138** | **1 435 647** | **7 194 785** |

1) Repayment of loans to group companies is at Elkem's discretion.

A total overview of Elkem's debt portfolio and installment profile is presented in note 20.

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**d) Credit risk**
Credit risk is mainly related to trade receivables and financial trading counterparties.

Trade receivables are generally secured by credit insurance from a reputable credit insurence company. Credit limits are set and monitored for each customer. For customers where credit insurance cannot be obtained, other methods are generally used to secure the sales proceeds, such as prepayment, letter of credit, documentary credit or guarantees. In particular when selling in countries with high political risk, or to remote customers, trade finance products are used to reduce the credit risk. More than 85% of Elkem's turnover is covered by credit insurance, trade finance or prepayments. Elkem had realised credit losses of NOK 3 million in 2012.

Evaluation of financial counterparties is based on external credit ratings from Moody's and/or Standard and Poor's. The policy is that financial counterparties should have a rating equal to, or higher than, A- (or the equivalent) from the rating agencies. Elkem has not had any losses in 2012 or 2011 related to financial counterparties.

**e) Price risk**
Elkem AS Group is exposed to price risks on input and output to and from the value chain. The group seeks to minimize the exposure by entering into sales and purchase contracts with similar duration and volume. Power exposure and hedging of estimated power consumption is regulated by approved internal policies.

**Power**
Electric power is a key input factor for the Elkem AS Group. Elkem AS Group's estimated future power exposure is therefore partly hedged by one long-term power contract, in addition to several contracts in the medium-term. Optimization of 24-hour, seasonal and capacity utilisation variations are solved through utilizing financial and physical contracts that are traded bilaterally, or at Nasdaq OMX. The purpose of the hedging activities is to reduce volatility in the power cost and increase the predictability of the cost base.

The Norske Skog power contract:
This was originally a power contract between Norske Skog and Statkraft. In 2010 Elkem Power purchased this contract from Norske Skog with power deliveries starting 01.01.2011 and ending 31.12.2020 being physically delivered at two different grid points in price area NO2 with a total of 1,5 TWh/year. Elkem Power pays a fixed power price specified for every year in the contract to Statkraft. Elkem Power paid a consideration to Norske Skog based on the estimated fair value of the contract.

Estimated fair value of the contract at 31.12.2012 was 313 MNOK based on market prices in EUR. The sensitivity is as follows:

| | NPV (MNOK) |
|---|---|
| Book value 31.12.2012 | 313 |
| Market price -10% | 14 |
| Market price +10% | 612 |
| EUR/NOK -5% | 163 |
| EUR/NOK +5% | 462 |

The 30-øre power contracts:
There are two 30-øre power contracts. One contract (240 GWh/year) is being physically delivered at a gridpoint in NO5, the other (501 GWh/year) is delivered in NO2 but is a financial contract. Both contracts last until 31.12.2030. For the last 10 years of the contracts the price is fixed based on the average spot price the preceeding 5 years adjusted for inflation. We therefore assume the NPV for the last 10 years to be zero.

For the years before 31.12.2020 the price under the contracts is fixed except if the spot price at the relevant grid points exceed a certain threshold, in which case the price equals the spot price. The fixed price and the threshold price is based on one start date and adjusted with inflation for every year thereafter. The fixed price and the relevant spot prices for the two contracts are slightly different, but this difference is so minor that in the NPV calculation the two contracts are being treated as one.

Based on market prices 31.12.2012 the NPV of the contracts was close to zero. The sensitivity is as follows:

| | NPV (MNOK) |
|---|---|
| Book value 31.12.2012 | - |
| Market price -10% | -67 |
| Market price +10% | 57 |
| EUR/NOK -5% | -30 |
| EUR/NOK +5% | 33 |

**Quartzite, coal and wood chips**
Elkem AS Group's main production capacity is focused towards specialized products. These products require special types of raw materials, that have fixed customer specifications. In a large extent only surplus production capacity is sold in the bulk-market (aluminums and steel industry). Therefore Elkem has acquired several raw material sources and/or enters into medium-to-long term contracts with raw material suppliers. Where contracts are used to secure access to raw materials, price is often locked, with some flexibility on volume.

Elkem AS Group
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**Silicon and Ferrosilicon**
Elkem AS Group seeks to minimize price risk by using reference prices as CRU for silicon, when entering into contracts with customers for medium-term. For short-term contracts (3 months) the actual market price is used as a fixed price. The company's main price sensitivity is relating to Silicon and Ferrosilicon. The table below shows the price sensitivity for these grades:

| Description/Product grade | Silicon (CRU* Si 99) | Ferrosilicon(CRU* FeSi 75) |
|---|---|---|
| Change in price | 100 EUR/mt | 100 EUR/mt |
| Effect on EBT | 70 MNOK | 130 MNOK |

*CRU is an independent authority in the mining, metals and fertilizers industries. CRU gather data from a high number of market players in the different industries and issues, dependent on the industry, the market reference prices.

Both prices on finished goods and raw materials/other input factors are affected by currency fluctuations. The net effects on EBT if EUR/NOK strengthens 10% are as follows:

| Description/Product grade | Silicon (CRU* Si 99) | Ferrosilicon(CRU* FeSi 75) |
|---|---|---|
| Change in EUR/NOK + 10% | 0,75157 | 0,75157 |
| Effect on EBT | 86 MNOK | 147 MNOK |

For information about sensitivity for Solar Grade Silicon prices, see information in note 10 Property, plant and equipment and intangible assets.

**CAPITAL MANAGEMENT**

Elkem is mainly financed with equity and long-term loans from Bluestar group companies. Bluestar's objective is to maximize the overall return for the shareholder and to provide adequate financial flexibility for the Group. It is the intention of China National Bluestar to make sure that Elkem is able to meet its external financial obligations at all times. China National Bluestar may through its group companies amend Elkem's capital structure and/or adjust dividend and interest-rate conditions in order to safeguard this goal. In 2011 USD 278 million was converted from shareholder loan to equity in order to improve Elkem's equity ratio.

Elkem's policy is to have an equity ratio for the Group which exceeds 30% at all times in order to secure that Elkem complies with the financial covenant in its external bank agreements. As at 31. December 2012 the Group equity ratio was 37%. Elkem is managing its financing and liquidity position to reduce liquidity risk and to ensure that the company can meet its financial obligations at all times. See also information about a debt conversion approved by the BoD, in note 28 Other matters.

**26. RELATED PARTY TRANSACTIONS**

100 % of shares in Elkem AS Group is held by Bluestar International Co., Limited S.A.R.L. (see also note 18).
Balances and transactions between Elkem AS subsidiaries, have been eliminated on consolidation and are not disclosed in this note.
Details of transactions between the Group and other related parties are disclosed below.

| | Trade sales | Trade purchases | Services | Interest expences | Interest income |
|---|---|---|---|---|---|
| China National Bluestar (group) Co., Ltd | | | 565 | | |
| Bluestar Elkem Investment Co., Ltd | | | | 73 151 | |
| Bluestar Elkem International Co., Ltd S.a.r.l | - | - | 485 | 185 350 | - |
| Other related parties | 223 743 | 8 145 | 1833 | | 2 947 |
| **Totalt** | **223 743** | **8 145** | **2883** | **258 501** | **2 947** |

| Loans from/to related parties | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Amounts due from directors | | - |
| Loans from parent company[1] | (5 451 769) | (5 869 291) |
| Accrued interest | (6 463) | (14 899) |
| Receivables from parent company | 1 134 | |
| Payables to other related parties | (6 087) | |
| Receivables from other related parties | 30 219 | 8 544 |

1) See note 20

**Other related parties**
Other related parties are companies within China National Bluestar Co Ltd.
The main sale to other related parties is sale of silicone to Bluestar Silicones France SAS of 217 826 TNOK.

Transactions with related parties are done in accordance with group agreements of arm-length principle.

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**Information about transactions between related parties within Elkem AS Group**
Elkem AS Group follows internationally accepted principles for transactions between related parties within the Group. In general Elkem AS Group seeks to use transaction based methods (Comparable uncontrolled price, cost plus and resale price method) in order to set the price for the transaction.
The majority of the transactions between related parties, relates to products involving:

- Raw materials (quartz) from quarries to plants
- Electrode paste from Carbon plants to FeSi and Silicon plants
- Surplus raw materials between plants
- Ad-hoc supplies of finished goods to Elkem's internal distributors

Elkem AS Group's set-up for sales is based on an agent structure, rather than a distribution network. Elkem AS Group has also sourcing companies that purchase key raw materials and other supplies from selected suppliers world-wide. In both activities above, the transaction between the related parties is a delivered service, either sales-service or sourcing-service.

## 27. GOVERNMENT GRANTS

| The Elkem AS Group has received the following grants: | 2012 | 2011 |
|---|---|---|
| Funding from Norwegian research-fund (NFR) | 8 999 | 5 829 |
| Enova [1] | 14 966 | 744 |
| Skattefunn | 1 140 | 1 907 |
| Sørlandets kompetansefond [2] | 5 500 | - |
| Other | 1 253 | 1 289 |
| **Total grants received** | **31 858** | **9 769** |

1) Hereof 8 714 TNOK recognized as a deduction of the carrying amount construction in progress
2) Hereof 3 069 recognized as deferred income

8 714 TNOK of the grants received from Enova is related to investment in energy recovery equipment at Elkem Thamshavn. The grant is dependent on the project to achieve recovery or reduction of need for energy of 78 000 000 kWh per year.

## 28. OTHER MATTERS

**2012**
**Prospects**
Elkem AS Group sells most of its products in global markets, with rather volatile price development. Hence, fluctuating prices will to a large degree affect future profitability. However, based on strong cost positions and highly specialized products, the Group is well positioned to handle uncertain and volatile markets in the future. Elkem AS Group will particularly focus on strategic alternatives for Elkem Solar, in order to optimise it's position in the value chain.

**Events after the balance sheet date**
In parallell to the approval of the 2012 Financial Statements, the Board has also approved a recapitalization of Elkem AS. Shareholder loans amounting to 4 356 MNOK will be converted into new equity subject to approval by the General Shareholder's meeting on 20 June 2013. The debt conversion will give Elkem AS Group an equity ratio of approx. 68% based on estimated figures as of June 2013, which will secure a robust financial position for the Group.

No events have taken place after the balance sheet date that would have affected the financial statements or any assessments carried out.

**Going concern**
The consolidated financial statements for 2012 show a net loss of 454.994 TNOK and net assets of 4.304.865 TNOK. Management believes that the preparation of the consolidated accounts of Elkem AS Group as of December 31, 2012 in accordance with the conventional accounting principles of a going concern is appropriate. Considering the amount of cash reserves, the Group expects that these sources of liquidity will be sufficient to fund its financing needs in 2013. Furthermore, the recapitalisation mentioned above secure a robust balance sheet. Hence, the financial statements are prepared on a going concern assumption.

**2011**
**Sale of Energy Group**
As a part of the Orkla sales process of Elkem AS Group, Elkem Energi AS and its subsidiaries were sold from Elkem AS to Orkla ASA March 2011. The selling price for Elkem Energi AS was 1 065 MNOK.

**Demerger and Merger Solar Holding Group and Meraker Eiendom Holding AS**
Elkem Solar Holding AS and its subsidiaries, and Meraker Eiendom Holding AS (owner of Opperud gård) were demerged from the Elkem AS Group in 2010 and merged back into the Elkem AS Group at 1.1. 2011 as part of the Orkla sales process of Elkem AS Group. The merger was recognized in the Elkem AS Group Financial Statement as of 01.01.2011.

**Acquisition NEH LLC**
Elkem AS purchased 100% of the shares in NEH LLC from NEH INC in April 2011. NEH LLC is a US based trading company for carbon products, microsilica and ferrosilicon metals.

# Report of the Board of Directors 2012

## Contents

## Elkem – general information

The Elkem Group is one of the world's leading companies in environmentally-friendly production of materials. Its main products are solar grade silicon, silicon, ferrosilicon, specialty alloys for the foundry industry, carbon products and microsilica.

Elkem has production facilities in Europe, North and South America, Africa and Asia, as well as an extensive network of sales offices and agents covering the most important markets.

Elkem has centralized support functions and headquarters in Norway, Oslo.

Elkem AS is owned 100% by China National Bluestar Group Co, Ltd (Bluestar).

## Highlights in 2012

2012 has been a challenging year due to the unstable economic situation worldwide. Throughout the year the macroeconomic situation has been uncertain. The sovereign debt crisis in several European countries in particular, has resulted in lower levels of activity and economic growth, which in turn has lead to reduced demand and lower prices for Elkem's products.

The first half of 2012 was characterized by a continued overcapacity and price-collapse in the solar market and declining prices for silicon products. During the second half of 2012, polysilicon prices continued to deteriorate with an overall 35% reduction for the year. Silicon and ferrosilicon prices also continued a declining trend and ended up 14% lower at year end. The solar silicon plant in Kristiansand was idled during most of the year with a significant financial negative impact for Elkem.

Strong efforts within all business units focused on cost reductions and maximizing cash flow did only partially counter the negative effects of weak markets. The current market and economic situation is still uncertain short term. In a more long-term perspective Elkem's business units are well positioned in markets with very attractive growth rates.

## Results in 2012

**Operating income** for Elkem Group amounted to 8,184 MNOK compared to 9,548 MNOK in 2011. The operating income decreased by 14% mainly due to the severe conditions in the Solar market and weak prices for silicon related products throughout the year.

The **operating profit** (EBIT) for the Group in 2012 was 854 MNOK negative. Results deteriorated by roughly 1,5 BNOK from 2011 mainly due to negative price development for silicon and foundry products, increased raw material cost and negative sales volume development for Elkem Solar. In addition the write-down of Elkem Solar stock of 222 MNOK and fair value adjustments of power contracts of 552 MNOK affected EBIT by 777 MNOK negative for the year.

Elkem Solar, producing Solar Grade Silicon for the Photo Voltaic (PV) market has had a difficult year. The **Solar (PV)** market went again through a very challenging period in 2012, with political, market and industry factors affecting business along the whole value chain. Even during a time of economic crisis, an estimated 31 GW of new PV capacity was commissioned around the world in 2012 – roughly the same as in the record-setting year of 2011. 2012 signals a turning point in the global PV market that will have profound implications in the coming years. For the first time in more than a decade, the European market for PV declined compared to the previous year. More vigorous growth in markets outside of Europe helped keep the global development of PV on an upward trend. Other factors – the approaching competitiveness of PV compared to other electricity sources, the changing nature of electricity markets, trade conflicts and the turmoil facing the PV industry due to consolidation – are also already affecting the market outlook for the near future. Consolidation continued and the tough market environment in Europe has forced many important players out of business. Many companies have entered the business ramping production capacity very quickly to increase their share of what in most cases was wrongly forecast, volatile and policy-driven PV demand. In the last three years module production capacity was between 150-230% higher than annual global installations.

There is a significant supply and demand mismatch at a global level, however there were signs, although still weak, towards balancing the PV market with regional supply mainly driven by the Chinese market growth. China is the only country that can cover its own growing market, with 320% more production than its need. That figure is expected to go down due to local absorption of PV production combined with consolidation of the industry.

The overcapacity situation resulted in a significant spot price deterioration on polysilicon throughout the year from 25 USD/kg in December 2011 to 16 USD/kg by year-end representing reduction of >35%. Elkem Solar shut down capacity during most of the year due to lack of demand. Sales volume was 498 mt vs 3167 mt in 2011. Despite idled capacity and severe market conditions, the Solar organization made several improvements that will strenghten competitiveness when the market picks up again. Furthermore, Elkem Solar personnel supported other Elkem business units with improvement activities.

The **Silicon related** markets experienced a declining price curve during 2012 and weak demand for silicon products. The record low polysilicon prices in the solar industry affected the price for polysilicon for electronics in the year, in addition to more than 10 kMT reduced sales of Silgrain. Market prices for silicon and ferrosilicon fell by 14% in the year. Ferrosilicon sales volume improved by approximately 7000 mt y-o-y, due to aggressive sales strategy in both the Eurozone and the US.

**Profit before income tax** ended at 680 MNOK negative for the year. EBIT ended at 854 MNOK negative due to poor markets and one-off effects. The negative EBIT was followed by interest expense of approximately 240 MNOK countered by currency gain on Elkem intercompany loans from China National Bluestar Group. Elkem is financed by USD loans from China National Bluestar Group, and fluctuations between NOK/USD directly affect the value of unrealized currency effects arising from these loans. Unrealized currency gain on the USD loans was around 420 MNOK in 2012.

## Financial situation

**Cash flow from operations** for Elkem Group ended at 302 MNOK (2011: 747 MNOK) positive for the year. Receivables were reduced by 72 MNOK during the year mainly due to near zero sales volume from Elkem Solar toward the end of the year and a weak sales volume during December 2012. Inventory of raw materials was reduced during the year. Payables also fell largely due to low activity in Elkem Solar.

The group's liquidity position is considered to be good. Elkem has no large financial obligations falling due over the next 12 months and the group has adequate credit facilities to support its operations.

At the end of the year capacity was idled at the Salten and Bremanger plants. In addition Elkem Solar was idled most of the year due to the market.

**Capital expenditures** ended at 507 MNOK (2011: 750 MNOK) for the year, whereof 176 MNOK categorized as strategic investments and 332 MNOK categorized as reinvestments.

Strategic investments were mainly related to energy recovery projects at Elkem Thamshavn and Chicoutimi, a Si99 furnace conversion at Salten, and improvement investments at Elkem Solar.

**Risk Management**

Elkem is exposed to several business risks related to market development and production. It is not possible to eliminate all business risks, but the group aims to manage these risks in a systematic and professional manner. Policies and procedures are in place for all main areas. The risk management activities are managed centrally or by the divisions and monitored by a risk manager. Corporate management and the Board of Directors are updated on the overall risk picture for Elkem on a regular basis.

**Price and volume risk**

Elkem's main risk exposure is related to prices and sales volumes of silicon related materials as well as costs for key raw material, energy and other consumables.

The demand for silicon related materials has increased over the past years and the long-term outlook is positive. Demand and prices will however fluctuate with economic cycles, and significant price and volume changes can be observed depending on the overall business sentiment. Elkem seeks to establish long-term customer relationships through continuous development and specialization of the product mix in order to meet the customers' demands. The length of the contracts varies within different markets, with a tendency towards short-term contracts or long-term volume contracts subject to quarterly or semi-annually price adjustments.

On raw materials and energy Elkem's strategy is focused on having access to critical input factors for the operation including securing required volume and quality. The final price on inputs is a result of securing a base level volume and spot purchases that meets the capacity utilizations at any point in time. Elkem has over the years developed strong competence on raw material sourcing and has long-term contracts in place to secure volume of key input factors. Long-term energy contracts are in place to secure base volume and price stability. In order to secure operational flexibility some of the energy volume is covered through short-term contracts.

**Financial risk**

Elkem is exposed to financial risks such as currency risk, interest rate risk, liquidity risk and credit risk. In 2012 the Board of Directors reviewed and approved new financial risk policies for Elkem.

Elkem seeks to reduce currency risk through natural hedging of the main currencies. Despite this, Elkem remains with a relatively large net cost base in NOK and positive net cash flows in other currencies, mainly EUR and USD. Elkem aims to hedge 90% of net cash flows on a 0-3 month rolling basis, and 45% on a 4-12 month rolling basis. On 4-12 months basis the hedging ratio may vary between 25 and 75%. The main proportion of Elkem's long-term interest bearing debt is in USD, with the remainder in EUR. From a long term cash flow perspective this creates a good economic hedge, because sales are mainly denominated in EUR and USD. In addition, the underlying pricing in Elkem's main markets is considered to be USD driven. However, the large proportion of USD debt makes the company exposed to short-term currency fluctuations. Currency effects on debt and equity are therefore closely monitored.

Elkem is actively managing its liquidity risk and the company is providing short- and long-term cash forecasts to predict and monitor the liquidity development. The group has undrawn credit facilities with its main banks to back up its liquidity position. The policy is to have a liquidity buffer of 10-20% of expected annual revenue. The target is that these credit facilities should have an average maturity of 12-24 months to mitigate any short-term refinancing risk. Elkem Group must maintain equity ratio of minimum 30% to meet financial covenants related to credit facilities.

Credit risk is managed as a traditional business risk, where the main part of the accounts receivables is insured by a reputable credit insurance company. Elkem is monitoring the credit risk also for financial trading counterparties. Financial counterparties must have a credit rating of minimum A- or the equivalent from the main rating agencies.

Elkem has a well established Global Insurance Program for property and business interruption, minimizing Elkem's exposure to larger unforeseen incidents that might occur at Elkem's plants. Elkem has also in place general third party liability insurance in order to minimize any claim from customers and others. On top of these two main insurances Elkem has taken actions on several other areas to limit Elkem's financial obligations. The Insurance Program is managed centrally.

**Capital structure**

As at 31.12.2012 Elkem's equity was 4.221 MNOK. Including minority interests of 84 MNOK the equity ratio was 37%.

Elkem's long-term financing consists of internal loans provided by the Bluestar Group. At year-end the total interest-bearing debt in Elkem Group amounted to 5.759 MNOK, of which 285 MNOK was short term. Long-term interest bearing debt amounted to 5.474 MNOK whereof 5.452 MNOK was to the Bluestar Group. The repayment clause in the loan agreements with the Bluestar Group was amended in 2012 so that any future repayments will be at Elkem's discretion. Elkem has floating interest rates on its debt.

In 2012 Elkem Solar has had a challenging year. Sales have been low and production capacity has not been fully utilized during the year. From January to May, only the first two process steps were in operation, whereas the last three process steps operated during April to August. From September all production has been idled due to oversupply and low prices. The Solar market has traditionally been volatile and is currently hampered by overcapacity and low prices. In the long run markets are expected to be normalized and consolidated.

Bluestar and Elkem have a long term intention and commitment to develop Elkem Solar based on the company's unique technology and competitive production cost compared to traditional technologies. Based on the current uncertainty of future market and technology development within the solar industry, it is difficult to estimate the value of future cash flows in an impairment test. This particularly relates to uncertain price development and competitive situation in the market. Elkem Solar has prepared a thorough impairment analysis of expected scenarios, particularly emphasizing Elkem Solar's unique technology, strong cost position and the owner's long term commitment to develop the business further. The board of Elkem AS has reviewed the value of Elkem Solar. On a long term going forward basis, in line with Bluestar's Solar business strategy, there should be no impairment of book value. At the end of 2012 Elkem Solar's consolidated book values consist of fixed assets of 3 998 MNOK, intangible assets of 107 MNOK and operating materials and spare parts of 115 MNOK. In Elkem AS separate financial statements the following assets related to Elkem Solar is booked; shares in subsidiaries 2,428 MNOK and a long term receivable of 1,848 MNOK. The shares in Elkem Solar AS are written down by 383 MNOK in 2012, in line with Elkem Solar AS' equity as of 31.12.2012.

Elkem's auditor, PwC, has due to the circumstances referred to above, been unable to obtain sufficient and appropriate audit evidence to support an opinion of the carrying amount of Elkem Solar's assets in the group's consolidated financial statement. In the financial statement for Elkem AS the same applies to the carrying amount of the company's shares in Elkem Solar AS and the receivables on Elkem Solar AS as at 31 December 2012.

In parallel to the approval of the 2012 financial statements, the board has also approved a recapitalization of Elkem AS. Shareholder loans amounting to 4 356 MNOK will be converted into new equity 20 June 2013. The debt conversion will give the Elkem Group an equity ratio of approx. 68% based on estimated figures as of June 2013, which should secure a robust financial position and enable the group to handle any negative impairment scenarios for Elkem Solar, if applicable.

**Going concern**
The board confirms that the company satisfies the going concern assumption, and that the 2012 annual financial statements have been prepared on this basis.

## Research and Development (R&D)

Elkem devotes considerable effort and resources to research and development (R&D), in order to create and develop innovative products and in the development of environmentally friendly and energy efficient production technologies.

Elkem's direct R&D expenses in 2012 were 54 MNOK. The main Solar R&D activities included:

- Product quality verification of Elkem Solar Silicon® with potential down-stream industrial partners.
- New crystallization technology for ingots
- Capacity increase study including technology evaluations, targeting 7500 MT Si/year.
- Development of fundamental knowledge and competence building through 9 university programs in Norway and abroad – including PhD studies.

Within Elkem's silicon related business the main focus has been on product development and environmental challenges, including:

- Refractory: Two new products developed.
- Construction: New microsilica product successfully tested.

- Well Drilling products (WDP): Improved stability of Microblock HT, and new class and generation of other WDP developed/ready for testing.
- Promotion of low-Si foundry products into the market.
- Production concept for high density graphite materials. (Cathodes and Electrodes)
- The FUME program - NOx formation and abatement.
- Further development of a novel off-gas cleaning system for the tapping fume from silicon furnaces – the "dog-house" project.

1st January 2012, the central R&D function including central lab and pilot station were sold from Elkem Solar AS to Elkem AS. Throughout 2012 there has been a shift in R&D focus at corporate level from solar to the silicone related business, with focus on silicon and ferrosilicon furnace process improvements. The new R&D areas cover raw materials, furnace yield improvements, refining/product quality, and casting technology.

Other R&D and improvement project including optimization of work processes, improvement and standardization of furnace equipment, and development of industrial computer systems for improved furnace operations have also been executed.

## Environment, Health and Safety

Elkem is committed to high environmental, health and safety standards and has closely integrated efforts in these areas with all other activities throughout the company. Operating heavy industry worldwide involves major challenges, both in terms of incident prevention and environmental protection. Through management commitment, systematic methods, targeted plans and strong organizational participation, Elkem has achieved great improvements and operates with a low level of serious harm to employees and the environment. Elkem uses considerable resources to identify hazards and implement appropriate measures to reduce risk to an acceptable level so that all employees and contractors performing work at Elkem can leave their jobs just as healthy and whole as they were when they arrived.

**Health**

Absenteeism is the key performance indicator for health in Elkem. The average rate of absenteeism measured in percent of available working days for 2012 was 3,9%. This is slightly lower than 2011. Studies of absenteeism throughout Elkem show no indication that the overall rate of illness is related to working conditions, but coincides with the general health conditions in countries where Elkem operates.

Ongoing activities to increase health and wellbeing at Elkem locations include working environment assessments and improvement efforts in the areas of ergonomics, chemical control and noise and dust reduction.

**Safety**

The average Lost Time Injury Rate (H1 = number of lost time injuries per 1.000.000 working hours) for 2012 was 1.8 at year-end, while the Total Recordable Rate (H1+H2 = total number of lost work time, medical treatment and restricted work injuries per 1.000.000 working hours) was 6.3, these values have been relatively flat during the last 5 years

In addition to recordable rates, incident severity is also measured as a key performance indicator. Of a total of 25 recordable injuries (own employees), none were defined as high severity (fatality or serious permanent damage), 7 were defined as medium severity (serious injury without permanent damage) and 18 defined as low severity (cuts, bruises, sprains, etc. without further consequences). For contractors there were no injuries with high severity, 3 with medium severity and 13 with low severity. There were no serious fires or equipment damage in 2012. This represents a substantial improvement from 2011 showing that improvement programs initiated after serious incidents in 2011 have given good results.

**Environmental impact**
Elkem is committed to environmentally responsible production and continuous improvement. Using highly developed production technology, Elkem creates products needed for current and future generations with efficient raw material and energy utilization

Converting significant natural resources such as water, coal, ores and minerals into important products for present and future generations also involves resource consumption, emissions, discharges, transportation and waste. Emissions and discharges are recorded and dealt with in compliance with public permits at each site. In 2012, none of Elkem's plants received formal complaints. There were some informal complaints from neighbors related to emissions, noise and odor. All incidents have been recorded, investigated and followed up according to procedures.

One of the most important environmental initiatives at Elkem is energy conservation including the efficient use of energy and energy recovery. Five of Elkem's plants have energy recovery systems connected to their furnaces. In 2012, a total of 158 GWh electricity was recovered from waste heat. A number of new initiatives for increased energy recovery are planned for the coming years.

During the past few years there has also been increased focus on the emission of nitrogen oxides (NOx) from furnaces producing silicon and ferrosilicon. Based on in house research and testing, Elkem has been able reduce NOx emissions by modifications of furnace hoods and charging systems. NOx reduction measures where successfully carried out at Elkem Thamshavn in 2011 and rebuilding of furnace 2 at Elkem Salten was started ultimo 2012.

Total emissions of nitrogen oxides (NOx), sulfur dioxides (SO2) and carbon dioxides (CO2) from Elkem's Norwegian plants were 5.100, 3.200 and 870.000 tons respectively.

## Equality and diversity

To achieve Elkem's strategic targets of safe operations, profitability and global growth, the company is dependent on attracting and retaining competent people and developing a corporate culture based on a broad range of experience and expertise.

Elkem Business System (EBS) empower people as the driving force for continuous development and improvement. Empowered people in Elkem exhibit the right competencies, attitudes, appreciation and total acceptance of diversity regardless of the position or geographical location of the people. The Elkem Values; Respect, Precision, Continuous Improvement and Involvement embrace diversity of all kinds among all Elkem employees and towards our external partners. Elkem believes that diversity enhances the quality of decisions, the speed of improvement work and is a catalyst for the continuous development of Elkem.

Diversity and non-discrimination continued to be an important foundation for Elkem in 2012, based on the Group's internal standards for recruitment, business ethics and company values. This foundation of the company is aimed to ensure that Elkem globally continues to embrace diversity and non-discrimination culture and practices.

Elkem's Norwegian entities operate mainly within traditional heavy industry and research and development. The proportion of female employees has been steadily increasing in the recent years, especially in the part of the organisation that is not directly linked to plant operations. Also in the company's internal leadership development program the share of women is steadily increasing and in recent years over 30%. Elkem's trainee program in Norway has had a proportion of around 50% female participants since 2000. Moving forward, Elkem is focused on increasing the proportion of women in the company.

The company aims to provide a workplace with full equality between women and men, and has established a policy and practice to ensure that there is no discrimination based on gender, disability, ethnicity, nationality, race, religion or beliefs. About 20% of the total Norwegian operations' employees are women.

The company disapproves of and is actively working to prevent any discrimination based on gender, disability, ethnicity, nationality, race, religion or beliefs. The activities include recruitment, compensation and benefits, working conditions, possibilities for promotion, development and protection against harassment.

## Accounting principles

The consolidated financial statements for 2012 have been prepared and presented in accordance with the International Financial Reporting Standards (IFRS), as adopted by EU.

Elkem AS' separate financial statements for 2012 have been prepared and presented in accordance with Norwegian Generally Accepted Accounting Principles (NGAAP).

In 2012 Elkem Group changed its accounting principle for a power contract with Statkraft (bought from Norske Skog in 2010), and has from 2012 booked the contract at fair value through profit or loss, as the contract fails to meet the own use exemption criteria in IAS39. Comparable figures for 2011 are revised.

## Allocation of profit/loss for the year

In 2012, Elkem AS posted a loss of 117 MNOK. The Board of Directors proposes to cover the loss from other retained earnings. There is no free equity at Elkem AS at year end.

## Outlook for 2013

World Economic Outlook expects global growth to increase during 2013, as the factors underlying soft global activity are expected to subside. However, this upturn is projected to be more gradual than previously anticipated. Policy actions have lowered acute crisis risks in the euro area and the United States. But in the euro area, the return to recovery is delayed. However, downside risks remain significant, including renewed setbacks in the euro area and risks of excessive near-term fiscal consolidation in the United States.

Economic growth forecasts appear weak for Europe, and better for North America and China. Elkem's structure is vulnerable to individual factors in the macro development. Early in 2013 there are signs of improved demand for silicon and ferrosilicon related products, and prices are expected to be flat. The Solar industry however appears to be hampered by oversupply and low prices. The Elkem Solar factory has been idled during first half of 2013.

Uncertainty connected to the macroeconomic situation appears to be lower compared to the end of 2012.

Oslo, 19th June 2013

Xiaobao Lu
Chairman of the board

Einar Støfringshaug

Espen Sortevik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

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To the Annual Shareholders' Meeting of Elkem AS

## Independent auditor's report

### Report on the Financial Statements

We have audited the accompanying financial statements of Elkem AS, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at 31 December 2012, and the income statement and cash flow statement, for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the balance sheet at 31 December 2012, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

*The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by EU and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo*
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*Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap*

*Basis for qualified opinion*

As discussed in note 10 to the consolidated financial statements, the subsidiary Elkem Solar AS main assets represent a factory in south Norway. Because the factory has not been operating normally since October 2011, estimates for net cash flows and other assumptions necessary for a reliable valuation carry an inherent uncertainty. Furthermore there is a lack of comparable transactions in the market. Elkem AS has provided us with an estimated fair value of such assets. However, we have been unable to obtain sufficient appropriate audit evidence as to the reasonableness of such fair value estimation and whether it is performed in accordance with the applicable valuation standards. As a result, we are unable to determine whether an impairment loss should be recorded in the financial statements with respect to the carrying amount of the parent company's shares in Elkem Solar AS and the receivables on Elkem Solar AS as at 31 December 2012. Furthermore, these circumstances also affect the line items Property, plant and equipment, Inventory and Intangible assets in the group's balance sheet for which we consequently have been unable to obtain sufficient appropriate audit evidence to support an opinion about as at 31 December 2012.

The parent company's shares in Elkem Solar AS and the receivables on Elkem Solar AS, are carried in the balance sheet at NOK 2,428 million and NOK 1,848 million as at 31 December 2012, respectively. In the group's consolidated financial statements these matters affect the line items Property, plant and equipment, Inventory and Intangible assets where the assets in question held by Elkem Solar AS are carried at NOK 3,998 million, NOK 115 million and NOK 107 million at 31 December 2012, respectively. As a result of these matters we were unable to determine whether any adjustments in these amounts were necessary.

*Qualified opinion on the financial statements of the parent company*

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements of the parent company are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position for Elkem AS as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

*Qualified opinion on the financial statements of the group*

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the financial statements of the group present fairly, in all material respects, the financial position of the group Elkem AS as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and the going concern assumption, and the proposal for coverage of the loss is consistent with the financial statements and complies with the law and regulations.

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*Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 19 June 2013
**PricewaterhouseCoopers AS**

Anders Ellefsen

Anders Ellefsen
State Authorised Public Accountant (Norway)

Skattedirektoratet

| Saksbehandler | Deres dato | Vår dato |
| --- | --- | --- |
| Torstein Kinden Helleland | 09.12.2011 | 20.12.2011 |
| Telefon | Deres referanse | Vår referanse |
| 22078139 | Irene Cortardo | 2011/1192296 |


ELKEM AS
Postboks 5211 Majorstua
0303 OSLO

**Dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk språk for Elkem AS, org. nr. 911 382 008**

Det vises til deres brev av 9. desember 2011 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for Elkem AS.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering Elkem AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

**Bakgrunn**
Elkem er eid av utenlandske morselskap, der ultimate mor er China National Bluestar Co. ltd. som har hovedsetet i Beijing, Kina. Elkem er en av verdens fremste produsenter av materialer innenfor produktområdene solcellesilisium, silisium, ferrosilisium og karbon. Majoriteten av produksjonen innenfor disse produktområdene eksporteres til utlandet. Elkems drift er således i stor grad rettet mot engelskspråklige markeder. Kommunikasjon, økonomisk rapportering og avtaler med forretningspartnere og -forbindelser skjer på engelsk. Engelsk språk brukes også som internt arbeidsspråk. Styreleder samt to styremedlemmer er fra henholdsvis Kina og Frankrike. Den norske versjonen av årsregnskapet utarbeides kun for å tilfredsstille regnskapsloven.

**Skattedirektoratets vurdering**
Etter regnskapsloven § 3-4 tredje ledd skal "*årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk.*"

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:
"*Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det*

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| For elektronisk henvendelse se www.skatteetaten.no | | 22 17 08 60 |

*vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."*

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *"informative regnskaper for ulike grupper av regnskapsbrukere"*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt vekt på at selskapet har utenlandske eiere. Virksomheten er i en internasjonal bransje der arbeidsspråket er engelsk. Alle sentrale aktører antas å måtte beherske og benytte engelsk språk. Videre er det vektlagt at styreleder og styremedlemmer er utenlandske.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen

Rune Tystad

Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland