# ANNUAL REPORT 2014

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# BOARD OF DIRECTORS

## JENS ULLTVEIT-MOE

Chairman of the Board of Directors since November 2013, Mr. Ulltveit-Moe is currently CEO and Board member of Umoe Group, a company he established in 1984. Prior to Umoe, his career included McKinsey in New York and London, The Dutch SHV Group, and Knut Knutsen OAS. He has also served as Chairman of the Board for PGS, Kverneland, Sevan Marine and REC. Mr. Ulltveit-Moe has a Master degree in Business and Economics from the Norwegian School of Economics and Business Administration (NHH) and a Master degree in International Affairs from Colombia University.

## INGER BERG ØRSTAVIK

Board member since 2013. Ms. Orstavik is an associate professor at the Faculty of Law, University of Oslo. Ms. Orstavik has previously been a partner with Advokatfirmaet Schjodt AS and has worked at the office of the Attorney General for Civil Affairs. She has taught international human rights law at Fudan University in Shanghai, China, and is also a member of the Norwegian Board of Appeal for Industrial Property Rights. Ms. Ørstavik has a law degree from the University of Oslo, a Ll.M. from Ruprecht-Karls-Universität in Heidelberg, Germany, and a Ph.D. from the University of Oslo in the areas of patent law and competition law.

## RAGNHILD WIBORG

Member of the Board of Directors since May 2013, Ms. Wiborg has over 27 years experience in financial markets and an extensive network both within the international and Nordic business communities. She is the Chairman of EAM Solar and Non Ex Board Member of Borregaard ASA, Granges AB, IM Skaugen, and Sevan Drilling. She has working experience from inter alia Wiborg Kapitalforvaltning, Consepio, Odin Fundmanagement, Pareto Securities, and Sundal & Collier. She has served on several nomination committees. Ms. Wiborg has a Bachelor of Science degree in Economics (Civilekonom) with a major in International Business Stockholm School of Economics and Business Administration, master studies from Fundcao Getulio Vargas, Brasil as well as education from Sorbonne University.

## ESPEN KLITZING

Board member since November 2013, Mr. Klitzing is CFO of Umoe Group, Chairman of the Board of several Group companies and Alliance Venture Polaris AS, as well as a board member of DNB Life Insurance and the Stock Exchange Appeals Committee. Prior to Umoe he was a Principal at McKinsey & Company, CFO and Deputy CEO at Norges Bank Investment Management, CEO of Petrojarl ASA and Storebrand Life Insurance, and held various management positions in Storebrand Group. Mr. Klitzing holds a degree in Business and Economics (Siviløkonom) from the Norwegian School of Economics and Business Administration (NHH).

## ERIK LØKKE-ØWRE

Board member since November 2013, Mr. Løkke-Øwre is a consultant in his company, Varbak Consulting AS. Prior to Varbak Consulting, he was SVP of Global Operations, Technology and Sourcing for REC Solar. Mr. Løkke-Øwre was also with the Elkem group where he held several management positions, inter alia plant director in both Elkem Aluminium ANS and Elkem Silicon, General Manager for Elkem Silicon and Elkem Solar. Mr. Løkke-Øwre holds a Master of General Management from the Norwegian School of Management (BI) and has executive education from IMD in Switzerland and Columbia University in New York.

# LETTER FROM THE CEO

Although 2014 was a year of modest growth in the PV industry, we expect strong growth going forward, with the market estimated to be at least 100 GW by 2020. REC Silicon is well positioned to meet this increased demand because of our innovative FBR technology, an extremely efficient process with high quality.

This past year, we announced the 3,000 MT expansion of our production capacity in Moses Lake, which will produce polysilicon suitable for high efficiency applications. Additionally, in July, our joint venture company in China was established with our partner, Shaanxi Non-Ferrous Tian Hong New Energy Co., Ltd. This joint venture will utilize REC Silicon's next generation FBR technology in a plant that includes capacity of 19,000 MT of polysilicon. This project will combine the best polysilicon technology with the operational efficiency opportunities that are available in China. We expect the production from this plant, which is scheduled to begin in 2017, to be among the most competitive globally.

The demand for silicon gases continued to be strong in 2014. Over the course of the year, REC Silicon confirmed its position as a reliable, high quality silane supplier, and we maintained our strong market position. We expect the silane market to continue to grow and that REC Silicon will continue to be a leading supplier. Our research and development efforts continue to succeed in the development of other silicon gases, opening up new, exciting opportunities.

Throughout the year, our highly motivated team has demonstrated a strong focus on continuous improvement which has led to record-high production volumes, with industry-leading manufacturing costs. This performance was achieved through process optimization, innovation, rigorous training, standardization and utilization of lean manufacturing and Six Sigma methods.

> "This roadmap envisions PV's share of global electricity reaching 16% by 2050, a significant increase from the 11% goal in the 2010 roadmap. PV generation would contribute 17% to all clean electricity, and 20% of all renewable electricity. China is expected to continue leading the global market, accounting for about 37% of global capacity by 2050 … To achieve the vision in this roadmap, the total PV capacity installed each year needs to rise rapidly, from 36 GW in 2013 to 124 GW per year on average, with a peak of 200 GW per year between 2025 and 2040."
>
> The International Energy Agency Technology Roadmap 2014

Health, safety and environmental affairs remain a key priority for REC Silicon. We remain committed to our goal of zero harm to our employees, contractors, partners, customers, and the communities in which we operate. REC Silicon's overall safety performance improved once again, with a reduction in the lost time injury rate from 2013.

Despite REC Silicon's active engagement in communications with officials in both the U.S. and China as well as industry associations and other stakeholders to encourage a resolution, the ongoing solar trade dispute between the U.S and China has continued. I am hopeful that the trade issues will be resolved in 2015. In the meantime, we will continue to advance our processes, increase efficiencies, improve quality, strengthen our already stable operations, and, above all else, work safely.

Companies must be efficient in order to succeed. REC Silicon's financial strength was significantly improved in 2014 by extinguishing $143 million in debt obligations with cash flow from operations and the receipt of the technology transfer payment from the joint venture company in China. Overall, our 2014 financial performance demonstrated our company's potential in varying market conditions.

Since joining REC Silicon six years ago, my confidence in our FBR technology has grown exponentially. It is, by all accounts, a transformative step-change in polysilicon production. One of the most costly components of any Siemens process is electricity; our FBR process is recognized throughout the industry for electricity consumption that is one-tenth of the most efficient Siemens technology. A culture of incremental innovation and customer focus is enthusiastically embraced at REC Silicon. Advancing Materials, Advancing Technology is not merely a tag line; it's a belief system, a source of pride, and a passion that drives value.

Tore Torvund
President and CEO

# BOARD OF DIRECTORS' REPORT

**2014 HIGHLIGHTS (COMPARED TO 2013)**

> EBITDA of USD 232.9 million
- Revenues increased by 18% to USD 493.0 million
- EBITDA includes special items of USD 101 million related to the transfer of technology to the Yulin JV
  - EBITDA excluding special items increased by 335% to USD 131.9 million

> Higher average polysilicon prices – continued market recovery
- 20% increase in average polysilicon prices
- Strong price growth through the third quarter of 2014
- Price decline at year end due to weaker PV markets

> Strong silicon gas sales volumes
- Volume increased by 54% to 3,428 MT
- 8% price decline for silane gas
- High spot sales due to offline competitive capacity

> Continued cost leadership
- FBR Cash cost of USD 12.1/kg
- Reflects continued improvements to reliability and cost control

> Expansion initiatives
- Yulin Joint Venture in China
  - Received USD 198 million for technology transfer
  - Equity contribution of USD 75 million
- Rx 25/26 Expansion
  - Capital investment of USD 115 million approved
  - Detailed engineering underway

## GROUP PRESENTATION

### Business Activities

REC Silicon ASA was established in Norway on December 3, 1996. The Company is headquartered in Lysaker, Norway.

REC Silicon is a global leader in silane-based, high-purity silicon materials. REC Silicon is a leading producer of advanced silicon materials, delivering high-purity polysilicon and silicon gases to the solar and electronics industries worldwide.

REC Silicon operates manufacturing facilities in Moses Lake, Washington and Butte, Montana in the USA. REC Silicon's subsidiaries include; REC Solar Grade Silicon LLC, and REC Advanced Silicon Materials LLC in the US. REC Silicon's sales and marketing activities for sales of solar grade polysilicon, semiconductor grade silicon and silicon gases are carried out in China, Japan, Korea, Taiwan, and in the United States. The Group's joint venture operations are held in REC Silicon Pte Ltd in Singapore.

The 2014 consolidated financial statements for the Group include comparisons to 2013. During 2013, REC Solar was sold and re-presented to discontinued operations. For a discussion of the discontinued operations, see note 9 to the 2014 consolidated financial statements.

The discussion contained in this Board of Directors Report is focused only on the continuing operations of the Group.

### Markets

Global PV polysilicon demand increased from 2013 to 2014, however, a weak demand environment in the second half led to a reversal of pricing gains made earlier in the year. Previously announced polysilicon production capacity expansions were not realized or were delayed which provided some price support. At least 65,000 MT of planned production capacity did not come on line as originally forecast due to project delays, technology challenges, and poor market conditions. Eventually, 17,000 MT planned capacity was retired before it could start.

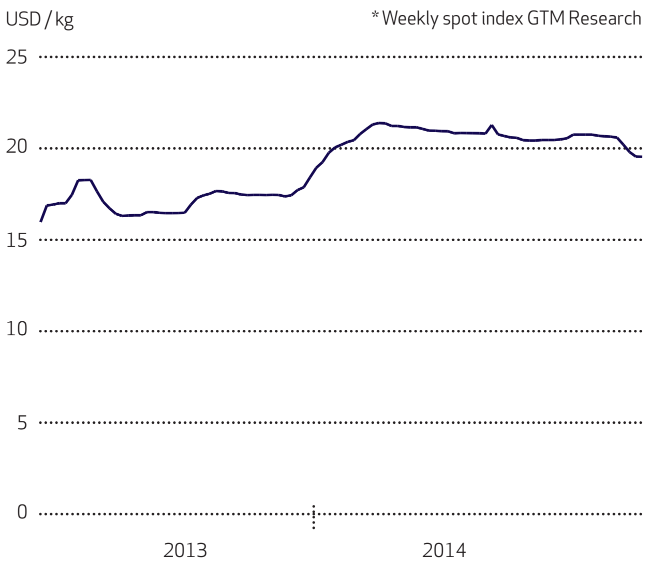
Market demand for PV panels marginally increased during 2014 with most of this coming in the first half of the year as total demand fell in the lower end of the estimate range for the first time in recent memory. This generated higher polysilicon demand in the beginning of 2014 which in turn lifted average selling prices over 2013 until reversing the trend in the last 5 months of the year resulting in a 20% increase over the previous

## Financial highlights - Continuing Operations

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Total revenues | **493.0** | 417.6 |
| EBITDA | **232.9** | 50.7 |
| EBITDA margin | **47%** | 12% |
| EBITDA excluding special items [1] | **131.9** | 30.3 |
| EBITDA margin excluding special items | **27%** | 7% |
| Depreciation and amortization | **-134.5** | -127.6 |
| Impairment | **-4.3** | -9.2 |
| EBIT | **94.1** | -86.1 |
| EBIT margin | **19%** | -21% |
| Polysilicon production in MT (Siemens and granular) | **18 794** | 19 764 |
| Polysilicon sales in MT (Siemens and granular) | **16 854** | 18 947 |
| Silicon gas sales in MT | **3 428** | 2 229 |

[1] Special items in 2014 represent the recognition of USD 101 million in gain on the transfer of technology to the Yulin JV. Special items in 2013 represent income from a contract cancellation.

**Polysilicon spot price development**




year. Industry analysts are estimating global Photovoltaic (PV) installations in 2014 at approximately 38-42 GW, up from 36 GW in 2013.

PV Panel demand was led by China, Japan, and the US, together combining for over 25 GW of the market. China missed targeted installations by a significant margin and was the largest contributor to the second half demand stall. China remains the largest market for PV polysilicon with 88% of the global crystallization capacity, however REC Silicon continued to expand its customer base into other parts of the world.

Markets for semiconductor grade polysilicon continue to suffer from pervasive excess inventory, however, demand for large diameter wafer products remains robust while smaller diameter markets continue a downward trend in demand and price. Progress was made on reducing polysilicon inventory at wafer producers

Silicon gas markets are driven by flat panel displays, semiconductors and crystalline PV cells. Demand in 2014 was robust due to semiconductor and flat panel display strength, market share gains, and spot transactions due to industry accidents.

### Strategy and Objectives

REC Silicon's strategy is to maintain its position as a low cost leader and technological innovator in the Silicon materials industry.

REC Silicon intends to improve its competitive position by:

- Improving the stability of manufacturing processes
- Focusing on continued quality improvements in FBR (surface powder removal and reduction of contaminants)
- Minimizing the impact of trade dispute between US and China (prioritize spending and develop market opportunities outside China)
- Increasing cost advantage by improving efficiency and streamlining processes
- Expanding semiconductor polysilicon product offerings to penetrate markets

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (USD IN MILLION) | REVENUES | EBITDA | EBIT | REVENUES | EBITDA | EBIT |
| REC Silicon | 492.9 | 136.2 | -2.5 | 432.7 | 63.3 | -73.5 |
| REC Silicon Special Items | 0.0 | 101.0 | 101.0 | 0.0 | 20.4 | 20.4 |
| Other & related eliminations ex. gain/loss on disposal | 0.1 | -4.3 | -4.3 | -15.2 | -16.0 | -16.0 |
| REC Silicon and Other | 493.0 | 232.9 | 94.1 | 417.6 | 67.7 | -69.1 |
| REC Solar excluding loss on disposal | 0.0 | 0.0 | 0.0 | 520.9 | 19.0 | 1.8 |
| Gain/loss on disposal discontinued operations | 0.0 | -0.6 | -0.6 | 0.0 | -206.8 | -206.8 |
| Eliminations ex. gain/loss on disposal | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 |
| REC Solar, REC Wafer, eliminations | 0.0 | -0.6 | -0.6 | 520.9 | -187.9 | -205.0 |
| Total operations | 493.0 | 232.3 | 93.5 | 938.4 | -120.1 | -274.0 |
| Re-presentation of discontinued operations | 0.0 | 0.6 | 0.6 | -520.9 | 170.9 | 188.0 |
| Continuing operations | 493.0 | 232.9 | 94.1 | 417.6 | 50.7 | -86.1 |

## REPORT FOR 2014

### Financial Statements

The Group reports its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Norwegian Accounting Act.

### Revenues

Revenues from continuing operations increased by 18 percent from 2013 to USD 493 million in 2014.

Polysilicon sales volumes decreased by 11 percent to 16,854 MT. The decrease is explained by weaker polysilicon markets in third and fourth quarters of 2014 caused by uncertainty in demand due to decreasing PV installation forecasts and uncertainty caused by the trade dispute between the US and China.

REC Silicon's average annual selling prices for Siemens and granular polysilicon increased by 20 percent from 2013 to 2014. REC Silicon's granular polysilicon prices increased by 33 percent from 2013 to 2014 recovering from the low point in pricing during the first quarter of 2013. Prices continued to reflect steady increases through the third quarter of 2014 due to expectations of strong demand driven by estimates near 45 GW PV installation for 2014 with expectations near 13 GW for the fourth quarter. Prices were negatively impacted in the fourth quarter as these estimates were revised downward and resulted in a price decrease of 12 percent in the final quarter of 2014.

Silicon gas sales volumes were 3,428 MT (54 percent increase from 2,229 MT in 2013) and reflected 2 consecutive years of growth above 50 percent. This increase reflects higher spot transactions due to offline competitive capacity and the successful efforts to re-capture market share and encourage the exit of high cost competitors.

### Operating Costs and Expenses

Silane outages reduced FBR production in the first and second quarters of 2014. During the remaining quarters, the FBR production facility operated at steady rates resulting in record volumes.

REC Silicon's production of granular solar grade polysilicon was broadly in line with the prior year (1% decline) at 16,145 MT despite extended silane unit outages in the first and second quarters in addition to lower silane availability due to the shutdown of Silane I in mid-2013. Total polysilicon production declined 5 percent in 2014 to 18,794 MT and reflects high external sales of silicon gas which resulted in lower polysilicon production. Total polysilicon production was approximately 3% lower than the 2014 targets included in the 2013 annual report.

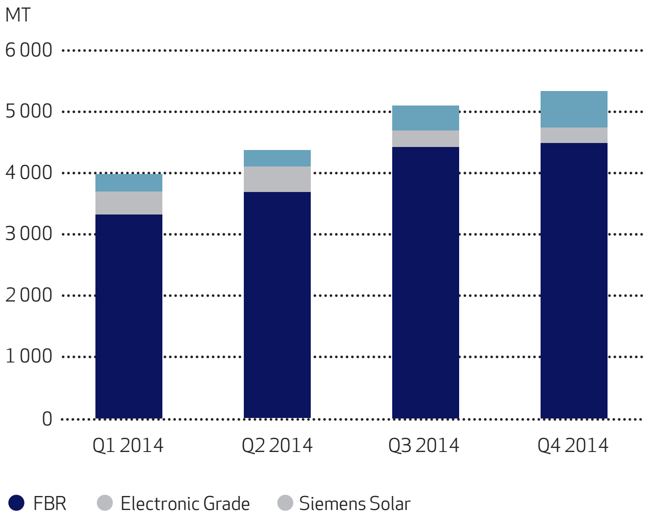
FBR cash cost continued to decline in 2014 to USD 12.1/kg from USD 12.3/kg in 2013 due to a continued focus on cost control and efficiency. This was USD 0.4/kg higher than the 2014 cost target that was included in the 2013 Annual Report due to longer than anticipated silane outages in the first and second quarters.

### Earnings Before Financial Items and Income Taxes (EBIT)

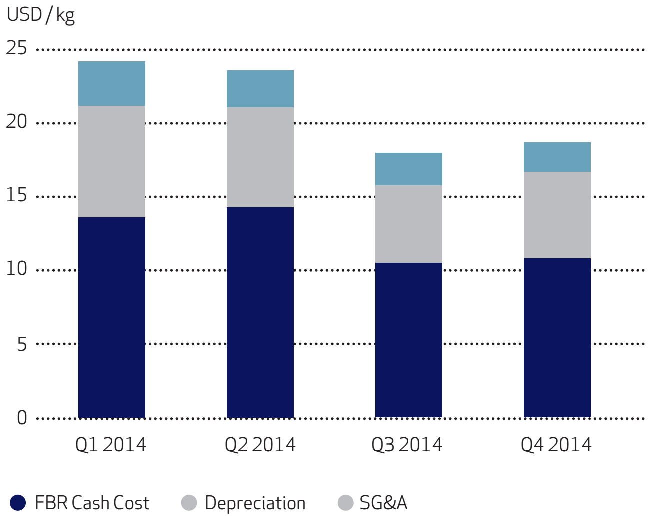
EBITDA from continuing operations increased to USD 232.9 million from USD 50.7 million in 2013. EBITDA for both years included special items; a gain of USD 101 million associated with the transfer of technology to the Yulin JV in 2014, and other income of USD 20 million for a sales contract cancellation in 2013. On a comparable basis excluding special items, EBITDA was USD 131.9 million compared to USD 30.3 million in 2013 (335 percent increase). The increase in EBITDA is primarily driven by the increase in solar grade polysilicon prices (20 percent) and the Groups successful efforts to control costs and maintain production efficiency. In addition high sales volumes of silicon gases positively contributed to EBITDA for 2014.

EBIT from continuing operations was USD 94.1 million in 2014 compared to negative USD 86.1 million in 2013. Depreciation, amortization, and impairment of property, plant, equipment, and intangible assets increased by USD 2 million compared to 2013 due

Polysilicon Production




FBR Cost



to the impact of adjustments to the useful lives of assets partially offset by lower impairment charges for assets that have been replaced or taken out of service before the end of their estimated useful lives..

### Financial Items

Net financial items changed to income of USD 125.3 million from an expense of USD 158.8 million in 2013. In 2014, currency gains of USD 131.8 million related to USD denominated intercompany loans between the Company and the US subsidiaries. In 2013, fair value adjustments of USD -112.2 million to the convertible bonds contributed negatively to the results. The underlying interest expense on the Company's long term debt declined from USD 46.3 million in 2013 to USD 17.8 million in 2014 due to the restructuring of debt in May and September 2013 and the debt maturities in 2014.

### Income Taxes

Income tax changed to an expense of USD -5.4 million from a benefit of USD 84.8 million in 2013. Tax expense for 2014 is primarily a result of the recognition of USD 101 million gain associated with the transfer of technology to the Yulin JV (see note 8) and the tax effects of currency gains on intercompany USD loans held by the Company which were offset by a decrease in unrecognized deferred tax assets resulting in a low effective tax rate.

### Profit and Loss

Profit from continuing operations increased to USD 213.4 million from a loss of USD 160.0 million in 2013. Profit from total operations was USD 212.8 million in 2014, compared to a loss of USD 352.7 million in 2013. Total operations included losses related to discontinued operations of USD 192.7 million in 2013 related to the sale REC Solar and adjustments to previously recognized losses on the deconsolidation of REC Wafer of USD 0.6 million in 2014.

### Cash Flow

Net cash inflow from operating activities was USD 87.7 million for 2014, compared to net cash outflow of USD 1.2 million for 2013. In 2014, EBITDA for total operations was USD 131.9 million excluding special items. In addition, the Group settled derivatives and received tax refunds resulting in additional cash inflows of USD 14 million. These were offset by increases in working capital of approximately USD 35 million and interest payments of approximately USD 23 million.

Net cash inflow from investing activities was USD 92.8 million in 2014. The primary contributor was USD 198 million in upfront payments for the transfer of technology associated with the formation of the production joint venture in China. This was offset by USD 75 million equity contribution to the Yulin JV and capital expenditures of USD 35.8 million.

Net cash outflow from financing activities was USD 143.0 million in 2014. This was due almost exclusively to the extinguishment of debt. Convertible EUR bonds for EUR 81.2 million (USD 111.4 million) and NOK bonds (REC01) of NOK 195.5 million (USD 31.3 million) matured during 2014.

Cash at year end 2014 was USD 96.4 million.

### Balance Sheet and Liquidity

Equity amounted to USD 1,054.4 million at December 31, 2014, corresponding to an equity ratio 72 percent. This compared to USD 956.0 million and 63 percent, respectively, at year-end 2013.

The net debt of the Group was USD 93.8 million at December 31, 2014, a decrease of USD 213.1 million during the year. Net debt includes senior NOK bonds, the indemnification loans, and the USD convertible bond, reduced by bank deposits. Nominal net debt at December 31, 2014 was USD 112 million which represents a decrease of USD 265 million during the year. See note 17 to the consolidated financial statements.

During 2014, convertible EUR bonds for EUR 81.2 million (USD 111.4 million) and NOK bonds (REC01) of NOK 195.5 million (USD 31.3 million) matured and were repaid. In addition, net debt decreased due to the impact of a stronger USD compared to the NOK which resulted in lower USD carrying values for the remaining NOK bonds at year end 2014.

## Technology, Research, and Development

REC Silicon's long-term competitive position is only sustainable with cost efficiency and leading product performance. REC Silicon therefore deploys significant resources for research and development activities designed to enhance quality, improve efficiency, and reduce production cost throughout the value chain.

REC Silicon's program for producing higher grade FBR polysilicon has resulted in the development of the next generation FBR-B technology. Additional testing is planned for 2015 which is intended to produce material for customer acceptance testing, refine operating procedures, and further expand operational experience. Previous testing has demonstrated the capability to produce semiconductor grade granular polysilicon.

Ongoing activities to advance technology in other areas have been focused on improvements to the consistency of quality, process controls, and waste management.

Research and development expenses were USD 11.9 million in 2014, compared to USD 13.5 million for continuing operations in 2013. Additionally, expenditures of USD 1.4 million associated with development of FBR-B were capitalized in 2014.

## GOING CONCERN

The Board of Directors confirms that the Financial Statements have been prepared under the assumption that the company is a going concern and that this assumption was realistic at the date of the accounts.

The Board of Directors also makes reference to the risk factors discussed in this report. Specifically, the ongoing solar trade disputes between China and the USA create significant uncertainty for the Group, its customers, certain other competitors, and the industry as a whole.

## REC SILICON ASA (NGAAP)

### Financial Review

REC Silicon ASA (the Company) prepares its financial statements according to NGAAP. The Company is a holding company for the Group's operations. The activities in the Company have been scaled down in light of the reduced activities in Norway and sale of REC Solar.

In 2014, REC Silicon ASA had a negative EBIT of NOK 34.2 million, compared to a negative EBIT of NOK 100.7 million in 2013. In 2014, net profit was NOK 1,331.6 million compared to a net loss of NOK 987.4 million in 2013 due in large part to currency gains related to USD denominated intercompany loans between the Company and the US subsidiaries.

Total equity for the parent company amounted to NOK 5,487.8 million at December 31, 2014, increased from NOK 4,155.2 million in 2013. This increase is due primarily to currency gains of NOK 1,082.2 million related to USD denominated intercompany loans due to the effects of an increase in the value of the USD relative to NOK in 2014.

### Allocation of the Net Profit for the Parent Company

The Board proposes that the net profit for the year of NOK 1,331.6 million be allocated to other equity.

### Organization

REC Silicon ASA had 2 employees at the end of 2014. The Company has transferred most corporate functions to the US, but will maintain certain key functions and the registered office in Norway.

### Change of Control

The bond agreements and the indemnification loan have change of control provisions. If a shareholder or a group of shareholders gains control of more than 50 percent of the share capital, bondholders acquire a put option entitling them to cancel the commitments and declare all outstanding amounts and accrued unpaid interest due and payable. The bondholders in the convertible bond agreements will be entitled to convert their bonds into shares in REC Silicon ASA. More detailed information can be obtained from the bond trustee, Norsk Tillitsmann ASA.

## RISK FACTORS

The Group's activities expose it to a variety of financial risks, including currency risk, interest-rate risk, liquidity risk, credit risk, refinancing risk and others. See note 3 to the consolidated financial statements.

### Market Risk

REC Silicon believes that there are significant uncertainties related to the market development going forward. This uncertainty relates primarily to supply and demand balance and its effect on polysilicon prices, and the outcome of the trade dispute.

The ongoing solar trade disputes between the US and China may have a significant negative impact on the group's financial results.

On December 17, 2014, the US Department of Commerce announced final AD/CVD determinations against solar panels manufactured in China containing non-Chinese solar cells and Taiwanese made solar cells. This determination is related to the second trade cases filed by SolarWorld with the US Department of Commerce at the end of 2013.

However, on December 31, 2014, the US Department of Commerce announced the preliminary results of the first review of AD/CVD duties imposed in 2012 following the first trade case filed by SolarWorld and substantially reduced duties applicable to solar panels containing Chinese cells imported into the US. If these lower duties become final, which is expected to occur in mid-2015, panels containing Chinese made components will be subject to significantly lower tariffs. This should substantially enhance Chinese panel maker access to the US PV panel market.

On August 14, 2014, the China Ministry of Commerce made an announcement which could make Process in Trade unavailable for imports of solar grade polysilicon into China. However, Process in Trade has continued to be used by Chinese wafer makers for imports of solar grade polysilicon. If Process in Trade becomes unavailable for polysilicon imports into China, REC Silicon's earnings and cash flows would be negatively impacted by import tariffs until mitigating measures are implemented. Sales of semi-conductor grade polysilicon and silicon gases are not subject to the tariff; therefore, changes in the availability of the Process in Trade will not have an impact on sales of these products.

The company is actively working to mitigate the impact of potential duties should the availability of Process in Trade change. Initiatives include expanding REC Silicon's customer base outside of China, increasing sales to customers within free trade zones inside China, and utilizing other opportunities, including the sale of solar grade polysilicon in a manner that would not be subject to the tariffs.

The US Government has advised REC Silicon that it is continuing to make diplomatic efforts to engage with the Chinese government to obtain a resolution to the trade dispute. However the outcome and timing of discussions or any resolution is uncertain.

### Liquidity Risk

There are no maturities of debt in 2015. At December 31, 2014 the Group has sufficient available cash to meet debt service and other anticipated operating cash flow requirements.

### Credit risk

Credit risk is primarily related to accounts receivables and guarantees provided for discontinued operations. In accounts receivable, sources of credit risk include geographic, industry and customer concentrations; and risks related to the collection. Policies and procedures are in place for managing credit risk, including obtaining securities where possible. Market and customer specific developments affect credit risk.

### Currency risk

At December 31, 2014 net cash inflows from continuing operations are primarily in USD. Debt is denominated in USD and NOK. Accordingly, the Group's currency risk on a consolidated basis relates primarily to the sufficiency of net positive cash flows in USD to meet debt service requirements in NOK. The Group does not currently hold any hedging instruments to offset the risk of changes in exchange rates between the USD and NOK.

## CORPORATE GOVERNANCE

Good corporate governance is essential to ensure that our business is run in a way that protects the long-term interest of all stakeholders. The Board of Directors have approved and implemented corporate governance principles endorsing and complying with the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. The Group's compliance with the Code of Practice is described in the report on Corporate Governance for 2014 which is included in this Annual Report on page 15.

## SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Sustainability is at the core of REC Silicon's business model, and the company acknowledges its responsibilities towards the environment, society and the local communities in which it operates.

It is a Board responsibility to secure acceptable sustainability performance. To ensure compliance with policies, REC Silicon's management monitors performance through specific Key Performance Indicators (KPIs), reports results monthly and quarterly, and executes audits on all levels in the organization.

### The Environment

REC Silicon's environment and climate policy commits the Group to maximize the positive contribution from its products and to minimize negative environmental impacts and reduce our carbon footprint.

To achieve these goals, REC Silicon includes environmental considerations in the design, manufacture, and delivery of our products. We set clear objectives, monitor performance regularly, report results, and audit to ensure continuous improvement. The Group's Pollution Prevention Plan and Process Safety Management Plan cover environmental risks in its operations and the annual, quarterly, monthly and weekly reporting includes emissions to air and water, as well as waste management.

The total energy used was 1,949 GWh in 2014, down by 7 percent compared to 2013. This reduction is mainly due to reductions in electricity consumption. The total CO2 emissions were 453,263 tCO2 equivalents in 2014, down by 7 percent compared to 2013. The Group also reduced water consumption by 10 percent compared to 2013.

Waste from manufacturing processes is sorted and recycled with third-party waste management services. REC Silicon's production and maintenance cycles cause large natural variations in waste figures, and in 2014, there was a 50 percent increase in total waste compared to 2013. The Group recently started using stricter sampling protocols for hazardous waste to ensure better waste management. In 2014 the Group had a 42 percent increase in waste classified and treated as hazardous.

The Group registered five environmental permit breaches in 2014, two of which were due to late filing. The Group had no serious incidents or environmental releases in 2014.

| | 2014 | 2013 | % CHANGE |
|---|---|---|---|
| **Energy** | | | |
| Direct energy consumption (GWh) | 976 | 1 011 | -3% |
| Electricity (GWh) | 973 | 1 075 | -9% |
| Total energy use (GWh) | 1 949 | 2 086 | -7% |
| **CO2 emissions** | | | |
| Direct emissions ($tCO_2$-eq) | 201 443 | 205 662 | -2% |
| Indirect emissions from electricity ($tCO_2$-eq) | 251 820 | 282 536 | -11% |
| Total CO2 emissions ($tCO_2$-eq) | 453 263 | 488 198 | -7% |
| **Water** | | | |
| Municipal water consumption (million $m^3$/yr) | 0.4 | 0.9 | -52% |
| Surface water consumption (million $m^3$/yr) | 3.3 | 3.2 | 2% |
| Surface water consumtion (million $m^3$/yr) | 3.7 | 4.1 | -10% |
| Waste water discharge (million $m^3$/yr) | 1.2 | 1.2 | 0% |
| **Waste** | | | |
| Recycled waste (MT) | 288 | 6 | 4707% |
| Non-hazardous waste(MT) | 20 606 | 14 549 | 42% |
| Hazardous waste (MT) | 1 723 | 486 | 254% |
| Total waste (MT) | 22 329 | 15 035 | 49% |
| **Other figures** | | | |
| Total number of permit breaches | 5 | 0 | |

### Our Employees
Health and safety has the highest priority, and the Group believes that all accidents, injuries, and occupational illnesses are preventable. The target is zero harm to all employees, contractors, partners, customers and communities.

REC Silicon had 723 employees as of December 31, 2014.

To achieve a world-class safety culture, REC Silicon's employees are involved in safety-focused continuous improvement efforts each day. This includes assessing all work activities to eliminate inherent risks as well as applying control measures. The Group has an extensive set of HSE procedures that are regularly monitored, safety departments at each facility, and employee-driven processes that audit and further develop safety practices and protocols. All employees have the right and the responsibility to stop unsafe activities as needed.

Emphasis is placed on training employees and leadership in the Job Safety Analysis (JSA) method, which is applied to high-risk and non-standard work activities. In 2014, the Group conducted 102 Job Safety Analyses and 638 Hazardous Recognition Audits (HRA) which resulted in 703 new action items of which 609 were completed.

In 2014 the Group saw an overall positive trend in its HSE statistics. While total recordable injuries increased to 13.4 from 10.4 (per million hours worked) in 2013, there was a 23 percent decrease in lost time injuries. The number of lost time injuries for 2014 decreased to 4.0, down from 5.2 (per million hours worked) in 2013.

The average sickness rate was 1 percent for 2014, compared to 1.5 percent in 2013. The Group maintains a health and wellness program which facilitates healthy lifestyle choices and activities.

REC Silicon is committed to equal opportunity employment and practices. All employees and applicants are treated without regard to age, gender, sexual orientation, nationality, race, religion, disability, marital situation or any other protected status. Of the employees, 14 percent are women. In the management group, 12.5 percent are women, and two out of five board members are women (40 percent).

REC Silicon's policies related to equal employment, harassment and discrimination clearly state our expectations, examples of unwelcome behavior, and reporting and complaints procedures.

### Human Rights
The Group's Code of Conduct states that REC Silicon supports fundamental human rights and will abstain from participating in any business activities that may compromise human rights, including child labor and forced labor. The main risk of human rights violations is in the Group's overseas and extended supply chain.

Ethics and sustainability are part of REC Silicon's supply chain management process. The Group seeks to contract services, purchase materials, hire, and lease equipment in a manner that ensures that REC Silicon's own sustainability policies are met. The Group's standard terms and conditions require adherence to standards on human rights, freedom of association, child and forced labor, corruption, and occupational health and safety.

The Group's focus has been on implementing a standardized sourcing process and its strategic suppliers had contractual clauses or are subject to regulations regarding respect for human rights in 2014. The Group completed two on-site audits and four self-directed audits in 2014, where suppliers were asked to document their policies and performance related to human rights, labor rights, anti-corruption and environmental protection. For 2015, REC Silicon has 4 on-site audits scheduled. There were no human rights violations reported in 2014.

### Anti-Corruption
REC Silicon sets high standards of integrity and believes that a sound business must be based on value-based management and clear guidelines on ethics and sustainability. The Code of Conduct, the Anti-Corruption Policy, and related procedures describe the behavior expected of our employees.

REC Silicon operates in a challenging business environment. The Code of Conduct and the Anti-Corruption Policy are backed by procedures that give practical guidance to help employees in their day-to-day work. Every employee is required to sign the Code of Conduct to acknowledge their commitment to adherence. New employees receive training on the Code of Conduct, including information about REC Silicon's anti-corruption policies and procedures.

REC Silicon investigates all potential integrity concerns and cooperates fully with the authorities. The Group takes every accusation of corruption seriously, performs thorough investigations, reports to the Board of Directors, and takes the necessary actions. No adverse action will be taken against an employee due to complaints submitted in good faith. Complaints can be made anonymously.

No incidents of corruption were reported in 2014.

### Local Communities
REC Silicon is a key player in the communities of Moses Lake and Butte, and regularly gives to good causes. REC Silicon and its employees donated approximately USD 200 thousand and over 2,000 volunteer hours to community partnership projects and charitable organizations in 2014.

Partnership projects in 2014 included the "Solar Races and Energy Science Days" as well as mentoring for area schools. REC Silicon provided donations and volunteer time to organizations including American Cancer Society's Relay for Life, United Way, youth organizations, and area food banks.

## OUTLOOK
### Market Outlook
Third party indices continue to project increased global PV demand. The resulting increased demand for polysilicon is expected to drive continued improvements to market balance 2015. In addition, limited capacity additions and asset rationalization should support price increases in the second half of 2015.

In 2015, industry analysts are estimating global PV demand in the range of 53 to 57 GW, compared to an estimated 38 to 42 GW in 2014. The large range is expected to cause persistent uncertainty regarding the supply and demand balance for solar grade polysilicon and demand is expected to build through 2015.

Silicon gas market forecasts project continued strong growth in demand in 2015, driven by Crystalline PV Cells, Flat Panel Displays, and semiconductor industries. REC Silicon intends to defend market share gains realized during 2014 and expects sales volumes to increase by 7 percent.

### Production Targets

Full year 2015 production targets as well as the actual full year 2014 production figures are summarized in the table below.

| POLYSILICON PRODUCTION VOLUME MT | 2014 ACTUAL | 2015 TARGET |
|---|---|---|
| Granular | 15 929 | 16 300 |
| Semiconductor Grade | 1 313 | 1 300 |
| Siemens Solar | 1 552 | 1 700 |
| Total | 18 794 | 19 300 |
| | | |
| Silicon Gas Sales Volume | 3 428 | 3 700 |

Annual polysilicon production volume is targeted at 19,300 MT, an increase of 3 percent compared to 2014. This increase is primarily due to shorter silane outages in 2015.

Production and sales achieved during 2015 will be dependent on the development of market conditions and operational performance.

### Cost Targets

FBR cash production costs targets for 2015 reflect higher raw material input prices offset by lower repair costs and higher volumes due to shorter maintenance outages compared to 2014.

| CASH PRODUCTION COST | 2014 ACTUAL | 2015 TARGET |
|---|---|---|
| FBR Cash Cost (USD/kg) | 12.1 | 12.5 |

### Investment and Expansion

For 2015, capital expenditures are expected to be approximately USD 85 million and include USD 60 million for capacity expansion initiatives in Moses Lake and Butte.

| CAPITAL EXPENDITURES (USD MILLIONS) | 2014 ACTUAL | 2015 TARGET |
|---|---|---|
| Maintenance | 22 | 25 |
| Expansion | 14 | 60 |
| Total CapEx | 36 | 85 |

## FORWARD LOOKING STATEMENTS

This report contains statements regarding the future in connection with the Group's growth initiatives, profit figures, outlook, strategies and objectives. In particular, the section "Outlook" contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual results and developments deviating substantially from what has been expressed or implied in such statements. These factors include the risk factors relating to REC Silicon's activities described in section risk factors above.

Fornebu, April 15, 2015

Espen Klitzing
Member of the Board

Jens Ulltveit-Moe
Chairman of the Board

Ragnhild Wiborg
Member of the Board

Erik Løkke-Øwre
Member of the Board

Inger Berg Ørstavik
Member of the Board

Tore Torvund
President and CEO

# STATEMENT OF COMPLIANCE

The Board of Directors and the Chief Executive Officer (CEO) have today considered and approved the report from the Board of Directors and CEO, the financial statements for the Group and for the parent company REC Silicon ASA (the Company) for the year ending December 31, 2014.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements as stated in the Norwegian Accounting Act that are applicable at December 31, 2014. The financial statements for the Company have been prepared in accordance with the Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway that are applicable at December 31, 2014. The report from the Board of Directors and CEO, including the report on corporate governance, for the Group and the Company has been prepared in accordance with the Norwegian Accounting Act and the Norwegian Accounting Standard no. 16 applicable at December 31, 2014.

We confirm that, to the best of our knowledge:

- The financial statements for the Group and the Company for the year ending December 31, 2014 have been prepared in accordance with applicable accounting standards, and
- The information in the financial statements gives a true and fair view of the Group's and the Company's assets, liabilities, financial position, and results of operations for the year ending December 31, 2014, and
- The report from the Board of Directors for the year ending December 31, 2014 includes a fair review of:
  - The development, results of operations and position for the Group and the Company, and
  - The principal risks and uncertainties for the Group and the Company.

Fornebu, April 15, 2015

Espen Klitzing
Member of the Board

Jens Ulltveit-Moe
Chairman of the Board

Ragnhild Wiborg
Member of the Board

Erik Løkke-Øwre
Member of the Board

Inger Berg Ørstavik
Member of the Board

Tore Torvund
President and CEO

# BOARD OF DIRECTORS' REPORT ON CORPORATE GOVERNANCE

REC Silicon ASA (the "Company") and its subsidiaries (together REC Silicon Group/the Group), endorses the Norwegian Code of Practice for Corporate Governance (Code of Practice) issued by the Norwegian Corporate Governance Board. The latest amendments to the Code of Practice (last revised October 30, 2014) are also incorporated into the reporting requirements of the Accounting Act.

**1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE**
The Board has adopted the following report that explains how the Group meets the requirements of the Code of Practice and the Accounting Act. The application of the Code of Practice is based on the "comply or explain" principle and deviations from the code, if any, will be explained.

REC Silicon Group deviated from the recommendations in the Code of Practice on three sections in 2014. These deviations pertained to; Nomination Committee's independency and arrangements for shareholders to submit candidate proposals for the Board (Section 7); separate proxy voting for candidates to the Board (Section 6); and separate regulations for takeover bids (Section 14).

**Corporate Values, Code of Conduct and Corporate Social Responsibility**
REC Silicon's vision is to be a global leader in silane-based, high-purity silicon materials. The Group's objective is long-term value creation for its shareholders.

The Group believes sound business must be based on value-based management and clear guidelines on ethics and sustainability.

The Group's ethical values and corporate social responsibility are described in the Code of Conduct and other Group policies on sustainability. The Code of Conduct includes requirements for compliance with laws, ethical behavior and professional integrity for all employees and board members of the Company and its subsidiaries. The Code of Conduct is available on the Company's website at www.recsilicon.com.

In addition, the Group has adopted the following policies:

- Anti-Corruption policy
- Business conduct policy
- Safety and health policy
- Quality and improvement policy
- Environment and climate policy

The Corporate Governance principles, the Code of Conduct and the group policies have been adopted by the Board and are reviewed on a regular basis. Employees can access these polices and principles on the Group's internal website.

**2. BUSINESS**
The purpose of the Company is described in the Articles of Association § 3:

"The Company's purpose is development and sale of products and services related to renewable energy sources, and to perform other financial operations related to such. The Company may, through subscription of shares or in any other ways, including granting of loans, acquire interests in other companies with identical or similar purposes".

The Group believes the solar industry plays a key role as a long-term supplier of sustainable energy and its business is focused on the production of polysilicon and silicon gases for the solar and electronics industries. To make solar electricity competitive with traditional energy sources, the Group focuses on cost reduction and improvements to products. This should be achieved through introduction of new process and product technologies as well as continuous productivity improvement and technology development. The Group's strategies and business goals are presented in the annual report, quarterly reports, and at various investor meetings.

**3. EQUITY AND DIVIDENDS**
The Groups consolidated equity was USD 1,054.4 million on December 31, 2014, which was equivalent to approximately 72 percent of total assets.

The Board considers the Group's capital structure appropriate for the current objectives, strategy, and risk profile. Reference is also made to note 3.3 to the consolidated financial statements regarding capital structure and financing and to the report of the Board of Directors.

The Group's ambition is to give its shareholders a high and stable return on their investment and to be competitive compared with alternative investment opportunities with comparable risk.

To support committed investments and productivity improvements, the Board's view so far has been that retained earnings should be put to profitable use within the Company. Accordingly there has been no distribution of dividends to the shareholders since the Company was publicly listed in 2006.

The Board of Directors did not propose any dividend payments for the financial year 2014.

The Board will continue to assess the capital structure based on the goals and strategies and the financial situation of the Company.

At the Annual General Meeting (AGM) on May 12, 2014, the Board was granted the following authorities:

- Authority to acquire treasury shares in the Company (up to a maximum of ten percent of the face value of the share capital)
- Authority to increase the share capital (up to ten percent of the existing share capital).

These authorities are restricted to defined purposes and each mandate was considered separately. They are valid until the AGM in 2015 or no later than 15 months from the date of the 2014 AGM.

For further information about the mandates given to the Board, reference is made to the minutes from REC Silicon's 2014 Annual General Meeting dated May 12, 2014 which are available on the Company's website (www.recsilicon.com).

**4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES**

REC Silicon ASA has one class of shares and each share confers one voting right at the General Meetings. The Articles of Association contain no restrictions on voting rights. The Company seeks to conform to the principles for equal treatment of shareholders and is generally cautious in transactions with shareholders, members of the Board of Directors, Group Management, or other related parties.

The Group did not acquire any of its own shares in 2014.

The Board has adopted guidelines to ensure that they will be informed of possible interests of Board members or members of Group Management or close associates in any transaction or matter dealt with by the Board, as well as guidelines for handling of such situations. The Board must review and approve all transactions between the Group and Group Management or the Board of Directors.

During 2014, Board member Erik Løkke-Øwre invoiced USD 145 thousand to REC Silicon for consultancy work. This work was approved in advance and is reviewed on a regular basis by the Board of Directors.

There were no other agreements in 2014 between the Group and its shareholders, directors, Group Management or other related parties that could be described as a material transaction.

**5. FREELY NEGOTIABLE SHARES**

The Company is listed on the Oslo Børs. All shares are without any restrictions and are freely tradable.

**6. GENERAL MEETINGS**

The General Meeting is the Company's highest authority. All shareholders are guaranteed participation and the opportunity to exercise their rights. The Annual General Meeting (AGM) has adopted the Articles of Association, where the notice period, right to attend and agenda proposals are regulated. The Board, auditor, or shareholders representing at least 5 percent of the shares can call for Extraordinary General Meetings when deemed necessary.

According to the Articles of Association, the AGM is to be held by the end of June every year. The AGM is to be held in the municipality where the Company has its registered business address or in Oslo. The 2015 Annual General Meeting is scheduled for May 6 in Oslo.

The notice of the General Meeting and supporting documents are made available on the Company's website no later than three weeks prior to the date of the meeting. Shareholders may however request the documents by mail.

Efforts are made to ensure that proposed resolutions and supporting information are sufficiently detailed and comprehensive to allow the shareholders to form a view on all matters to be considered at the meeting. The notice includes information about shareholders' rights.

Shareholders wishing to participate at the General Meeting shall notify the Company within a specific time limit. The time limit cannot expire earlier than five days prior to the General Meeting. Shareholders who have not given notice within the time limit may be denied participation at the meeting. Shares must be registered by the fifth business day prior to the date of the meeting in order to exercise rights to attend and vote at the General Meeting. Registration of attendance may be done by mail, e-mail, or via the Company's website.

Separate voting on each candidate for election to the Board and nomination committee is offered at the general meeting.

Shareholders are entitled to request that specific matters be placed on the agenda of a general meeting by giving written notice to the Board within seven days prior to the time limit for notice of the general meeting together with a proposal for resolution and reasons why the matter is proposed for consideration. If the notice has already been distributed, a new notice shall be distributed if the time limit for notice to the general meeting has not expired.

Shareholders who cannot attend the General Meeting may vote by proxy. They may elect a proxy of their choice, and the Company also nominates a person that shareholders may elect as a proxy. Information about the procedures shareholders must observe to participate and vote is given together with the notice of the meeting. A proxy form is prepared in a way that allows separate voting instructions to be given for each matter considered.

The Articles of Association allow the Board to accept written advance votes subject to the existence of a satisfactory method for verifying the identity of the shareholder. The Articles of Association also allow the Board to accept votes cast through electronic communication. So far, no satisfactory solutions for written advance votes and electronic voting have been established, but the Board will continue to evaluate any solutions that become available.

The Chairman of the Board, the Board members, the auditor, and the members of the Nomination Committee are normally present at the General Meeting. All Board members are encouraged to participate at the meeting.

The General Meeting is opened by the Chairman of the Board who nominates an independent chair for election to lead the meeting.

The minutes of General Meetings are made available on the Company's website shortly after the meeting is completed.

Deviation from the Code of Practice:
The Code recommends that separate proxy voting for candidates to the Board be available for shareholders who are unable to attend the AGM in person. However, it is not possible to vote separately on each candidate nominated to the Board by way of proxy because the composition of the Board must be in accordance with applicable legislation regarding gender representation and qualifications for committee assignments. The nomination committee's proposal is given with respect to such legislation. Should a situation arise where the composition of the Board might conflict with applicable legislation, the situation and consequences of electing a board contrary to legislation should be discussed at the General Meeting and shareholders should base their votes on the views discussed.

**7. NOMINATION COMMITTEE**
The Articles of Association provide for a Nomination Committee consisting of three members. The members are elected by the AGM for a term of two years and the general assembly appoints the chair of the Committee. The remuneration of the Nomination Committee is decided by the AGM. The Nomination Committee makes proposals to the AGM for members to be elected to the Nomination Committee.

The Nomination Committee presents recommendations to the General Meeting regarding election of shareholder-elected members to the Board and the remuneration for members of the Board. The Committee's recommendations provide relevant information of the candidates, and are based on consultations with the largest shareholder groups of the Company.

The Nomination Committee examines the annual report by the Board of Directors on the evaluation of its own work and takes its contents into consideration when making its recommendations on board composition. The Committee also consults with the CEO, the Chairman of the Board, the shareholder-elected Board members and the largest shareholders of the Company before submitting its proposals.

The Nomination Committee presents and provides the basis for the proposals by the Committee at the General Meeting and also reports on how its work has been carried out during the past year. The rules of procedure do not establish rules for rotation of the members of the Nomination Committee. The current members of the Nomination Committee are Mr. Rune Selmar (chair), Ms. Live Haukvik Aker, and Ms. Karen Helene Ulltveit-Moe.

Deviation from the Code of Practice:
The Code recommends that the members of the Nomination Committee are independent of the Board. However, in 2014 Ms. Karen Helene Ulltveit-Moe, wife of largest shareholder and chair of the Board Mr. Jens Ulltveit-Moe, was elected member of the Nomination Committee. The Code further recommends that the company arrange for shareholders to submit proposals to the Nomination Committee for candidates to the Board of Directors and other appointments. By the end of 2014, the Company has however not made any such arrangements.

**8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE**
The Company does not have a corporate assembly.

The Board consists of between five and twelve directors (five directors as of December 31, 2014). Up to eight are elected by the shareholders. Board members elected by the shareholders are elected for a term of one year.

The directors are presented in the Annual Report with information about education and experience. Currently two of the five shareholder-elected members are women.

All members of the Board are independent of Group Management. A majority of the Board members are independent of material business contacts.

The following three Board members are independent of the Company's main shareholders:

- Erik Løkke-Øwre
- Ragnhild Wiborg
- Inger Berg Ørstavik

The Board elects a Chairman according to the Articles of Association and the Public Limited Liability Companies Act § 6-1 (2).

Board members are encouraged to acquire shares with due consideration to the requirements of the Securities Trading Act and Company procedure for primary insiders. The Company assists Board members compliance with mandatory disclosure obligations. Primary insiders should abstain from short-term transactions in financial instruments, and that they should apply due care and diligence with regard to ownership periods.

**9. WORK OF THE BOARD OF DIRECTORS**

The Board has the ultimate responsibility for the management of the Company and the Group and for supervising management.

The Board has adopted an annual plan for work with respect to fixed items. Other items are added as required. The Board held 10 board meetings in 2014 which were well attended by all Board members with limited absences.

The Board has adopted "Rules of procedures for the Board of Directors". The rules describe Board responsibilities, duties and administrative procedures as well as the tasks and duties of the Chief Executive Officer. The Board has also adopted a Chart of Authority regulating matters that are to be decided by the Board and matters that may be decided by Group Management. The Chart of Authority distinguishes between investment decisions, customer contracts, procurement contracts, compensation, and finance and is reviewed on an annual basis. The Board holds at least one meeting per year with the auditor and without any members of Group Management or administration present.

The Board engages a third party consultant to evaluate the performance of the Board of Directors. This evaluation is based upon interviews with members of the Board and members of management that interact with the Board. The evaluation is designed to measure Board performance in its entirety and be reflective of best practices in governance. The results of this evaluation are provided to the Chairman of the Board of Directors and incorporated in the work of the Board of Directors as appropriate.

The Board has established two committees – an Audit Committee and a Compensation Committee.

**Audit Committee**

The Audit Committee consists of two members of the Board both of which are independent of Group Management. The Committee collectively has the competence required in the Public Limited Liability Companies Act § 6-42. Both members are independent according to § 6-42 Public Limited Liability Companies Act, and both members have the required qualifications within accounting and auditing.

The Committee supports the Board with respect to the assessment and control of financial risk, financial reporting, auditing, control, and prepares discussions and resolutions for Board meetings. It has no decision making authority. In addition, under the whistleblower procedure, complaints from employees and other concerned parties are received and followed up by the Committee. The Chief Financial Officer participates in the meetings of the Audit Committee. The Committee holds at least one meeting per year with the auditor and without the Chief Financial Officer or any other members of the Group Management and administration present.

The Audit Committee held 6 meetings in 2014 and has been in regular contact with the Company's auditor regarding audits of the statutory accounts and it also assesses and monitors the auditor's independence, including non-audit services provided by the auditor.

The Committee makes recommendations to the Board with respect to appointment, retention and termination of the Group's auditor as well as the auditor's fees. The Committee reviews complaints regarding accounting, internal controls, and auditing matters.

The tasks and rules of procedure of the Audit Committee are further regulated in the Audit Committee Charter.

The audit committee members are currently Ms. Ragnhild Wiborg (chair) and Mr. Espen Klitzing.

**Compensation Committee**

The Compensation Committee consists of two members of the Board which are independent of the executive management. The Committee supports the Board by preparing resolutions on the terms and conditions of employment for the Chief Executive Officer and the general principles and strategies for compensation of Group Management including bonus and share based compensation as well as other personnel matters. It also makes recommendations to the Board on employee share purchase programs.

The tasks and procedures of the Compensations Committee are further regulated in the Compensation Committee Charter.

The Compensation Committee members are currently Mr. Erik Løkke Øwre and Ms. Inger Ørstavik.

**10. RISK MANAGEMENT AND INTERNAL CONTROL**

The Group's risk management system shall ensure that the Group has a systematic and uniform approach to risk management. The system defines roles, responsibilities, processes and procedures, standards, tools and documentation. Group Management sets the context in which risks are managed and supervises the risk management process.

Group Management performs separate risk evaluations based on a top-down approach. Risk assessments are presented to the Audit Committee and the Board of Directors. The Board performs a review of risks in connection with the approval of the annual budget.

Group Management generates a monthly report which is provided to the Board of Directors as requested. This report includes operational reviews, HSE (Health, Safety and Environment) measures, financial highlights and key performance indicators. Prior to each Board meeting, the CEO prepares a report to the Board of Directors which includes information from monthly management report in addition to any items requested by Board members and items requiring action by the Board of Directors.

Because the Group operates internationally, it is required to comply with numerous national and international laws and regulations. All business activities and processes must be conducted in accordance with laws, and regulations.

To strengthen internal control, the Group has established an Anti-Corruption Policy and procedures, provided training to employees and managers, and performed a fraud risk assessment. Whistleblower complaints and other internal control activities are presented to the Audit Committee according to the Audit committee charter.

To ensure consistent financial reporting throughout the Group, financial information is reported through a computerized financial reporting system which utilizes a common chart of accounts and procedures designed to ensure the consistency of information reported. Subsidiaries accumulate transactional information, period end balances, and performance statistics through ERP systems designed to meet the business requirements of each operation. Quarterly and year end reporting processes are expanded to meet various supplementary requirements.

The quarterly and yearly reporting process and significant accounting and reporting issues are discussed with the Audit Committee in the presence of the external auditor.

The Group's financial risk management is described in note 3 to the consolidated financial statements. Reference is also made to the Board of Directors' report that includes an analysis of the financial statements and the risk factors.

**11. REMUNERATION OF THE BOARD OF DIRECTORS**

The members of the Board receive remuneration in accordance with their individual roles. Board members who participate in the Audit Committee or the Compensation Committee receive additional compensation.

Board remuneration is not linked to Company performance and members are not granted share options. During 2014, the Board member Erik Løkke-Øwre invoiced USD 145 thousand to REC Silicon for consultancy work. No other shareholder-elected members have taken on specific assignments in addition to their appointment as members of the Board.

Details on the remuneration of the Board of Directors are disclosed in note 16 to the consolidated financial statements.

**12. REMUNERATION OF THE GROUP MANAGEMENT**

The Board determines remuneration of the Chief Executive Officer.

Group Management remuneration has been established according to guidelines from the Board. The Board presented its policy on the remuneration of Management at the AGM in May 2014. The general meeting approved the policy.

The Board of Directors statement regarding compensation of leading employees has been included in note 16 to the consolidated financial statements.

The remuneration of the Group Management consists of a basic salary, relevant fringe benefits and membership in the company's pension and insurance schemes. The remuneration also includes performance bonuses for selected individuals based on annual performance-related compensation system. In addition, the Board has adopted an incentive program for keeping key personnel.

The performance bonuses are linked to the Group's financial performance and defined KPI's over time and includes incentives related to performance employees can influence. There are absolute limits for the performance-related remuneration, where maximum performance bonus payout for the management varies between 33-100 percent of the yearly fixed base salary. In addition, retention bonus agreements have been entered into with certain leading employees, where they will receive a onetime bonus payment equal to 3-6 months fixed base salary if they stay in their positions until 31 December 2014.

In 2014, the Board further adopted a long-term incentive program for keeping key personnel, whereby employees' entitlements are linked to the share price development of the Company's shares. Details on the features and awards made under this plan are disclosed in note 32 to the consolidated financial statements.

At the AGM in 2014, the general assembly voted separately on the compensation to leading employees and the statement regarding incentive plans.

Details on the remuneration of the Chief Executive Officer and other members of Group Management are disclosed in note 16 to the consolidated financial statements.

**13. INFORMATION AND COMMUNICATION**

The Company treats its investors equally. Timely information is published simultaneously to all investors in accordance with applicable legislation and regulation in order to provide the best possible basis for evaluation of Company performance.

The Board has adopted an IR policy specifying, among other things, who is entitled to speak on behalf of the Company on various subjects and with guidelines for the Company's contact with shareholders other than through General Meetings.

Presentations that are open to the public are conducted in connection with quarterly reports and are made available through a webcast. The Chief Executive Officer and the Chief Financial Officer normally participate in quarterly presentations. The Investor Relations Officer participates at the quarterly presentations. Furthermore, the Company keeps an ongoing dialogue with its investors and makes presentations to analysts and investors through various conferences and events.

The Company observes a "Silent Period" extending from the last day of the quarter until operating results are released publicly. During this period, Group Management is not available for discussions with investors or analysts. Investor relations is available on a limited basis to provide material previously released and to facilitate the collection and distribution of consensus forecasts.

The Investor Relations (IR) function is in charge of coordinating the Company's communications to the market and to existing and potential investors of the Company. The Investor Relations Officer reports to the Chief Executive Officer.

The annual report is sent to shareholders on request. The annual and quarterly reports, Stock Exchange announcements, presentations, and the financial calendar are published on the Company's website.

Each year the Company publishes a financial calendar indicating the publication dates of interim reports and the date of the Annual General Meeting. The calendar is available on the Company's website at www.recsilicon.com.

## 14. TAKE-OVERS

The Company has no defense mechanism to prevent take-over bids. The Board is open to initiatives that are commercially and financially attractive for the shareholders. The Board assesses potential offers in accordance with applicable legislation and Code of Conduct requirements in due course.

Any transaction that effectively constitutes a disposal of a majority of the Company's activities will be decided by the General Meeting.

Deviation from the Code of Practice:
The Board has not established separate guidelines in the event of a take-over bid as recommended by the Code of Practice. These guidelines are being developed and will be evaluated by the Board for adoption.

## 15. AUDITOR

The Company's external auditor is independent from the Company and is elected by the AGM.

The auditor participates at Board meetings with respect to the Annual Financial Statements and provides comments related to the accounting principles and the Financial Statements. The auditor comments on any material changes in the Company's accounting principles, material estimates used to calculate accounting figures, and reports disagreements between the auditor and Group Management.

The auditor presents the most significant identified weaknesses and proposals for improvements of the internal control procedures annually to the Board with an annual confirmation that the auditor had satisfied the requirements for independence together with a summary of all services provided to the Group. The auditor meets with the Audit Committee and the Board once a year without the Chief Executive or any other member of the Group Management present.

The auditor participates in meetings of the Audit Committee and presents the main features of audit plan to the Committee.

Remuneration of the auditor is approved by the AGM. The auditor provides a break-down between audit and non-audit services, and the AGM is given information about non-audit services provided by the auditor. The Board has issued guidelines regarding Group Management's use of the auditor for services other than audit.

The auditor participates at the AGM and presents the independent auditor's report.

FINANCIAL STATEMENTS

# REC SILICON GROUP & REC SILICON ASA

## REC SILICON GROUP



## REC SILICON ASA

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION REC SILICON GROUP

| (USD IN MILLION) | NOTES | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill | 6,7 | **0.0** | 0.0 |
| Other intangible assets | 6 | **24.2** | 18.0 |
| Intangible assets | 6 | **24.2** | 18.0 |
| Land and buildings | 6 | **74.6** | 79.3 |
| Machinery and production equipment | 6 | **839.9** | 962.7 |
| Other tangible assets | 6 | **20.9** | 24.0 |
| Assets under construction | 6 | **35.3** | 11.4 |
| Property, plant and equipment | 6 | **970.6** | 1 077.4 |
| Government grant assets | 12 | **116.7** | 113.3 |
| Other non-current receivables | 12 | **8.7** | 9.7 |
| Derivatives | 11 | **0.0** | 15.3 |
| Restricted bank accounts non-current | 14 | **4.1** | 6.4 |
| Financial assets and prepayments | | **12.8** | 31.4 |
| Deferred tax assets | 18 | **0.0** | 0.0 |
| Total non-current assets | | **1 124.4** | 1 240.1 |
| **Current assets** | | | |
| Inventories | 13 | **128.2** | 95.2 |
| Trade and other receivables | 12 | **124.1** | 114.8 |
| Current tax assets | 18 | **0.0** | 3.4 |
| Current derivatives | 11 | **0.0** | 4.4 |
| Restricted bank accounts | 14 | **1.1** | 5.1 |
| Cash and cash equivalents | 14 | **96.4** | 61.6 |
| Total current assets | | **349.8** | 284.6 |
| Total assets | | **1 474.2** | 1 524.6 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
# REC SILICON GROUP

| (USD IN MILLION) | NOTES | 2014 | 2013 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Paid-in capital | | **3 115.3** | 3 115.3 |
| Other equity and retained earnings | | **-2 060.9** | -2 159.3 |
| Total shareholders' equity | | **1 054.4** | 956.0 |
| | | | |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | 19 | **18.4** | 14.3 |
| Deferred tax liabilities | 18 | **94.1** | 90.6 |
| Investments in associates | 8 | **22.4** | 0.0 |
| Derivatives | 11 | **2.0** | 5.1 |
| Non-current financial liabilities, interest bearing | 17 | **190.4** | 225.1 |
| Non-current prepayments, interest calculation | 20 | **3.2** | 6.7 |
| Other non-current liabilities, not interest bearing | | **0.1** | 0.0 |
| Total non-current liabilities | | **330.5** | 341.9 |
| | | | |
| **Current liabilities** | | | |
| Trade payables and other liabilities | 20 | **80.1** | 68.6 |
| Provisions | 20 | **0.0** | 1.4 |
| Current tax liabilities | 18 | **2.6** | 0.0 |
| Derivatives | 11 | **0.0** | 4.3 |
| Current financial liabilities, interest bearing | 17 | **-0.2** | 143.3 |
| Current prepayments, interest calculation | 20 | **6.7** | 9.1 |
| Total current liabilities | | **89.3** | 226.7 |
| Total liabilities | | **419.8** | 568.6 |
| | | | |
| Total equity and liabilities | | **1 474.2** | 1 524.6 |

Fornebu, April 15, 2015

Espen Klitzing
Member of the Board

Jens Ulltveit-Moe
Chairman of the Board

Ragnhild Wiborg
Member of the Board

Erik Løkke-Øwre
Member of the Board

Inger Berg Ørstavik
Member of the Board

Tore Torvund
President and CEO

# CONSOLIDATED STATEMENT OF INCOME REC SILICON GROUP

| (USD IN MILLION) | NOTES | 2014 | 2013 |
|---|---|---|---|
| Revenues | 5 | 493.0 | 417.6 |
| Cost of materials | | -99.7 | -106.8 |
| Changes in inventories | | 29.2 | 16.4 |
| Employee benefit expenses | 24 | -93.5 | -105.9 |
| Other operating expenses | 22 | -197.0 | -189.1 |
| Other income and expenses | 23 | 101.0 | 18.6 |
| EBITDA | | 232.9 | 50.7 |
| Depreciation | 6 | -131.9 | -125.2 |
| Amortization | 6 | -2.5 | -2.4 |
| Impairment | 6,7 | -4.3 | -9.2 |
| Total depreciation, amortization and impairment | | -138.8 | -136.8 |
| EBIT | | 94.1 | -86.1 |
| Share of profit/loss of investments in associates | 3 | -0.6 | 0.0 |
| Financial income | 25 | 4.6 | 7.6 |
| Net financial expenses | 25 | -24.2 | -57.6 |
| Net currency gains/losses | 25 | 131.8 | 39.5 |
| Net gains/losses derivatives and fair value hedge | 25 | -1.5 | -36.0 |
| Fair value adjustment convertible bonds | 25 | 14.6 | -112.2 |
| Net financial items | | 125.3 | -158.8 |
| | | | |
| Profit/loss before tax from continuing operations | | 218.8 | -244.8 |
| | | | |
| Income tax expense/benefit from continuing operations | 18 | -5.4 | 84.8 |
| Profit/loss from continuing operations | | 213.4 | -160.0 |
| | | | |
| Profit/loss from discontinued operations, net of tax [1] | 9 | -0.6 | -192.7 |
| Profit/loss from total operations | | 212.8 | -352.7 |
| | | | |
| **Attributable to:** | | | |
| Owners of REC Silicon ASA | | 212.8 | -352.7 |
| | | | |
| **Earnings per share (In USD)** | | | |
| **From continuing operations** | | | |
| -basic | 26 | 0.09 | -0.07 |
| -diluted | | 0.09 | -0.07 |
| | | | |
| **Earnings per share (In USD)** | | | |
| **From total operations** | | | |
| -basic | 26 | 0.09 | -0.15 |
| -diluted | | 0.09 | -0.15 |

[1] Profit/loss from discontinued operations include income and expense from Group external transactions of REC Solar and REC Wafer and net gain or loss on disposal. Discontinued operations are shown as a single amount in the statement of income for the Group. This re-presentation does not represent the activities or indicate the profit earned or loss incurred by continuing or discontinued operations as if they were standalone entities, for past periods or likely to be earned in future periods. See note 9.

EBITDA is earnings before financial items, income taxes, depreciation, amortization and impairment.

EBIT is earnings before net financial items and income taxes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME REC SILICON GROUP

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Profit/loss for the period | 212.8 | -352.7 |
| Other comprehensive income, net of tax: | | |
| Items that will not be reclassified to profit or loss: | | |
| Remeasurement of defined benefit plans | -0.1 | 4.1 |
| Currency translation effects | -139.5 | -41.2 |
| Sum items that will not be reclassified to profit or loss | -139.6 | -37.1 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation differences | | |
| - taken to equity | 25.0 | 17.7 |
| - transferred to profit/loss for the period [1)] | 0.0 | -16.6 |
| Sum items that may be reclassified subsequently to profit or loss | 25.0 | 1.1 |
| Total other comprehensive income for the period | -114.6 | -36.0 |
| Total comprehensive income for the period | 98.2 | -388.7 |
| | | |
| **Total comprehensive income for the period attributable to:** | | |
| Owners of REC Silicon ASA | 98.2 | -388.7 |

[1)] Currency translation differences transferred to profit/loss in 2013 are related to the sale of REC Solar at the end of October. The amount is included in the statement of income in the line item “profit/loss from discontinued operations, net of tax”.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY REC SILICON GROUP

| | ATTRIBUTABLE TO EQUITY HOLDERS OF REC SILICON ASA | | | | | | |
|---|---|---|---|---|---|---|---|
| (USD IN MILLION) | SHARE CAPITAL | SHARE PREMIUM | OTHER PAID-IN CAPITAL | **TOTAL PAID-IN CAPITAL** | OTHER EQUITY | COMPREHENSIVE INCOME | **TOTAL EQUITY** |
| **Year 2013** | | | | | | | |
| At January 1, 2013 | 342.7 | 2 667.5 | 41.8 | **3 052.0** | 174.2 | -1 944.5 | **1 281.8** |
| Equity share option plan | 0.0 | 0.0 | 0.0 | **0.0** | -0.3 | 0.0 | **-0.3** |
| Share issue | 34.4 | 28.9 | 0.0 | **63.2** | 0.0 | 0.0 | **63.2** |
| Total comprehensive income for the period | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | -388.7 | **-388.7** |
| At December 31, 2013 | 377.1 | 2 696.4 | 41.8 | **3 115.3** | 173.9 | -2 333.2 | **956.0** |
| **Year 2014** | | | | | | | |
| At January 1, 2014 | 377.1 | 2 696.4 | 41.8 | **3 115.3** | 173.9 | -2 333.2 | **956.0** |
| Equity share option plan | 0.0 | 0.0 | 0.0 | **0.0** | 0.1 | 0.0 | **0.1** |
| Share issue | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 0.0 | **0.0** |
| Total comprehensive income for the period | 0.0 | 0.0 | 0.0 | **0.0** | 0.0 | 98.2 | **98.2** |
| At December 31, 2014 | 377.1 | 2 696.4 | 41.8 | **3 115.3** | 174.0 | -2 235.0 | **1 054.4** |

### This table presents details of comprehensive income

| (USD IN MILLION) | TRANSLATION DIFFERENCES THAT CAN BE TRANSFERRED TO PROFIT AND LOSS | ACQUISITION | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| **Year 2013** | | | | |
| Accumulated at January 1, 2013 | -7.9 | 20.9 | -1 957.4 | **-1 944.5** |
| Loss for the period | 0.0 | 0.0 | -352.7 | **-352.7** |
| Other comprehensive income: | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Remeasurement of defined benefit plans | 0.0 | 0.0 | 4.1 | **4.1** |
| Currency translation effects | 0.0 | 0.0 | -41.2 | **-41.2** |
| Sum items that will not be reclassified to profit or loss | 0.0 | 0.0 | -37.1 | **-37.1** |
| Items that may be reclassified to profit or loss: | | | | |
| Currency translation differences taken to equity | 21.3 | 0.0 | 0.0 | **21.3** |
| Tax on currency translation differences taken to equity | -3.5 | 0.0 | 0.0 | **-3.5** |
| Currency translation differences transferred to profit/loss for the period [1] | -16.6 | 0.0 | 0.0 | **-16.6** |
| Sum items that may be reclassified to profit or loss | 1.1 | 0.0 | 0.0 | **1.1** |
| Total comprehensive income for the period | 1.1 | 0.0 | -389.8 | **-388.7** |
| Accumulated at December 31, 2013 | -6.8 | 20.9 | -2 347.2 | **-2 333.2** |
| | | | | |
| **Year 2014** | | | | |
| Accumulated at January 1, 2014 | -6.8 | 20.9 | -2 347.2 | **-2 333.2** |
| Profit/Loss for the period | 0.0 | 0.0 | 212.8 | **212.8** |
| Other comprehensive income: | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Remeasurement of defined benefit plans | 0.0 | 0.0 | -0.1 | **-0.1** |
| Currency translation effects | 0.0 | 0.0 | -139.5 | **-139.5** |
| Sum items that will not be reclassified to profit or loss | 0.0 | 0.0 | -139.6 | **-139.6** |
| Items that may be reclassified to profit or loss: | | | | |
| Currency translation differences taken to equity | 31.4 | 0.0 | 0.0 | **31.4** |
| Tax on currency translation differences taken to equity | -6.5 | 0.0 | 0.0 | **-6.5** |
| Currency translation differences transferred to profit/loss for the period [1] | 0.0 | 0.0 | 0.0 | **0.0** |
| Sum items that may be reclassified to profit or loss | 25.0 | 0.0 | 0.0 | **25.0** |
| Total other comprehensive income for the period | 25.0 | 0.0 | -139.6 | **-114.6** |
| Total comprehensive income for the period | 25.0 | 0.0 | 73.2 | **98.2** |
| Accumulated at December 31, 2014 | 18.1 | 20.9 | -2 274.0 | **-2 235.0** |

[1] Currency translation differences transferred to profit/loss in 2013 are related to the sale of REC Solar at the end of October. The amount is included in the statement of income in the line item "profit/loss from discontinued operations, net of tax".

# CONSOLIDATED STATEMENT OF CASH FLOWS TOTAL OPERATIONS REC SILICON GROUP

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/loss before tax from total operations 1) | 218.2 | -436.2 |
| Income taxes paid/received | 3.4 | -0.2 |
| Depreciation, amortization and impairment | 138.8 | 153.9 |
| Fair value adjustment convertible bond | -14.6 | 112.2 |
| Equity accounted investments, impairment financial assets, gains/losses on sale | 0.6 | -3.1 |
| Gains/losses on disposal of discontinued operations | 0.6 | 206.8 |
| Changes in receivables, prepayments from customers etc. | -3.5 | 18.7 |
| Changes in inventories | -33.0 | 3.6 |
| Changes in payables, accrued and prepaid expenses | -4.0 | -37.3 |
| Changes in provisions | -1.3 | -1.6 |
| Changes in VAT and other public taxes and duties | 3.4 | 2.2 |
| Changes in derivatives | 11.3 | 0.3 |
| Currency effects not cash flow or not related to operating activities 3) | -127.4 | -26.8 |
| Other items 2) | -104.8 | 6.3 |
| Net cash flow from operating activities | 87.7 | -1.2 |
| | | |
| **Cash flows from investing activities** | | |
| Cash proceeds for shares (incl. equity accounted investments) | 0.0 | 12.4 |
| Cash payments for shares (incl. equity accounted investments) | -75.0 | -4.3 |
| Proceeds from finance receivables and restricted cash | 5.6 | 6.8 |
| Payments finance receivables and restricted cash | 0.0 | -17.2 |
| Proceeds from sale of property, plant and equipment and intangible assets | 198.0 | 6.6 |
| Payments for property, plant and equipment and intangible assets | -35.8 | -37.4 |
| Proceeds from investment grants | 0.0 | 13.6 |
| Proceeds/payments from disposal of subsidiaries, net of cash disposed of | 0.0 | 88.5 |
| Net cash flow from investing activities | 92.8 | 69.0 |
| | | |
| **Cash flows from financing activities** | | |
| Increase in equity | 0.0 | 63.2 |
| Payments of borrowings and up-front/waiver loan fees | -143.1 | -435.8 |
| Proceeds from borrowings | 0.0 | 45.5 |
| Net cash flow from financing activities | -143.0 | -327.1 |
| | | |
| Effect on cash and cash equivalents of changes in foreign exchange rates | -2.6 | -21.7 |
| Net increase/decrease in cash and cash equivalents | 34.8 | -280.9 |
| | | |
| Cash and cash equivalents at the beginning of the period | 61.6 | 342.6 |
| Cash and cash equivalents at the end of the period | 96.4 | 61.6 |

**1) Profit / loss before tax from total operations consists of (see note 9)**

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Profit/loss before tax from continuing operations | 218.8 | -244.8 |
| Profit/loss before tax from discontinued operations | -0.6 | -191.3 |
| Profit/loss before tax from total operations | 218.2 | -436.2 |

2) In 2014, Other items includes a gain of USD 101 million due to the sale of technology to the Julin JV for which the cash flows have been reflected in investing activities (See Note 3). In 2013 Other items consist primarily of expensing of loan fees and costs related to debt financing.

3) Net currency gains in 2014 and 2013 are primarily related to changes in currency rates on intercompany loan balances between group members with different functional currencies.

# INDEX OF THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS REC SILICON GROUP

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS REC SILICON GROUP

## 1 GENERAL INFORMATION

Renewable Energy Corporation ASA was renamed REC Silicon ASA at the end of October 2013. At the same time the segment REC Solar was sold.

References to the "Company" denote Renewable Energy Corporation ASA and then REC Silicon ASA subsequent to October 2013. The Company and its subsidiaries (together, "REC Silicon Group" or "Group") have a presence in the international solar energy industry. Subsequent to the sale of REC Solar in October 2013, Group operations are focused on the production of polysilicon and silicon gases for the solar and electronics industries.

Prior to the sale of REC Solar, the Group was also engaged in the manufacture of wafers, cells, and solar panels, and the development of PV systems.

References to "REC Silicon", "REC Solar", or "REC Wafer" denote the segments defined in note 5 below.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fornebuveien 84, Lysaker.

These consolidated financial statements have been approved for issue by the Board of Directors on April 15, 2015 and are subject to approval by the Annual General Meeting on May 6, 2015.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

**2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE**
The financial statements are presented in USD, rounded to the nearest tenth of million, unless otherwise stated. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements and notes may not add up to the total of that row or column.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), relevant interpretations, and the Norwegian Accounting Act. The consolidated financial statements have been prepared under the historical cost convention, as modified by impairment of some assets, the revaluation of derivative instruments, and convertible bonds measured at fair value as well as fair value adjustments of parts of the fixed interest rate bonds.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Actual outcomes may differ substantially. It also requires management to exercise judgment in applying the Group's accounting policies. Areas involving a high degree of judgment or complexity, and areas where assumptions and estimates have a significant impact are disclosed in note 4.

**2.2 CONSOLIDATION**
**(A) Subsidiaries**
Subsidiaries are entities controlled by the Group. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date control is obtained until the date that control ceases.

All subsidiaries are owned 100 percent and there are no non-controlling interests.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

**(B) Joint arrangements**
A joint arrangement is an arrangement where two or more parties have joint control. Joint control exists only when decisions require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for by the equity method of accounting.

**(C) Associates**
Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for by the equity method of accounting.

**2.3 SEGMENT REPORTING**
An operating segment is a distinguishable component of the Group that is engaged in providing products that are subject to similar risks and returns and corresponds to management reporting. Following the sale of REC Solar in October 2013, there is only one operating segment; REC Silicon, as well as Other.

Management is headed by the Chief Executive Officer (CEO) who is regarded as the chief operating decision maker.

## 2.4 FOREIGN CURRENCY TRANSLATION

### (A) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is NOK. Because continuing operations are primarily in USD, the Group changed reporting currency from NOK to USD in 2014. Accordingly, these consolidated financial statements are presented in USD and all comparable historical periods have been translated to USD.

### (B) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates on the reporting date. Foreign exchange gains and losses resulting from the settlement or the translation of monetary assets and liabilities are recognized in the statement of income, except when deferred in equity as qualifying cash flow hedges, qualifying net investment hedges or as a part of a net investment.

### (C) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate;

(ii) Income and expenses for each statement of income are translated at average exchange rates for the reporting period (based on monthly average rates); and

(iii) All resulting exchange differences from translation are recognized as a separate component of other comprehensive income (OCI).

On consolidation, exchange differences arising from the translation of the net investment in subsidiaries, including monetary items that are regarded as a part of the net investment, and of borrowings and other currency instruments designated as hedges of such investments, are included in OCI. When a subsidiary is disposed, exchange differences are recognized in the statement of income as part of the gain or loss on sale. At December 31, 2014 or 2013 the Group did not hold any instruments accounted for as net investment hedges. At December 31, 2014 and 2013, an intercompany loan to REC Silicon, Inc. of USD 132 million was regarded as a part of the net investment in REC Silicon Inc.

## 2.5 CURRENT/NON-CURRENT

An asset/liability is classified as current when it is expected/due to be realized or settled within 12 months after the reporting date.

## 2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and un-reversed impairment losses. Cost includes expenditures that are directly attributable to the acquisition, construction or installation of the item. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Costs are included in an asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and costs can be measured reliably.

Depreciation is calculated using the straight-line method based on the costs of the assets less any residual value over their estimated useful lives.

## 2.7 INTANGIBLE ASSETS

### (A) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets. Goodwill is carried at cost less accumulated impairment losses. Goodwill related to equity accounted investments is included in the carrying value of investments. At December 31, 2014 and 2013 the Group had no goodwill.

### (B) Other intangible assets

Other intangible assets that have finite useful lives are carried at cost less accumulated amortization and un-reversed impairment losses. Amortization is calculated using the straight-line method on the costs of assets over their estimated useful lives from the date they are available for use. The Group has no intangible assets with indefinite useful lives.

### (C) Research and development

Research expenditures are recognized in expense as incurred. Development expenditures (relating to the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes or systems) are capitalized when it is probable that the project will be successful considering its commercial and technological feasibility. Costs expensed in prior reporting periods are not later capitalized. Other development expenditures are recognized in expense as incurred.

## 2.8 IMPAIRMENT OF ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized in the statement of income for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which cash inflows that are largely independent from the cash inflows from other assets can be identified (cash-generating units). Generally, any impairment is allocated to goodwill first, then proportionately to other non-current assets within a cash-generating unit. Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment includes losses associated with assets determined to have no future economic benefits and assets that are replaced prior to the end of their useful lives.

**2.9 FINANCIAL ASSETS**

Financial assets are classified in the following categories: at fair value through profit or loss, and loans and receivables. Classification depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

For the years ended December 31, 2014 and 2013, the Group had no available-for-sale financial assets and no held-to-maturity financial assets.

For the years ended December 31, 2014 and 2013, the Group had only derivatives in the category financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost, which for current receivables approximates historical cost.

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

**2.10 ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

Derivatives are recognized at fair value on the date a derivative contract is entered into and are subsequently measured for changes in fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative unless the Group has the intention and ability to settle the contracts net. The method of recognizing resulting gains or losses depends on whether the derivative is designated and qualifies as a hedging instrument and the nature of the item being hedged. Derivatives are categorized as held for trading unless they are designated and qualify as hedging instruments. At December 31, 2013, the Group held derivative financial instruments to hedge a portion of its risks associated with interest rate and foreign currency fluctuations. These derivative financial instruments were settled in the first quarter of 2014.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. No embedded derivatives are separated.

The Group applied fair value hedge accounting to the NIBOR interest portion of the fixed rate NOK bonds (hedge items) using interest rate derivatives. The changes in fair value of the part of the fixed interest bond relating to NIBOR, as well as the derivatives were recognized to profit or loss in financial items. In connection with a partial buyback of NOK bonds in November 2013, the Group revoked the designation and the fair value hedge relationships were terminated.

**2.11 TRADE RECEIVABLES**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment. An impairment of a trade receivable is recognized when there is objective evidence that the Group will not be able to collect all amounts. Balances are written off when collection efforts have been exhausted and the probability of recovery is unlikely.

**2.12 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, demand deposits at banks, and money market funds with terms less than three months.

**2.13 PAID-IN EQUITY CAPITAL**

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of any income tax, from the proceeds.

**2.14 BORROWINGS**

Borrowings are recognized initially at fair value. Borrowings that are not maintained at fair value through profit or loss are recognized net of transaction costs and subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period the borrowings are outstanding using the effective interest method. Commitment fees for bank credit facilities are recognized as part of interest expenses as incurred.

The Company issued a fixed rate convertible bond in the fourth quarter of 2009 that was denominated in a foreign currency (EUR). In the third quarter 2013, a USD convertible bond was issued. A foreign currency convertible bond is not a compound financial instrument and is classified wholly as a liability in the financial statements. Convertible debts contain embedded derivatives in relation to the conversion option and are remeasured to market at reporting dates. The Group recognizes the changes in the fair value of the whole convertible bonds, and not just the embedded derivatives, through profit or loss as a part of financial income or expenses.

The Group applied fair value hedge accounting to parts of the fixed rate NOK bonds. The main part of the fair value adjustment of the bonds was included in the gain/loss on settlement at the partial repurchase in November 2013 and the remainder will be taken to income as part of the effective interest of the bonds.

A financial liability is removed from the statement of financial position when the obligation is discharged, cancelled, or expires. Substantial modifications to the terms of existing financial liabilities or an exchange of debt instruments with an existing lender at substantially different terms are treated as extinguishments of the original liability. The difference between the carrying amount of a financial liability and the consideration paid to extinguish the liability is recognized in profit or loss.

### 2.15 INVENTORIES AND CONSTRUCTION CONTRACT COSTS

Inventories are stated at the lower of cost or net realizable value (NRV).

Purchased inventories are stated at average cost less estimated obsolescence. Reserves for obsolescence include the write down of items no longer required (held for disposal) and the estimated decline in NRV caused by slow moving items.

The cost of finished goods and work in progress inventories are determined on a first in, first out basis and consists of raw materials, direct labor, other direct costs, and related indirect overheads. Costs associated with abnormal waste or unused normal operating capacity are not included in inventories. NRV is the estimated sales price less incremental costs to complete and sell the item. Net adjustments to reduce inventory to the lower of cost or NRV are recognized in inventory changes in the statement of income.

### 2.16 INCOME TAX

Income tax expense (benefit) includes current and deferred tax. Income tax expense (benefit) is recognized in profit or loss except to extent it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the estimated tax payable or receivable on the taxable income or loss for the year, and any adjustments to tax payable for previous years. Deferred tax includes the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also includes the carry forward of unused net operating losses and credits.

Current and deferred tax amounts are determined using rates and laws that have been enacted or substantially enacted at the reporting date or are expected to apply when temporary differences reverse. Net deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deferred amounts can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

The deferred tax asset consists primarily of net operating loss carry forwards in the USA. Utilization of net operating losses and tax credit carry forwards are subject to certain limitations under Section 382 and 383 of the Internal Revenue Code in the event of a change in the Company's ownership.

Changes in the value of convertible bonds are recognized in profit or loss giving rise to temporary differences. The Group recognizes related deferred tax liabilities or deferred tax assets. Any deferred tax assets on these fair value adjustments are recognized regardless of any probable taxable profits.

The Group reclassifies the currency effects on a loan regarded as part of a net investment (see note 2.4 (c)) and a related calculated income tax from profit or loss to OCI. The reclassification of income tax is made regardless of whether REC Silicon ASA reports a net tax expense/benefit and does not affect recognition of deferred tax assets or deferred tax liabilities in the statement of financial position.

### 2.17 PROVISIONS

Provisions for product warranties, onerous contracts, asset retirement obligations, restructuring costs, termination benefits, loss on financial guarantees, environmental restoration, and legal claims are recognized when: the Group has a present or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are discounted only when the effect is material and the distribution in time can be reliably estimated.

### 2.18 PENSION/POST RETIREMENT OBLIGATIONS

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity via other comprehensive income in the period in which they arise.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs.

Obligations for contributions to defined contribution pension plans are recognized as an expense during the period incurred.

### 2.19 REVENUE RECOGNITION

Revenues are primarily generated from sale of manufactured goods and represent the fair value of goods and services provided to customers less rebates, discounts and expected returns.

Revenue is recognized when the significant risks and rewards of ownership and control have been transferred, the price is fixed or determinable, collectability is reasonably assured, and the costs can be measured reliably. The Group generally recognizes revenues at the point of shipment.

**2.20 LEASES**
Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Other leases are classified as operating leases. Operating leases consist primarily of agreements where the Group is entitled to the output of leased process gas facilities which cannot be separated from the underlying lease. Leases are evaluated at inception, based on the substance of the transaction. The evaluation of leases requires substantial judgment. The Group has no finance leases.

**2.21 GOVERNMENT GRANTS**
Government grants are recognized at their fair values when there is reasonable assurance that the grants will be received and that the Group will comply with attached conditions. Government grants related to assets are presented in the statement of financial position as a reduction to the carrying amount of the assets and reduce depreciation in the statement of income. Government grants relating to income are deducted from related expenses.

Government grant assets are recognized for the unsettled portions of grants and are discounted if the effect of discounting is significant. Significant changes to estimates of timing of utilization or discount rates are recognized as a change in the grant asset and offset to production assets or expenses based on the classification at the inception of the grant.

**2.22 DISCONTINUED OPERATIONS**
A discontinued operation is a component of the Group that has been disposed of, abandoned, or is classified as held for sale and represents a separate major line of business or geographical area of operations.

Results from discontinued operations, including gains and losses on disposal, are reported separately as profit (loss) from discontinued operations in the statement of income. The consolidated statement of income for previous periods is re-presented with only external income and expenses included in discontinued operations beginning on loss of control or on assets and liabilities held for sale. Internal transactions continue to be eliminated on consolidation but are not re-presented in discontinued operations. Prior periods are not restated in the statement of financial position or in the statement of cash flows.

**2.23 STATEMENT OF CASH FLOWS**
The Group presents the statement of cash flows using the indirect method. Cash inflows and outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash line items. Interest received and paid are reported as a part of operating activities, except borrowing costs capitalized as part of the construction of a non-current asset that are included in investing activities, and payment of up-front and loan fees that are reported as part of financing activities.

Operating activities include all cash flow effects from derivatives. Significant currency gains and losses are recognized in the statement of income. Amounts estimated to relate to borrowings (financing activities), non-current financial assets and investments (investing activities) and unrealized gains or losses on cash and cash equivalents held at the end of the periods are reclassified in a separate line item under operating activities.

Proceeds from borrowings include prepayments received from customers on which interest is calculated.

The consolidated statement of cash flows presents changes in cash balances with respect to total operations (continuing and discontinued) and therefore does not reflect the performance of continuing operations during prior periods or the performance that is likely to be achieved in future periods.

**2.24 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS**
The Group adopted new and amended standards and interpretations issued by the IASB and approved by the EU that are relevant to its operations and effective for reporting periods beginning on January 1, 2014. The most relevant of these are:

IFRIC 21:
Levies, an Interpretation on the accounting for levies imposed by governments, was approved by EU and effective from June 17, 2014, the Group adopted this new standard in the second quarter 2014. Comparable interim periods have been adjusted to reflect the adoption of IFRIC 21.

**New standards and interpretations not yet adopted**
A number of new standards, amendments to standards, and interpretations have been published, but are not effective at December 31, 2014 and have not been applied in preparing these financial statements. The most relevant of these is:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture was issued in September 2014 and is effective for periods beginning on or after January 1, 2016. Earlier application is permitted. Accounting Policies adopted by the Group are consistent with these amendments and adoption will not affect the accounting or disclosures of the Group.

IFRS 15, issued May 2014 and establishes a new five step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for goods or services to a customer. The principles in IFRS 15 provide a more structured to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The group is currently assessing the impact of

IFRS 15 and plans to adopt the new standard on the required effective date.

Management intends to adopt new standards and interpretations at the effective dates provided the standards and interpretations are approved by the EU.

# 3 FINANCIAL RISK MANAGEMENT

**3.1 FINANCIAL RISK FACTORS**

The Group's activities expose it to a variety of financial risks, including currency risk, interest-rate risk, liquidity risk, credit risk, refinancing risk and others.

The goals for the Group finance policy and the treasury operations are primarily to minimize the risk of financial distress, secure long term funding, manage currency risk of expected future net cash flows, and manage interest rate risk. The company's finance policy sets the framework and limits for hedging activities in the Group. It defines risk management objectives, responsibilities and operational requirements.

The disclosures that are required regarding financial risks below focus on the risks that arise from financial instruments and how they have been managed. However, from management's perspective some of the financial instruments, especially currency derivatives, are entered into with the purpose of reducing risks from commercial transactions while the existence of these financial instruments exposes the company to additional risks.

**(A) Currency risk**

The Company operates internationally and is exposed to currency risk. At December 31, 2014, the Group's working capital is primarily in USD, while equity is in NOK, and debt is in NOK and USD. Currency risk arises from commercial transactions in currencies other than the Groups reporting currency and long term liabilities denominated in NOK.

Net cash flow is defined as the consolidated external cash flows of the Group. The Group's policy provides the ability to hedge external net cash flows with a maximum time horizon of 24 months. The purpose is to reduce the currency risk of expected future net cash flows.

Prior to the sale of REC Solar, the Group had estimated net positive external cash flows in EUR and USD and net negative external cash flows in Singapore Dollar (SGD) and NOK. Subsequent to the sale of REC Solar, net positive external cash flows are denominated in USD. The Group's currency risk mitigation strategy has shifted from hedging anticipated cash flows into NOK to hedging anticipated net cash flows into USD.

To manage currency risk arising from commercial transactions, the Company has used various forward contracts or options. In addition the Company has swapped parts of the currency exposure of interest bearing debt from NOK to USD since future cash flows are estimated to arise from these currencies. The Company manages the currency risk on an overall level.

In 2013 and 2014, the Group did not use hedge accounting according to IAS 39 Financial Instruments Recognition and Measurement for currency hedges.

**(B) Credit risk**

Credit risk is the risk of loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation and is primarily related to trade receivables. The Group maintains policies to ensure that credit is extended to customers with appropriate liquidity and credit histories in combination with requiring guarantees when appropriate.

**(C) Liquidity risk**

Liquidity risk is measured by subtracting the firm's liabilities from cash considering historic and anticipated operating results. Liquidity risk management requires maintaining sufficient available cash or access to capital markets to compensate for anticipated volatility in operating cash flows or to fund additional investments.

**(D) Interest rate risk**

Changes in market interest rates affect the fair value of assets and liabilities or the variability in cash payments. The Group is exposed to interest rate risk through funding and cash management activities, primarily in REC Silicon ASA. Cash in bank accounts and liabilities have primarily carried variable interest rates. The Company has borrowings through bonds, convertible bonds and indemnification loans.

Borrowings are primarily exposed to changes in USD and NOK interest rates. The company has entered into interest rate derivatives, both to swap variable interest to fixed and to swap fixed rate exposure to variable interest rates, see note 11.

Interest income and interest expense in the statement of income, as well as interest receipts and payments, are influenced by interest rate changes for financial instruments that carry variable interest rates. Fair values of fixed rate instruments and interest derivatives are affected by interest rate changes. See note 30 for interest rate sensitivity.

**(E) Hedging of risk related to supply of raw material/commodities**
When the Group is exposed to changes in the total costs from specific input factors it may hedge the associated risk. As of year-end 2014 and 2013, no hedges were in place, except certain forward energy purchase contracts.

### 3.2 FAIR VALUE ESTIMATION

Fair value estimation is discussed in note 30.

### 3.3 CAPITAL STRUCTURE AND FINANCING

In determining the appropriate capital structure for the Group, various factors have been considered. These include risks associated with the Group's business profile and the fact that the polysilicon production has high capital intensity.

The Group's goal is to maintain sufficient capital to implement business strategies and financial flexibility expansion opportunities. Taking into account market volatility and risk related to future cash flows, the Group aims to maintain a sound and sustainable capital structure with a high ratio of equity funding.

# 4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### 4.1 CRITICAL JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Management's judgments in applying the Group's accounting policies which have the most significant effect on the financial statements are discussed below and in the relevant notes.

**(A) Deferred tax**
According to current regulations and tax treaties between Norway and the USA, withholding tax of 15 percent applies to any dividend paid by the Group's operations in the USA to the parent company in Norway. The Company controls the distribution of future dividends from the US operations, and has determined that those profits will not be distributed in the foreseeable future. Consequently, the Group has not recognized deferred tax liability on undistributed earnings. See note 18.

**(B) Functional currencies**
The Group's presentation currency is USD and the Company's functional currency is Norwegian Kroner. The activities of the Group are primarily in the subsidiaries in the USA with USD as functional currency. Functional currency affects the reporting of currency gains and losses and exchange differences as well as hedging strategies and effects. Facts or circumstances may change in the future.

**(C) Development expenditures**
The Group conducts research and development activities and projects. Some costs incurred in the development phase of an intangible asset may be capitalized if the recognition criteria are fulfilled. Determining fulfillment of capitalization criteria represents a critical judgment that is made based upon the facts and circumstances of an individual project. At year-end 2013, most development costs were expensed as incurred. Beginning in the third quarter of 2014, costs relating to the development of second generation Fluidized Bed Reactor (FBR-B) project have been capitalized.

**(D) Discontinued operations**
REC Wafer has been reported as discontinued operations beginning in the second quarter of 2012. REC Solar has been reported as discontinued operations beginning in the third quarter of 2013. The entities were consolidated as subsidiaries until the loss of control by the Group. Amounts contained in discontinued operations include only income and expense from transactions with counterparties external to the Group. There has been significant trading between entities and expenses associated with internal purchases has been estimated for discontinued operations. This means that the results presented on the face of the statement of income will not represent the activities of the operations as individual entities.

**(E) Cash-generating units for impairment testing**
For the 2014 and 2013 impairment test, the judgment that the REC Silicon segment is one cash-generating unit is a critical and difficult judgment. See note 7.

**(F) Environmental Liability**
The Group's operations are subject to environmental laws and regulations. These laws and regulations and their interpretations are subject to change. Changes may require investment and/or increased costs to meet more stringent standards or to take remedial actions related to past activities.

### 4.2 KEY SOURCES OF ESTIMATION UNCERTAINTY – CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts included in or affecting the Group's financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared.

#### (A) Impairment

In 2012, significant impairment charges were recognized (see notes 6 and 7).

Changes in facts and in management's evaluations and assumptions may give rise to further impairment losses, or reversals. The estimated recoverable amounts of the Group's assets are sensitive to small changes to key assumptions (see note 7).

Financial assets are also periodically reviewed for impairment. Provisions for losses on trade receivables have been made based on an evaluation of individual accounts. Actual losses may turn out significantly different from the evaluations made based on the knowledge and assumptions at the time of approving the accounts.

#### (B) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required to determine the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Provisions for anticipated tax audit issues are based on estimates of whether additional taxes will be due. If estimates change or actual outcomes differ from current estimates, current and deferred tax assets or liabilities will be adjusted accordingly.

Tax authorities in the various tax jurisdictions may challenge the calculation of taxes payable. These challenges may lead to changes in taxable income and result in changes to income tax expenses in the period of change. Management is required to make estimates of the probability and magnitude of possible tax adjustments. Estimates may change as additional information becomes available and may vary substantially from actual determinations.

The Company has received notices of reassessment from the Central Tax office for large Enterprises regarding the deductibility of losses on loans and guarantees to subsidiaries and joint ventures. See note 31 for further information.

#### (C) Government grant asset

In 2010, REC Silicon recognized an asset for an Advanced Energy Manufacturing Tax Credit grant (AEMTC grant) related to the construction of the FBR and silicon gas plants in Moses Lake. Receipt of benefits under this program will be claimed as a credit on the US company's annual tax return and can be carried forward 20 years. All conditions associated with this grant have been met with the exception of the generation of US federal income tax in order to utilize the grant.

REC Silicon has estimated future taxable profits sufficient to utilize the AEMTC grant. Changes in the estimated or actual timing and amounts of future profits will affect the value of the government grant asset. See notes 12 and 21. Upon a change in ownership, the grant is subject to the same limitations as an income tax credit; amounts and timing of recognition could be adversely impacted. See Note 2.16.

#### (D) Discontinued operations

Liabilities, guarantees and losses on receivables related to REC Wafer and REC Solar have been estimated by the Company. The estimated values are subject to change and are among other things dependent on the ultimate dividends from the REC Wafer bankruptcy estate and the financial performance of the Group. Changes in the estimated fair values of these liabilities and guarantees will be included in discontinued operations.

#### (E) Contingent liabilities

See note 31.

# 5 SEGMENT INFORMATION

The segment information presented shows the main components of the Group's business that are evaluated on a regular basis by the chief operating decision maker (CODM). The Group Management is headed by the Chief Executive Officer (CEO), and the CEO makes decisions regarding the allocation of resources and performance assessment. Accordingly, the CEO is regarded as the CODM.

Financial and operational information for each segment presented are used to assess performance and allocate resources. Segment results are disclosed in accordance with IFRS, which is the same basis as presented internally. Internal reporting may include additional detail than reflected in the tables below. The financial market currently focuses on EBITDA as measurement of segment results. Consequently, this is the primary focus of the CODM with regard operating results. Amounts for assets and liabilities, financial income and expenses are not shown per segment in the internal reporting. Consequently, such details are not required to be presented per segment in the tables below.

The Group's reporting segments are based on the operating segments. The Group's segments were managed separately and each segment represented a strategic business area that offered products different from the other segments. The Group's segments were REC Silicon, REC Solar and REC Wafer. In addition, the Group reports Other. Subsequent to the sale of REC Solar on October 25, 2013, REC Silicon is the only remaining segment.

REC Silicon produces silicon gas and polysilicon for the photovoltaic and semiconductor industries. REC Silicon is comprised of the operating companies REC Solar Grade Silicon LLC (SGS) and REC Advanced Silicon Materials LLC (ASiMI) located in the USA.

REC Solar consisted primarily of an integrated plant in Singapore producing multicrystaline wafers, cells and solar panels. Europe has traditionally been REC Solar's main market.

Other includes primarily the parent company REC Silicon ASA with Group functions and activities (see separate financial statements).

Intercompany sales and transfers within the Group were based on arms-length prices. Intercompany service transactions are cost based.

### Revenues from customers constituting more than ten percent of total revenues from continuing operations

| (USD IN MILLION) | 2014 | % | 2013 | % |
|---|---|---|---|---|
| Customer 1 | 76.2 | 15.5% | 68.2 | 16.3% |
| Customer 2 | 45.7 | 9.3% | 74.5 | 17.9% |

### Segment information for the year ended December 31, 2014

| (USD IN MILLION) | REC SILICON | REC SOLAR | OTHER OPERATIONS | ADJUSTMENT FOR DISCONTIUNED OPERATIONS | ELIMINATIONS | CONTINUING OPERATIONS |
|---|---|---|---|---|---|---|
| Total revenues | 492.9 | 0.0 | 0.1 | 0.0 | 0.0 | 493.0 |
| EBITDA | 237.2 | 0.0 | -4.9 | 0.6 | 0.0 | 232.9 |
| Depreciation, amortization and impairment | -138.7 | 0.0 | 0.0 | 0.0 | 0.0 | -138.7 |
| EBIT | 98.5 | 0.0 | -5.0 | 0.6 | 0.0 | 94.1 |
| Additions of non-current assets | 38.2 | 0.0 | 0.0 | 0.0 | 0.0 | 38.2 |
| Non-current assets at December 31, 2014 | 994.8 | 0.0 | 0.0 | 0.0 | 0.0 | 994.8 |

### Segment information for the year ended December 31, 2013

| (USD IN MILLION) | REC SILICON | REC WAFER | REC SOLAR | OTHER OPERATIONS | ADJUSTMENT FOR DISCONTIUNED OPERATIONS | ELIMINATIONS | CONTINUING OPERATIONS |
|---|---|---|---|---|---|---|---|
| Revenues - External | 417.0 | 520.9 | 0.5 | -520.9 | 0.0 | 417.6 | 3 063 |
| Revenues - Internal | 15.7 | 0.1 | 1.5 | 0.0 | -17.3 | 0.0 | 0 |
| Total revenues | 432.8 | 520.9 | 2.0 | -520.9 | -17.3 | 417.6 | 3 063 |
| EBITDA | 83.7 | -192.2 | -72.8 | 170.9 | 61.1 | 50.7 | -292 |
| Depreciation, amortization and impairment | -136.8 | -17.1 | 0.0 | 17.1 | 0.0 | -136.8 | -1 033 |
| EBIT | -53.1 | -209.3 | -72.8 | 188.0 | 61.1 | -86.1 | -4 359 |
| Additions of non-current assets | 23.6 | 20.4 | 0.0 | 0.0 | 0.0 | 44.0 | 293 |
| Non-current assets at December 31, 2013 | 1 095.4 | 0.0 | 0.0 | 0.0 | 0.0 | 1 095.4 | 7 664 |

In 2014, REC Silicon EBITDA included USD 101 million in gain on the transfer of technology to the Yulin JV. In 2013, REC Silicon EBITDA included Other Income of USD 20.4 million associated with the settlement of a firm contract with a customer who could not meet contracted purchase obligations.

### Geographic distribution of external revenues for continuing operations based on customer location

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| China | **267.0** | 188.7 |
| Taiwan | **61.1** | 60.1 |
| Japan | **60.5** | 83.6 |
| South Korea | **42.6** | 17.0 |
| Singapore | **27.4** | 0.0 |
| USA | **15.0** | 11.2 |
| Europe | **11.0** | 11.4 |
| Hong Kong | **5.4** | 35.4 |
| Other Contries | **1.6** | 2.0 |
| Other Asia | **1.3** | 8.2 |
| Total external revenues | **493.0** | 417.6 |

Customer location is based on the invoicing address. Customers may distribute the products to other countries.

### Revenues by category

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Polysilicon | **380.0** | 337.9 |
| Silane gas | **109.0** | 75.5 |
| Other | **3.9** | 4.2 |
| Total revenues | **493.0** | 417.6 |

Substantially all of the Group's non-current assets are located in the United States.

# 6 FIXED ASSETS

### Property plant and equipment

| (USD IN MILLION) | LAND AND BUILDINGS | MACHINERY AND EQUIPMENT | OTHER TANGIBLE FIXED ASSETS | ASSETS UNDER CONSTRUCTION | **TOTAL** |
|---|---|---|---|---|---|
| Carrying value at January 1, 2013 | 86.3 | 1 067.9 | 26.9 | 22.7 | **1 202.5** |
| Net additions [1] | 2.4 | 19.4 | 3.1 | -11.3 | **13.6** |
| Government grants [2] | 0.0 | 9.8 | 0.0 | 0.0 | **9.8** |
| Depreciation - continuing operations | -3.9 | -116.0 | -5.3 | 0.0 | **-125.2** |
| Depreciation - discontinued operations | -3.2 | -10.2 | -0.7 | 0.0 | **-14.2** |
| Impairment - continuing operations [3] | -2.3 | -6.9 | 0.0 | 0.0 | **-9.2** |
| Impairment - discontinued operations [3] | 0.0 | -1.3 | 0.0 | 0.0 | **0.0** |
| Carrying value at December 31, 2013 | 79.3 | 962.7 | 24.0 | 11.4 | **1 077.4** |
| | | | | | |
| At December 31, 2013 | | | | | |
| Historical Cost | 146.0 | 2 048.1 | 76.1 | 20.1 | **2 290.3** |
| Accumulated depreciation and impairment | -66.7 | -1 085.3 | -52.1 | -8.7 | **-1 212.9** |
| Carrying value at December 31, 2013 | 79.3 | 962.7 | 24.0 | 11.4 | **1 077.4** |
| | | | | | |
| Carrying value at January 1, 2014 | 79.3 | 962.7 | 24.0 | 11.4 | **1 077.4** |
| Net additions [1] | 0.0 | 3.8 | 1.6 | 24.2 | **29.5** |
| Government grants [2] | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** |
| Depreciation - continuing operations | -4.6 | -122.7 | -4.6 | 0.0 | **-131.9** |
| Impairment - continuing operations [3] | 0.0 | -3.9 | -0.1 | -0.3 | **-4.3** |
| Carrying value at December 31, 2014 | 74.6 | 839.9 | 20.9 | 35.3 | **970.6** |
| | | | | | |
| At December 31, 2014 | | | | | |
| Historical Cost | 145.1 | 2 042.5 | 74.9 | 44.0 | **2 306.5** |
| Accumulated depreciation and impairment | -70.5 | -1 202.6 | -54.1 | -8.7 | **-1 335.8** |
| Carrying value at December 31, 2014 | 74.6 | 839.9 | 20.9 | 35.3 | **970.6** |

[1] Net additions include transfers from assets under construction and other fixed asset accounts.
[2] Positive amounts for government grants are adjustments to previously recognized grants.
[3] See note 7 for details of impairments.

### Specification of useful lives and depreciation

At year-end 2014, estimated useful lives by asset class were as follows:

- Land and Buildings 0-31.5 years (weighted average approximately 28 years)
- Machinery and equipment 3-32 years (weighted average approximately 14 years)
- Other tangible fixed assets (weighted average approximately 12 years)

Assets under construction are not yet ready for their intended use, and depreciation has not started.

The annual analysis of estimated useful lives for 2014 and 2013 resulted in only minor changes.

## Intangible assets

| (USD IN MILLION) | ASSETS UNDER DEVELOPMENT | OTHER | **TOTAL** |
|---|---|---|---|
| Carrying value at January 1, 2013 | 1.2 | 21.2 | **22.5** |
| Net additions [1] | 0.0 | 0.0 | **0.0** |
| Internal development | 0.1 | 0.1 | **0.2** |
| Disposals | 0.0 | -0.6 | **-0.6** |
| Amortization - continuing operations | 0.0 | -2.4 | **-2.4** |
| Amortization - discontinued operations | 0.0 | -1.7 | **-1.7** |
| Carrying value at December 31, 2013 | 1.4 | 16.6 | **18.0** |
| | | | |
| At December 31, 2013 | | | |
| Historical cost | 1.9 | 63.2 | **68.7** |
| Accumulated amortization and impairment | -0.5 | -46.6 | **-50.7** |
| Carrying value at December 31, 2013 | 1.4 | 16.6 | **18.0** |
| | | | |
| Carrying value at January 1, 2014 | 1.4 | 16.6 | **18.0** |
| Net additions [1] | 0.0 | 0.0 | **0.0** |
| Internal development | 8.7 | 0.0 | **8.7** |
| Disposals | 0.0 | 0.0 | **0.0** |
| Amortization - continuing operations | 0.0 | -2.5 | **-2.5** |
| Carrying value at December 31, 2014 | 10.1 | 14.1 | **24.2** |
| | | | |
| At December 31, 2014 | | | |
| Historical Cost | 10.5 | 72.0 | **82.5** |
| Accumulated depreciation and impairment | -0.4 | -57.9 | **-58.3** |
| Carrying value at December 31, 2014 | 10.1 | 14.1 | **24.2** |

[1] Net additions include transfers from assets under development.
[2] See note 7 for details of impairments.

Intangible assets above have estimated useful lives, over which the assets are amortized on a straight-line basis. Intangible assets under development are not ready for their intended use, and consequently amortization has not started.

Other intangible assets are primarily related to software (3-8 years) and FBR technology in REC Silicon (20 years).

The effects of the annual analysis of estimated useful lives for 2014 and 2013 resulted in minor changes.

# 7 IMPAIRMENTS OF CASH-GENERATING UNITS

REC Silicon routinely monitors assets for indications that the carrying values of assets are no longer recoverable. If impairment indicators exist, impairment tests will be carried out to determine whether the carrying value of affected assets can be justified. If estimates conclude that asset values are no longer recoverable, the assets are written down to the recoverable amount which is the greater of fair value less cost to sell and value in use (discounted cash flows).

During 2013, markets for semi-conductor grade polysilicon experienced disruption due to high inventory levels across the supply chain. Additionally, the Chinese Ministry of Commerce imposed an anti-dumping tariff on sales of polysilicon into China. These conditions were determined to be an indication of impairment and impairment testing was carried out. The resulting value in use at December 31, 2013 was estimated to approximate the carrying value of REC Silicon. Consequently, no additional impairment or reversal of impairment has been recognized in 2013.

During 2014, changes in estimated future sales prices caused by the trade dispute between the US and China were determined to be an impairment indicator and impairment testing was performed at December 31, 2014. The resulting value in use was estimated to approximate the carrying value of REC Silicon. Consequently, no additional impairment or reversal of impairment has been recognized in 2014.

Impairment amounts of USD 4.3 million in 2014 and USD 9.2 million in 2013 represent assets that have been replaced or taken out of service before the end of their estimated useful lives.

Impairments for continuing operations are included in the line item "impairment" in the statement of income. For discontinued operations, impairments are included in "profit/loss from discontinued operations, net of tax".

**CASH-GENERATING UNITS**

REC Silicon consists of a single cash-generating unit at December 31, 2014 and December 31, 2013.

REC Silicon produces and sells silicon gas and polysilicon for use in the electronics and solar industry. Silicon gas is a precursor material in the production of polysilicon and a small percentage is sold to external parties. The total available market for silicon gas is not sufficient to absorb all silicon gas produced by REC Silicon. Therefore, management has determined that there is not an active market for the silicon gas that is used internally. Also, management can elect to produce and sell products from the Butte or Moses Lake production facilities (with some adjustments). Common intermediate production materials are produced at the Moses Lake facility only and distributed to Butte. Additionally, silicon gas is transferred between facilities to balance asset utilization to market requirements. Accordingly, management's judgment is that the cash inflows for the silicon gas and polysilicon producing assets cannot be determined individually and that they constitute one CGU. Changes in the determination of cash generating units could result in additional impairment amounts. This is primarily because the Butte Facility currently produces products with a higher average price and assets carrying values are lower.

**BASIS FOR THE IMPAIRMENT TESTS**

Recoverable amounts for the cash-generating units are based on value in use. Value in use has been estimated using discounted cash flows over a 5 year period with the last year used as a basis for estimating terminal value.

Future cash flows are estimated on the basis of the budget for the next year and the subsequent four forecast years. A terminal value is calculated from the estimated cash flows generated in the last forecast year. A growth rate of zero has been used during the terminal period for both years presented. EBITDA less capital expenditures and changes in working capital have been used to estimate future cash flows.

Future cash flows do not include the effects of improvements or enhancements to asset performance. However, assets under construction for which investment has been committed are included with estimated expenditures to complete and estimated cash flows from their operations.

The carrying amounts of cash-generating units include tangible fixed assets, intangible assets, and net working capital only.

**DISCOUNT RATE**

The discount rate applied is based on the Company's cost of capital which has been estimated using the weighted average of the required rates of return for the Company's equity and debt (WACC). The required rate of return for the Company's equity is estimated using the capital assets pricing model (CAPM). The required rate of return on debt is estimated on the basis of a risk free rate of return plus a credit risk premium derived from analysis of the debt costs and loading of public companies similar to REC Silicon. The discount rate is estimated on an after tax basis and adjusted to estimate the equivalent before tax discount rate using the Company's estimated before and after tax cash flows and evaluated for reasonableness. The discount rates used at December 31, 2013 and 2014 are reflected in the table below:

**Discount rates (%)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | POST-TAX | PRE-TAX | POST-TAX | PRE-TAX |
| REC Silicon (USD) | 10.7 | 15.0 | 11.6 | 16.9 |

## KEY ASSUMPTIONS AND SENSITIVITIES

Key assumptions include future revenues (sales prices and sales volume), cost of major inputs, conversion costs and efficiency (production volume), and maintenance capital expenditures.

Price trends are difficult to predict in the current market environment and external views of anticipated market conditions differ widely. When possible, REC Silicon has used third party analyses to estimate product prices. When third party estimates are not available or vary widely, REC Silicon uses internal estimates based on experience and market intelligence to estimate market conditions and prices.

Production and sales volumes represent rates near full capacity. Costs have been estimated using contractual obligations, third party indexes when appropriate, and historical spending trends adjusted for inflation.

Capital expenditures have been estimated using past experience and an evaluation of anticipated replacement requirements of specific items of equipment (useful lives of fixed assets).

The table below presents the estimated change in impairment due to an isolated change in the key assumption for all years (except for terminal year Capex). The estimates are based on the assumptions used in the December 31, 2014 impairment.

| KEY ASSUMPTION (USD IN MILLION) | CHANGE | ESTIMATED CHANGE IN IMPAIRMENT [1] |
|---|---|---|
| Post-tax discount rate | +/-1% | -69.9/+82.8 |
| Sales prices | +/-5% | +/-319.4 |
| Volume (production and sales) | +/-5% | +/-228.1 |
| Net cash flow | +/-5% | +/-57.5 |
| Spending | +/-5% | -/+125.8 |
| Capex in Terminal Year | +/-30% | -/+68.9 |

[1] Negative amounts represent an estimated increase in impairment.

# 8 EQUITY ACCOUNTED INVESTMENTS (ASSOCIATES AND JOINT VENTURES)

Investments in joint ventures are accounted according to the equity method. See note 2.2.B & C.

### EQUITY ACCOUNTED INVESTMENTS IN THE STATEMENT OF FINANCIAL POSITION

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Carrying value at January | 0.0 | 25.7 |
| Equity Contributions | 75.0 | 3.7 |
| Repayment of equity | 0.0 | -11.4 |
| Adjustment for Basis Difference in Technology Contributed | -97.0 | 0.0 |
| Share of Joint Venture Profit/Loss [1] | -0.6 | 3.1 |
| Effects of Changes in Currency Exchange Rates | 0.3 | 1.5 |
| Disposals | 0.0 | -22.6 |
| Carrying value at December 31, 2014 | -22.4 | 0.0 |

[1] Share of Joint Venture Profit/Loss for 2013 has been re-presented to discontinued operations.

REC Solar was sold at the end of October 2013. All equity accounted investments were sold at that time and the Group's share of profit/ loss was re-presented as part of discontinued operations. Investments in associates included Mainstream Energy Corporation (Mainstream) located in California, USA and Sella Invest di ESB srl. & Co. sas (Sella). REC Solar had ownership interests in two joint ventures in the USA within the REC Systems, of which one had activity in project development. In 2013 the joint venture Northlight LLC closed a transaction for sale of its main PV project.

During 2014, the Group entered into a joint venture agreement and in July 2014 the Yulin JV in China was established. The Group has a 49 percent interest and joint control, therefore, it is a joint venture and is accounted for according to the equity method.

During 2014, the Group received USD 198 million upfront payments for technology transfer associated with the formation of the joint venture. In accordance with IFRS 10 Consolidated Financial Statements, the Group recognized this payment as other to the extent of the unrelated investors' interest in the joint venture and the remaining part of the gain was eliminated against the carrying amount of the investment and will be amortized over the life of the technology.

In 2014, substantially all activities of the Yulin JV have been associated with the construction of a polysilicon plant in China. Accordingly, most expenditures have been capitalized in non-current assets. The following table presents the major classification of assets and liabilities reflected on the Yulin JV's statement of financial position at December 31, 2014:

| (USD IN MILLION) | 2014 |
|---|---|
| Non-current assets | 263.5 |
| Current assets (including cash 73.4) | 92.4 |
| Current liabilities | -201.3 |
| Net Assets (100%) | 154.6 |
| REC Silicon's share of net assets (49%) | 74.6 |
| Adjusted for technology transfer | -97.0 |
| Carrying amount of REC's interest | -22.4 |

# 9 DISCONTINUED OPERATIONS

In the third quarter 2013 the company announced the sale of REC Solar and completed the sale on October 25, 2013. During 2012, REC Wafer operations were closed and deconsolidated.

See notes 2.22, 4.1(D) and 4.2(D).

# ANALYSIS OF DISCONTINUED OPERATIONS CONSOLIDATED STATEMENT OF INCOME REC SILICON GROUP

| (USD IN MILLION) | REC GROUP TOTAL OPERATIONS 2014 | OF WHICH DISCONTINUED OPERATIONS 2014 | REC GROUP RE-PRESENTED 2014 | REC GROUP TOTAL OPERATIONS 2013 | OF WHICH DISCONTINUED OPERATIONS 2013 | REC GROUP RE-PRESENTED 2013 |
|---|---|---|---|---|---|---|
| Revenues | 493.0 | 0.0 | 493.0 | 938.4 | 520.9 | 417.6 |
| Cost of materials | -99.7 | 0.0 | -99.7 | -394.9 | -288.1 | -106.8 |
| Changes in inventories | 29.2 | 0.0 | 29.2 | 1.1 | -15.2 | 16.4 |
| Employee benefit expenses | -93.5 | 0.0 | -93.5 | -170.5 | -64.7 | -105.9 |
| Other operating expenses | -197.0 | 0.0 | -197.0 | -304.9 | -115.8 | -189.1 |
| Other income and expenses | 101.0 | 0.0 | 101.0 | 17.5 | -1.1 | 18.6 |
| Gains/losses on disposal of discontinued operation - Wafer | -0.6 | 0.6 | 0.0 | 14.3 | 14.3 | 0.0 |
| Gains/losses on disposal of discontinued operation - Solar | 0.0 | 0.0 | 0.0 | -221.1 | -221.1 | 0.0 |
| EBITDA | 232.3 | 0.6 | 232.9 | -120.1 | -170.9 | 50.7 |
| Depreciation | -131.9 | 0.0 | -131.9 | -139.4 | -14.2 | -125.2 |
| Amortization | -2.5 | 0.0 | -2.5 | -4.1 | -1.7 | -2.4 |
| Impairment | -4.3 | 0.0 | -4.3 | -10.4 | -1.3 | -9.2 |
| Total depreciation, amortization and impairment | -138.8 | 0.0 | -138.8 | -153.9 | -17.1 | -136.8 |
| EBIT | 93.5 | 0.6 | 94.1 | -274.0 | -188.0 | -86.1 |
| Share of profit/loss of equity accounted investments | -0.6 | 0.0 | -0.6 | 3.1 | 3.1 | 0.0 |
| Financial income | 4.6 | 0.0 | 4.6 | 7.9 | 0.4 | 7.6 |
| Net financial expenses | -24.2 | 0.0 | -24.2 | -59.2 | -1.6 | -57.6 |
| Net currency gains/losses | 131.8 | 0.0 | 131.8 | 34.2 | -5.2 | 39.5 |
| Net gains/losses derivatives and fair value hedge | -1.5 | 0.0 | -1.5 | -36.0 | 0.0 | -36.0 |
| Fair value adjustment convertible bond | 14.6 | 0.0 | 14.6 | -112.2 | 0.0 | -112.2 |
| Net financial items | 125.3 | 0.0 | 125.3 | -165.3 | -6.5 | -158.8 |
| Profit/loss before tax | 218.2 | 0.6 | 218.8 | -436.2 | -191.3 | -244.8 |
| Income tax expense/benefit | -5.4 | 0.0 | -5.4 | 83.4 | -1.4 | 84.8 |
| Profit/loss from continuing operations | NA | NA | 213.4 | NA | NA | -160.0 |
| Profit/loss from discontinued operations | NA | -0.6 | -0.6 | NA | -192.7 | -192.7 |
| Profit/loss from total operations | 212.8 | NA | 212.8 | -352.7 | NA | -352.7 |

| **Profit/loss attributable to:** | TOTAL | DISCONTINUED | CONTINUING | TOTAL | DISCONTINUED | CONTINUING |
|---|---|---|---|---|---|---|
| Owners of REC SILICON ASA | 212.8 | -0.6 | 213.4 | -352.7 | -192.7 | -160.0 |
| Earnings per share (in USD) | | | | | | |
| -basic | 0.09 | 0.00 | 0.09 | -0.15 | -0.08 | -0.07 |
| -diluted | 0.09 | 0.00 | 0.09 | -0.15 | -0.08 | -0.07 |

# SPECIFICATION OF DISCONTINUED OPERATIONS

| (USD IN MILLION) | WAFER GROUP DISCONTINUED OPERATIONS 2014 | SOLAR GROUP DISCONTINUED OPERATIONS 2014 | REC GROUP DISCONTINUED OPERATIONS 2014 | WAFER GROUP DISCONTINUED OPERATIONS 2013 | SOLAR GROUP DISCONTINUED OPERATIONS 2013 | REC GROUP DISCONTINUED OPERATIONS 2013 |
|---|---|---|---|---|---|---|
| Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 520.9 | 520.9 |
| Cost of materials | 0.0 | 0.0 | 0.0 | 0.0 | -288.1 | -288.1 |
| Changes in inventories | 0.0 | 0.0 | 0.0 | 0.0 | -15.2 | -15.2 |
| Employee benefit expenses | 0.0 | 0.0 | 0.0 | 0.0 | -64.7 | -64.7 |
| Other operating expenses | 0.0 | 0.0 | 0.0 | 0.0 | -115.8 | -115.8 |
| Other income and expenses | 0.0 | 0.0 | 0.0 | 0.0 | -1.1 | -1.1 |
| Gains/losses on disposal of discontinued operation - Wafer | -0.6 | 0.0 | -0.6 | 14.3 | 0.0 | 14.3 |
| Gains/losses on disposal of discontinued operation - Solar | 0.0 | 0.0 | 0.0 | 0.0 | -221.1 | -221.1 |
| EBITDA | -0.6 | 0.0 | -0.6 | 14.3 | -185.1 | -170.9 |
| Depreciation | 0.0 | 0.0 | 0.0 | 0.0 | -14.2 | -14.2 |
| Amortization | 0.0 | 0.0 | 0.0 | 0.0 | -1.7 | -1.7 |
| Impairment | 0.0 | 0.0 | 0.0 | 0.0 | -1.3 | -1.3 |
| Total depreciation, amortization and impairment | 0.0 | 0.0 | 0.0 | 0.0 | -17.1 | -17.1 |
| EBIT | -0.6 | 0.0 | -0.6 | 14.3 | -202.3 | -188.0 |
| Share of profit/loss of equity accounted investments | 0.0 | 0.0 | 0.0 | 0.0 | 3.1 | 3.1 |
| Financial income | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.4 |
| Net financial expenses | 0.0 | 0.0 | 0.0 | 0.0 | -1.6 | -1.6 |
| Net currency gains/losses | 0.0 | 0.0 | 0.0 | 0.0 | -5.2 | -5.2 |
| Net gains/losses derivatives and fair value hedge | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Fair value adjustment convertible bond | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net financial items | 0.0 | 0.0 | 0.0 | 0.0 | -6.5 | -6.5 |
| Profit/loss before tax | -0.6 | 0.0 | -0.6 | 14.3 | -205.6 | -191.3 |
| Income tax expense/benefit | 0.0 | 0.0 | 0.0 | 0.0 | -1.4 | -1.4 |
| Profit/loss from discontinued operations | -0.6 | 0.0 | -0.6 | 14.3 | -207.0 | -192.7 |

**Cash flows of discontinued operations, (internal and external)**

The table below shows the cash flows of discontinued operations in 2013. There were no impacts to cash flows in 2014.

| (USD IN MILLION) | 2013 |
|---|---|
| Cash flows from operating activities | 34.6 |
| Cash flows from investing activities | 9.5 |
| Cash flows from financing activities | -12.9 |
| Effect on cash and cash equivalents of changes in foreign exchange rates | -2.8 |
| Net increase/decrease in cash and cash equivalents | 28.4 |
| Cash and cash equivalents at beginning of the period | 19.7 |
| Cash and cash equivalents at end of the period | 48.1 |

Gains and losses on disposal of discontinued operations include costs to sell and currency translation differences transferred to income. On consolidation the gains/losses have been re-presented to discontinued operations.

The table below includes only assets and liabilities external to the REC Silicon Group.

**Main line items of external assets and liabilities sold at end October, 2013**

| (USD IN MILLION) | |
|---|---|
| Intangible assets | 1.8 |
| Property, plant and equipment | 146.1 |
| Deferred tax assets | 1.3 |
| Prepaid lease and capex, non-current | 25.3 |
| Equity accounted investments | 21.9 |
| Other non-current financial assets | 2.3 |
| Total non-current assets | 198.7 |
| Inventories | 139.6 |
| Trade and other receivables and prepayments | 139.4 |
| Current income tax assets | 0.8 |
| Cash and cash equivalents | 48.2 |
| Total current assets | 327.9 |
| Total assets | 526.8 |
| | |
| Total non-current liabilities (provisions) | 64.9 |
| Trade payables and other liabilities | 86.1 |
| Provisions | 2.6 |
| Current tax liabilities | 0.7 |
| Total current liabilities | 89.4 |
| Total liabilities | 154.3 |

Assets and liabilities shown in the table above were translated to USD from the functional currencies of the entities sold at the closing rates for October 2013 (See note 2.4(C)(i)).

# 10 RELATED PARTY TRANSACTIONS

The Group has related party relationships with its subsidiaries, associates, joint ventures and with its Group Management and Board of Directors. At December 31, 2014 and 2013 Jens Ulltveit-Moe controlled 23.18 percent and 20.57 percent of the shares respectively, primarily through Umoe AS.

Transactions with subsidiaries have been eliminated on consolidation and are not reported as related party transactions in the consolidated financial statements for the Group.

During 2014, the Board member Erik Løkke-Øwre invoiced USD 145 thousand to REC Silicon for consultancy work.

**KEY MANAGEMENT COMPENSATION, SHAREHOLDINGS, LOANS ETC.**
Group Management and Board of Directors' compensation, ownership of REC Silicon ASA shares, options and bonds, loan agreements and guarantees are shown in note 16.

**ASSOCIATES AND JOINT VENTURES**
During 2013, all associates and joint ventures were sold with the REC Solar segment.

During 2014, REC Silicon entered into a joint venture in China (See note 8). In March and August of 2014 the Group received a total of USD 198 million for the transfer of technology to the Yulin JV. In October of 2014, the Group made an equity contribution of USD 75 million to the JV. REC Silicon has supplied the JV with expertise and engineering services for which it has been reimbursed at cost.

# 11 DERIVATIVE FINANCIAL INSTRUMENTS

### Fair values and carrying amounts

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (USD IN MILLION) | ASSETS | LIABILITIES | ASSETS | LIABILITIES |
| Foreign exchange forward and option contracts | 0.0 | 0.0 | 0.5 | 1.4 |
| Interest rate swaps | 0.0 | 0.0 | 19.2 | 5.6 |
| Option contract | 0.0 | 2.0 | 0.0 | 2.5 |
| Total | 0.0 | 2.0 | 19.7 | 9.4 |

Option contract is part of the indemnification agreements in connection with the REC Wafer Norway AS bankruptcy, and the estimated fair value is subject to change. The change in estimated fair value has been reported as part of the net gain on disposal of discontinued operations, see note 9.

### Distribution of derivatives

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (USD IN MILLION) | ASSETS | LIABILITIES | ASSETS | LIABILITIES |
| Total non-current derivatives | 0.0 | 2.0 | 15.3 | 5.1 |
| Total current derivatives | 0.0 | 0.0 | 4.4 | 4.3 |
| Total derivatives | 0.0 | 2.0 | 19.7 | 9.4 |

See note 3 for information on the Group's general policy for currency risk and interest rate risk.

**2014**

All foreign exchange forward contracts and interest rate swaps were settled during the first quarter of 2014. Several of these contracts had opposite and cancelling effects and settlement resulted in approximately USD 11 million net cash inflow.

**2013**

### Contractual cash flows in foreign exchange forward contracts at December 31, 2013

| (CURRENCY IN MILLION) | | 2014 FX FORWARD |
|---|---|---|
| SOLD CURRENCY | USD/NOK | -120 |

Amounts in the table represent outflows during 2014 in USD with settlement in NOK. The USD spot rate to NOK was 6.08 at December 31, 2013.

At December 31, 2013 the Group had FX Forward contracts to change the currency exposure of interest bearing debt and interest payments from NOK to USD. The Group does not use hedge accounting for the FX Forwards contracts. Realization of FX Forward contracts have resulted in cash outflows in 2013 of approximately USD 25.9 million.

### Fair value of foreign exchange forward contracts at December 31, 2013

| (NOK IN MILLION) | | 2014 FX FORWARD |
|---|---|---|
| SOLD CURRENCY | USD/NOK | -5 |

The table above shows the fair value which equals the carrying amount of currency derivatives at December 31, 2013.

**Principal amounts and fair value of interest rate swaps at December 31, 2013**

| | | PRINCIPAL AMOUNT (CURRENCY IN MILLION) | FAIR VALUE (NOK IN MILLION) |
|---|---|---|---|
| PAY FIXED RATE | USD (2014) | 150 | -18 |
| | NOK (2021) | 160 | -16 |
| RECEIVE FIXED RATE | NOK (2014) | 650 | 14 |
| | NOK (2018) | 700 | 93 |
| | EUR (2014) | 60 | 10 |
| Total | | | 83 |

The table above shows contractual principal currency amounts in interest rate swaps and specification of fair values, equaling carrying amounts, at December 31, 2013 distributed by year of maturity and currency. The interest rate swaps have one fixed interest rate against a floating interest rate and there are no other cash flows or principal amounts.

Interest rate swaps of NOK 650 million and NOK 700 million, where the Group is paying floating interest rate, were initially fair value hedges of the NOK bonds fixed interest rates. In connection with the partial buyback of NOK bonds in November 2013, the Group revoked the designation as fair value hedges.

**HEDGING ACTIVITIES 2013**

**Fair value hedging activities**

In connection with the partial buyback of NOK bonds in November 2013, the Group revoked the designation as fair value hedges, and at December 31, 2013 there were no remaining fair value hedges. The fair value adjustment of the bonds, at the time the hedge was revoked, was a loss of USD 11.6 million. At December 31, 2013 USD 3.6 million of the loss remained and will be reflected in income as part of effective interest on the bonds.

## 12 RECEIVABLES AND GOVERNMENT GRANT ASSET

**Trade and other receivables**

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Trade receivables and accrued revenues | **115.8** | 113.1 |
| Provision for loss on trade recivables | **-11.6** | -8.1 |
| Trade receivables - net | **104.1** | 105.1 |
| Prepaid costs | **18.3** | 6.6 |
| VAT and other public taxes and duties receivables | **0.0** | 0.1 |
| Other current receivables | **1.5** | 3.0 |
| Total Trade and other receivables | **124.1** | 114.8 |

### Specification of provision for loss on receivables

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| At January 1 | -8.1 | -8.0 |
| Change in provision for loss | -3.6 | 0.0 |
| Sale of subsidiaries | 0.0 | -0.1 |
| At December 31 | -11.6 | -8.1 |
| | | |
| Realized loss on trade receivables for total operations | 0.0 | -0.4 |
| - of which transferred to discontinued operations | 0.0 | -0.2 |
| Change in provision for total operations | -3.6 | -0.1 |
| - of which transferred to discontinued operations | 0.0 | -1.3 |
| Loss on trade receivables in the statement of income for continuing operations | -3.6 | 1.0 |

### Other non-current receivables etc.

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Other noncurrent financing receivables | 8.7 | 9.7 |
| Government grant asset non-current | 116.7 | 113.3 |

The government grant asset is related to REC Silicon's Advanced Energy Manufacturing Tax Credit grant. See notes 4.2 (C) and 21. Because this grant is not a contractual right to receive cash or another financial asset it is not regarded as a financial asset.

## 13 INVENTORIES

### Inventories in the statement of financial position

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (USD IN MILLION) | BEFORE WRITEDOWNS | WRITEDOWNS | AFTER WRITEDOWNS | BEFORE WRITEDOWNS | WRITEDOWNS | AFTER WRITEDOWNS |
| Stock of raw materials | 21.5 | 0.0 | 21.5 | 21.9 | 0.0 | 21.9 |
| Spare parts | 41.7 | -12.0 | 29.7 | 38.2 | -9.9 | 28.4 |
| Work in progress | 9.6 | -0.1 | 9.5 | 9.2 | -0.3 | 8.9 |
| Finished goods | 67.6 | -0.1 | 67.4 | 37.9 | -1.8 | 36.0 |
| Total | 140.4 | -12.2 | 128.2 | 107.2 | -11.9 | 95.2 |

Inventories have been written down to estimated net realizable values. Write-downs of materials and spare parts represent the estimated obsolescence related to items held in inventories at cost. Write-downs of work in progress and finished goods have been estimated by comparing the net realizable value of anticipated sales to the manufacturing costs of items held in inventory.

# 14 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK ACCOUNTS

Cash and cash equivalents are primarily bank deposits.

### Restricted bank accounts (not included as cash and cash equivalents)

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Non-current | 4.1 | 6.4 |
| Current | 1.1 | 5.1 |
| Total restricted bank accounts | 5.2 | 11.5 |

At December 31, 2014 restricted bank accounts consisted of USD 4.1 million security for the indemnification loan (see notes 17 and 29) and USD 1.1 million for bank guarantees associated with REC Solar (see note 29).

At December 31, 2013 restricted bank accounts consisted of USD 5 million security for the indemnification loan, USD 2.7 million security for bank guarantees for REC Solar, and USD 3.9 million security for bank guarantees for salary related liabilities.

# 15 SHAREHOLDER INFORMATION

### The following shareholders held one percent or more of the total outstanding shares in REC Silicon ASA at December 31

| | 2014 | | 2013 | |
|---|---|---|---|---|
| NAME OF SHAREHOLDERS | NO. OF SHARES | OWNERSHIP | NO. OF SHARES | OWNERSHIP |
| Umoe AS [1)] | 536 201 902 | 23.17 % | 475 974 332 | 20.57 % |
| Folketrygdfondet | 122 651 917 | 5.30 % | 86 236 311 | 3.73 % |
| JP Morgan Chase Bank (Nominee) | 88 732 275 | 3.83 % | 70 492 742 | 3.05 % |
| Skagen Kon-Tiki | 83 201 594 | 3.60 % | 80 201 594 | 3.47 % |
| Pictet & CIE (Nominee) | 74 713 748 | 3.23 % | 39 601 584 | 1.71 % |
| Equity Tri-Party SA/NV | 66 782 460 | 2.89 % | 27 679 415 | 1.20 % |
| Clearstream Banking | 53 339 810 | 2.31 % | 44 073 272 | 1.90 % |
| State Street Bank (Nominee) | 48 795 730 | 2.11 % | 35 374 579 | 1.53 % |
| Bank of New York Mellon SA/NV (Nominee) | 46 613 276 | 2.01 % | 39 157 754 | 1.69 % |
| Skagen Vekst | 29 162 486 | 1.26 % | 29 162 486 | 1.26 % |
| Goldman Sachs & Co Equity (Nominee) | 25 521 223 | 1.10 % | 0 | 0.00 % |
| Bank of New York Mellon SA/NVT (Nominee) | 24 609 990 | 1.06 % | 0 | 0.00 % |
| Skagen Global | 0 | 0.00 % | 50 877 884 | 2.20 % |
| Verdipapirfondet DnB | 0 | 0.00 % | 42 635 962 | 1.84 % |
| Skandinaviska Enskilda Banken AB | 0 | 0.00 % | 38 969 280 | 1.68 % |
| Skandinaviska Enskilda Banken (Nominee) | 0 | 0.00 % | 33 475 071 | 1.45 % |
| Statoil Pensjon | 0 | 0.00 % | 32 962 316 | 1.42 % |
| Morgan Stanley & CO (Nominee) | 0 | 0.00 % | 32 669 844 | 1.41 % |
| Citibank Intl. Small Cap | 0 | 0.00 % | 27 144 021 | 1.17 % |

1) Includes 35.3 million shares and 37.9 million shares held on forward contracts on December 31, 2014 and 2013, respectively.

The list of shareholdings above is based on the VPS shareholder register at December 31, 2014 and 2013. . Adjustments for known holdings and forward contracts of related parties have been included. Actual shareholding may deviate due to the use of nominee accounts, share lending, forward contracts or other contractual arrangements.

At December 31, 2014, REC Silicon ASA had 26,061 shareholders (27,005 at December 31, 2013). The total number of outstanding shares at December 31, 2014 and December 31, 2013 was 2,313,818,785 each with a par value of NOK 1.

At the Annual General Meeting on May 12, 2014, the Board was authorized to increase the share capital with up to NOK 230,000,000, which was approximately 10% of the share capital at that time, through one or more increases in the share capital.

The Annual General meeting also authorized the Board to acquire treasury shares in the Company (up to a maximum of ten percent of the nominal value of the existing share capital). Both authorizations are valid until the 2015 Annual General Meeting, but in any event not longer than 15 months.

## 16 MANAGEMENT AND BOARD OF DIRECTORS' COMPENSATION, LOANS, SHARES, BONDS

Salary and other compensation to the Group's Board of Directors and Management for 2014 and 2013 are described below. With regard to the determination of salary and other compensation for leading employees for 2015, the Board of Directors will propose guidelines at the 2015 Annual General Meeting that include factors mentioned below.

The competencies, performance and dedication of the Group's employees are critical success factors for the short term and long term value creation of REC. Hence, key compensation goals are to support attraction, development, and retention of the right talent, reward past achievements, and incentivize strong performance, world class operating capabilities, and practice of our Core Values. Compensation packages should be put together to support these goals.

Fixed base salary levels are determined locally and reflect market conditions for corresponding positions and qualifications in similar businesses.

Performance bonuses are considered and provided for selected individuals whose achievement of performance objectives can be measured through clearly defined results parameters (KPIs). KPIs should include both financial performance targets as well as individual performance targets tied to the individual's area of responsibility. Maximum performance bonus payouts are defined on an individual basis in a range from 15 percent to 20 percent of yearly fixed base salary.  Maximum performance bonus payouts for REC Silicon management varies between 33 percent and 100 percent of the yearly fixed base salary.

The Group offers supplementary pension and personnel insurance schemes to employees in accordance with local standards.

In addition to the above mentioned compensation components, the Group offers housing allowances, car allowances, cell phones, and a limited number of other benefits to selected employees.

The Board of Directors also wishes to implement a synthetic incentive program in 2015 whereby employees' entitlements are linked to the share price development of the company's shares. The program will be a six year program, where the first three years is a lock up period and the next three years will be the period over which the incentive payments will become payable, provided always that the share price is above the strike price. The strike price will be set at the time of grant to the market price at such time + 10%. There will be a maximum gain in each calendar year for each employee under the program, equal to the base salary for the employee for the calendar year. The entitlements under the program will be lost if the employee's employment is terminated. For the next financial year, the total grant under this program will not exceed 8 million shares, or 0.35% of the share capital.

The Board of Directors has implemented incentive programs during previous periods whereby employee entitlements are linked to the share price development of the company's shares. See note 32 for details of share based compensation programs.

## Compensation of the Group Management for 2014

| (AMOUNTS IN USD)<br>NAME | BASE SALARY | BONUS EARNED AND MAX % | SHARE BASED PAYMENT | PENSION BENEFITS | OTHER TAXABLE BENEFITS | RETENTION BONUS |
|---|---|---|---|---|---|---|
| Tore Torvund | 736 538 | 489 750 | 74 310 | 95 625 | 126 301 | 0 |
| President and CEO | | 100 % | | | | |
| James A. May II | 233 978 | 59 685 | 3 956 | 16 876 | 21 186 | 0 |
| CFO | | 33 % | | | | |
| Francine Sullivan | 315 833 | 70 933 | 22 470 | 3 866 | 3 654 | 0 |
| CLO | | 40 % | | | | |
| Kurt Levens | 444 591 | 171 834 | 43 326 | -33 940 | 5 141 | 222 795 |
| VP Business Development | | 50 % | | | | |
| Total 2014 | 1 730 940 | 792 202 | 144 061 | 82 427 | 156 282 | 222 795 |

## Compensation of the Group Management for 2013

| (AMOUNTS IN USD)<br>NAME | BASE SALARY | BONUS EARNED AND MAX % | SHARE BASED PAYMENT | PENSION BENEFITS | OTHER TAXABLE BENEFITS | RETENTION BONUS | SEVERENCE PAY ETC. |
|---|---|---|---|---|---|---|---|
| Ole Enger (To Dec. 1, 2013) | 1 051 731 | 328 747 | -268 346 | 178 011 | 37 702 | 0 | 615 217 |
| President and CEO to Dec 1, 2013 | | 100 % | | | | | |
| Tore Torvund | 665 000 | 328 779 | 72 043 | 84 788 | 118 512 | 688 583 | 0 |
| President and CEO from Dec 1, 2013 (previous EVP Silicon) | | 60 % | | | | | |
| Alessandro Perotta (To Feb 1, 2013) | 33 675 | 0 | 0 | 6 709 | 48 623 | 0 | 0 |
| EVP Wafers, Cells & Modules - Singapore | | 60 % | | | | | |
| Kjell Christian Bjørnsen (To Dec. 1, 2013) | 255 418 | 71 571 | -532 | 43 197 | 5 604 | 140 417 | 0 |
| EVP and CFO | | 50 % | | | | | |
| Øyvind Hasaas (To Oct. 25, 2013) | 427 146 | 129 898 | 47 376 | 78 661 | 109 491 | 344 426 | 0 |
| EVP HR and Org. Development | | 50 % | | | | | |
| Florian Krumbacher (To Dec. 1, 2013) | 273 601 | 37 669 | -2 276 | 40 229 | 24 520 | 260 623 | 0 |
| SVP & CLO | | 50 % | | | | | |
| Mikkel Tørud (To Dec. 1, 2013) | 241 818 | 45 203 | -1 404 | 35 628 | 6 568 | 131 907 | 0 |
| SVP IR & Business Development | | 50 % | | | | | |
| James A. May II (From Dec. 1, 2013) | 17 244 | 1 883 | 0 | 941 | 40 | 0 | 0 |
| CFO | | 33 % | | | | | |
| Francine Sullivan (From Dec. 1, 2013) | 24 812 | 0 | 1 668 | 1 737 | 0 | 0 | 0 |
| CLO | | 40 % | | | | | |
| Kurt Levens (From Dec. 1, 2013) | 34 738 | 6 653 | 3 746 | 0 | 0 | 0 | 0 |
| VP Business Development | | 50 % | | | | | |
| Total 2013 | 3 025 183 | 950 402 | -147 726 | 469 899 | 351 059 | 1 565 956 | 615 217 |

All amounts are exclusive of social security tax. Compensation in foreign currencies has been translated to USD at average exchange rates for the relevant years, except for bonuses which are calculated at year-end rates. All amounts include payments and benefits to the Group Management from REC Silicon ASA and subsidiaries. There were no payments and benefits from the Group for services outside the function as Group Management. Base salary represents the amounts, including holiday pay that was paid in the year.

The amounts represent the bonuses earned during the fiscal year, and are normally paid and reported as taxable income for the employee in the subsequent year. The bonus requires that the employee has not resigned at the relevant year-end.

The amounts in the tables are for the time periods individuals served in Group Management except for Ole Enger. Mr. Enger stepped down as President and CEO on December 1, 2013. At the same time, Mr. Enger received payment of all remaining salary related amounts including remaining notice period and severance pay in 2013. All amounts paid are included in the table above for 2013.

Negative amounts for share based payments represent forfeitures of options upon termination of employment (reversal of amounts reported in previous years).

Pension benefits include benefits earned with respect to defined benefit plans and contributions related to defined contribution plans. At the end of 2013, Ole Enger's plans were settled in cash. It included pension benefits that were earned in previous years.

Other taxable benefits include company car / coverage of automobile expenses / vehicle allowance, telephone and Internet service, newspapers, health club memberships, reimbursement of home-office related expenses and certain other benefits. The benefits vary, and the amounts in the table are the amounts that are taxable based on rules and regulations in the relevant tax jurisdictions.

At December 31, 2014 and 2013, members of the Group Management have contracts that entitle them to severance benefits beyond the normal notice period if employment is terminated by the Group. These severance payments are equal to six months of salary for Mr. Torvund and Ms. Sullivan, and three months of salary for Mr. May and Mr. Levens.

### Compensation of the Board of Directors paid in 2014

(AMOUNTS IN USD)

| NAME | BOARD COMPENSATION | COMPENSATION FOR COMMITTEES |
|---|---|---|
| Jens Ullveit-Moe | 25 801 | 0 |
| Espen Klitzing | 15 177 | 3 035 |
| Regnhild Wiborg | 15 177 | 3 035 |
| Inger Ørstavik Berg | 15 177 | 3 035 |
| Erik Løkke-Qwre | 15 177 | 3 035 |
| Total period November 30, 2013 – May 14, 2014 | 86 509 | 12 141 |

### Compensation of the Board of Directors paid in 2013

A new Board of Directors was elected on the Annual General Meeting on May 3, 2013 that decided on compensation for the previous Board of Directors:

(AMOUNTS IN USD)

| NAME | BOARD COMPENSATION | COMPENSATION FOR COMMITTEES |
|---|---|---|
| Jens Ullveit-Moe (Chairman to Feb. 7, 2013) | 53 466 | 0 |
| Peter Arne Ruzicka (Member to May 3, 2013) | 42 551 | 0 |
| Odd Christopher Hansen (Member to May 3, 2013) | 42 551 | 8 510 |
| Mimi Kristine Berdal (Chairman from Feb. 7, 2013) | 50 321 | 0 |
| Helene Margareta Vibbleus Bergquist (Member to May 3, 2013) | 42 551 | 8 510 |
| Total period May 22, 2012 – May 3, 2013 | 231 439 | 17 020 |

On November 29, 2013 an Extraordinary General Meeting elected a new Board of Directors and decided on compensation for the previous Board of Directors:

(AMOUNTS IN USD)

| NAME | BOARD COMPENSATION | COMPENSATION FOR COMMITTEES |
|---|---|---|
| Mimi Kristine Berdal (Chairman) | 84 747 | 4 964 |
| Øystein Stray Spetalen | 46 097 | 0 |
| Ragnhild Wiborg | 46 097 | 4 964 |
| Knut Øversjøen | 46 097 | 4 964 |
| Jan Christian Opsahl | 46 097 | 4 964 |
| Total period May 3, 2013 – November 29, 2013 | 269 133 | 19 857 |

There were no employee elected Board members in 2014.

### Compensation of employee elected Board members paid in 2013

(AMOUNTS IN USD)

| NAME | BOARD COMPENSATION | COMPENSATION FOR COMMITTEES |
|---|---|---|
| Rolf B. Nilsen (Member to June 30, 2012) | 4 432 | 0 |
| Silje Johnsen (Member to May 3, 2013) | 42 551 | 0 |
| Hans Ødegård (Member to July 31, 2012) | 7 978 | 0 |
| Total period May 22, 2012 – May 3, 2013 | 54 961 | 0 |

Committees include Audit Committee, Compensation Committee, and Corporate Governance Committee as appropriate.

### Ordinary salary etc. for employee elected Board members 2013

(AMOUNTS IN NOK)

| NAME | SALARY PAID | PENSION BENEFITS | OTHER TAXABLE BENEFITS |
|---|---|---|---|
| Silje Johnsen (Member to May 3, 2013) | 53 465 | 3 399 | 1 255 |
| Total 2013 | 53 465 | 3 399 | 1 255 |

## LOANS AND GUARANTEES FOR GROUP MANAGEMENT, BOARD OF DIRECTORS AND SHAREHOLDERS

At December 31, 2014 and 2013 there were no outstanding loans or guarantees to members of Group Management, Board members or shareholders or their closely related parties.

## SHAREHOLDINGS, OPTIONS AND BONDS

The number of shares and options owned by members of the Board of Directors and the Group Management, including their closely related parties, are shown in the table below. The table includes those that were members at December 31, 2013 or 2012.

| | OPTIONS | | SHARES | |
|---|---|---|---|---|
| NAME | **2014** | 2013 | **2014** | 2013 |
| Tore Torvund | **2 409 973** | 1 129 353 | **431 486** | 31 486 |
| James A. May II | **400 824** | 0 | **2 043** | 2 043 |
| Francine Sullivan | **912 368** | 371 563 | **0** | 0 |
| Kurt Levens | **1 325 814** | 583 204 | **4 395** | 4 395 |
| Jens Ulltveit-Moe | **0** | 0 | **536 201 902** | 475 974 332 |
| Espen Klitzing | **0** | 0 | **200 000** | 0 |
| Ragnhild Wiborg | **0** | 0 | **10 000** | 10 000 |

Refer to note 32 for details of the share option program.

### Details of options outstanding at December 31, 2014

| | | 2011 PROGRAM | | 2010 PROGRAM | | 2009 PROGRAM | | 2008 PROGRAM | |
|---|---|---|---|---|---|---|---|---|---|
| NAME | TOTAL NUMBER | NUMBER | STRIKE PRICE (NOK) | NUMBER | STRIKE PRICE (NOK) | NUMBER | STRIKE PRICE (NOK) | NUMBER | STRIKE PRICE (NOK) |
| Tore Torvund | 2 409 973 | 1 280 620 | 3.50 | 508 564 | 10.09 | 478 685 | 15.32 | 142 104 | 32.69 |
| James A. May II | 400 824 | 400 824 | 3.50 | 0 | 10.09 | 0 | 15.32 | 0 | 32.69 |
| Francine Sullivan | 912 368 | 540 804 | 3.50 | 208 478 | 10.09 | 163 086 | 15.32 | 0 | 32.69 |
| Kurt Levens | 1 325 814 | 760 841 | 3.50 | 275 291 | 10.09 | 205 556 | 15.32 | 84 126 | 32.69 |

### REC bonds

At December 31, 2014 and 2013 related parties of Jens Ulltveit-Moe (Chairman of the Board) owned REC NOK bonds with nominal value of approximately NOK 1 million.

# 17 BORROWINGS

### Financial liabilities, interest bearing

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| **Non-current financial liabilities, interest bearing** | | |
| NOK Bond | **72.4** | 88.3 |
| Up-front loan fees etc 1) | **-0.3** | -0.5 |
| USD Convertible bond | **91.3** | 104.5 |
| Indemnification loans | **26.9** | 32.9 |
| Total non-current financial liabilities, interest bearing | **190.4** | 225.1 |
| **Current financial liabilities, interest bearing** | | |
| NOK Bond | **0.0** | 32.6 |
| Up-front loan fees etc [1] | **-0.2** | -0.3 |
| EUR Convertible bond | **0.0** | 111.0 |
| Total non-current financial liabilities, interest bearing | **-0.2** | 143.3 |

[1] Amortized as part of effective interest

During 2013, the Group maintained bank credit facilities in varying amounts. During 2013 all undrawn facilities were canceled.

The indemnification loans are related to the REC Wafer Norway AS bankruptcy in 2012. These loans represent estimated indemnification amounts. They have been reported as interest bearing liabilities; however, interest has not started to accrue. In the second quarter 2013 one of the indemnification loans was settled and paid. At December 31, 2014, the remaining indemnification loan is NOK 200 million (USD 26.9 million) and has been renegotiated to remove all financial covenants and move the maturity date to February 2016 with an interest rate of NIBOR plus 0.5%.

During 2014, bonds denominated in NOK (REC01) and the EUR convertible bonds reached maturity and were extinguished. On June 14, 2014 the Company repaid the EUR 81.2 million convertible bond (USD 111.4 million). On September 16, 2014, the Company repaid the NOK 195.5 million REC01 bond (USD 31.3 million).

The Company had three bonds denominated in NOK (REC01, REC02 and REC03). On November 5, 2013 the Company repurchased the following (plus accrued interest):

- REC01: NOK 454.5 million (70 percent of outstanding amount) at 103 percent of par value.
- REC02: NOK 478.5 million (67 percent of outstanding amount) at 100 percent of par value.
- REC03: NOK 612.5 million (67 percent of outstanding amount) at 100 percent of par value.

On May 24, 2013 the Company repurchased half of the EUR 320 million convertible bonds (EUR 4.52 per share strike price) by cash payment of NOK 779 million and issue of additional NOK 426 million bonds (tap issue of NOK 213 million in REC02 and NOK 213 million in REC03).

On September 11, 2014 the Company repurchased further EUR 79 million of the EUR convertible bond loan by cash payment of NOK 185 million and issuance of USD 74 million in a new USD 110 million convertible bond with a strike price of USD 0.62 per share maturing in September 2018. The Group has the right to convert the bond into ordinary shares at any time on or after April 11, 2017 provided the value of the underlying shares on at least 20 of 30 trading days exceeds 150 percent of the principle amount of the outstanding bonds.

At December 31, 2014 none of the interest bearing liabilities contains financial covenants. However, there are cross default clauses between all the loan agreements above certain threshold amounts.

At December 31, 2014 the average maturity is approximately 2.6 (approximately 2.4 at December 31, 2013).

The NOK bonds, the indemnification loan, and the USD convertible bond are all senior debt while the EUR convertible bond is subordinated. All the bond agreements have negative pledge clauses with certain threshold amounts. The NOK bonds are guaranteed by the Company and its material subsidiaries.

At December 31, 2014 and 2013, the Company complied with all financial covenants and other restrictions in the loan agreements.

**The following are the contractual maturities of financial liabilities including estimated interest.**

| AT DECEMBER 31, 2014 | | MATURITY ANALYSIS - CONTRACTUAL PAYMENTS TO BE MADE | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (USD IN MILLION) | CARRYING AMOUNT | TOTAL | MAR 2015 | JUN 2015 | SEP 2015 | DEC 2015 | 2016 | 2017 | 2018 |
| Unamortized upfront fees (NOK) | -0.4 | | | | | | | | |
| NOK Bonds (NOK) | 72.4 | 83.5 | 0.5 | 4.4 | 0.5 | 0.5 | 32.2 | 3.9 | 41.7 |
| USD Convertible Bond (USD) | 91.3 | 136.6 | 1.8 | 1.8 | 1.8 | 1.8 | 7.2 | 7.2 | 115.0 |
| Indemnification Loan (NOK) | 26.9 | 28.8 | 0.3 | 0.3 | 0.3 | 0.3 | 27.7 | 0.0 | 0.0 |
| Total | 190.2 | 248.9 | 2.5 | 6.4 | 2.5 | 2.5 | 67.1 | 11.1 | 156.7 |

| AT DECEMBER 31, 2013 | | MATURITY ANALYSIS - CONTRACTUAL PAYMENTS TO BE MADE | | | | | |
|---|---|---|---|---|---|---|---|
| (USD IN MILLION) | CARRYING AMOUNT | TOTAL | 2014 | 2015 | 2016 | 2017 | 2018 |
| Unamortized upfront fees (NOK) | -0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NOK Bonds (NOK) | 120.9 | 153.9 | 43.1 | 7.2 | 44.5 | 4.8 | 54.2 |
| EUR convertible bond | 111.0 | 116.7 | 116.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| USD Convertible Bond (USD) | 104.5 | 143.8 | 7.2 | 7.1 | 7.1 | 7.1 | 115.4 |
| Indemnification Loan (NOK) | 32.9 | 34.4 | 0.7 | 0.7 | 33.0 | 0.0 | 0.0 |
| Total | 368.5 | 448.7 | 167.7 | 15.0 | 84.7 | 11.8 | 169.6 |

The differences between carrying amounts and total expected payments in the tables above are due primarily to discounting. Interest payments are estimated using the interest rates at December 31, 2014 and 2013. All cash flows are undiscounted. Amounts in other currencies than USD are translated at the exchange rates at December 31, 2014 and 2013, respectively.

**The nominal interest rates and currency distribution (notional amounts) at December 31, 2014 were as follows**

| | INTEREST RATE (%) | | CURRENCY | AMOUNTS IN MILLION CURRENCY | BORROWER |
|---|---|---|---|---|---|
| NOK BOND REC02 | 5.9 | Variable | NOK | 234.5 | REC Silicon ASA |
| NOK BOND REC03 | 9.8 | Fixed | NOK | 300.5 | REC Silicon ASA |
| USD Convertible bond | 6.5 | Fixed | USD | 110.0 | REC Silicon ASA |
| Indemnification loans | 2.0 | Variable | NOK | 200.0 | REC Silicon ASA |

**The nominal interest rates and currency distribution (notional amounts) at December 31, 2013 were as follows**

| | INTEREST RATE (%) | | CURRENCY | AMOUNTS IN MILLION CURRENCY | BORROWER |
|---|---|---|---|---|---|
| NOK BOND REC01 | 11.0 | Fixed | NOK | 195.5 | REC Silicon ASA |
| NOK BOND REC02 | 6.0 | Variable | NOK | 234.5 | REC Silicon ASA |
| NOK BOND REC03 | 9.8 | Fixed | NOK | 300.5 | REC Silicon ASA |
| EUR Convertible bond | 6.5 | Fixed | EUR | 81.2 | REC Silicon ASA |
| USD Convertible bond | 6.5 | Fixed | USD | 110.0 | REC Silicon ASA |
| Indemnification loans | 2.2 | Variable | NOK | 200.0 | REC Silicon ASA |

Interest on the variable rate NOK bond (REC02) is determined every three months and based on the NIBOR rate plus a fixed margin of 4.35 percent.

# 18 INCOME TAX EXPENSE AND DEFERRED TAX ASSETS AND LIABILITIES

**Recognized income tax expense**

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Current income tax expense (-) / benefit (+) | -2.6 | 0.2 |
| Deferred tax expense (-) / benefit (+) | -2.8 | 84.6 |
| Total income tax expense (-) / benefit (+) in the statement of income from continuing operations | -5.4 | 84.8 |

**Relationship of income tax expense/benefit to profit/loss from continuing operations**

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Profit/loss before tax from continuing operations | 218.8 | -244.8 |
| Tax calculated at domestic tax rates applicable to profits /losses in the respective countries | -60.7 | 77.2 |
| Effects of changes in tax rates and use of another tax rate for parts of profits /losses | 0.0 | -11.4 |
| Tax credits, expenses deductible only for tax, and income not subject to tax | 0.8 | 1.0 |
| Results not taxable (Singapore) | 0.0 | -2.9 |
| Expenses not deductible for tax purposes | -0.1 | -1.3 |
| Effects of not recognized deferred tax assets, including reversal of previous years' | 54.6 | 22.0 |
| Results from equity accounted investments | 0.0 | 0.0 |
| Adjustment of prior year's income taxes | 0.0 | 0.3 |
| Total income tax expense (-) / benefit (+) in the statement of income from continuing operations | -5.4 | 84.8 |
| Effective tax rate | 2 % | 35 % |

The income tax calculation for the Group is primarily based on corporate income tax rates of 35 percent in the USA and 27 percent in Norway.

Tax expense for 2014 is primarily a result of the recognition of USD 101 million gain associated with the transfer of technology to the Yulin JV (see note 8) and the tax effects of currency gains on intercompany USD loans held by the Company which were offset by a decrease in unrecognized deferred tax assets resulting in a low effective tax rate.

The tax benefit in 2013 is primarily related to losses in REC Silicon in the US and the tax effect of fair value adjustment to convertible bonds.

In 2014, the line item "effects of not recognized deferred tax assets, including reversal of previous years" is due to the decrease in unrecognized deferred tax assets related to currency gains on intercompany USD loans. In 2013, Group internal expenses not re-presented to discontinued operations has effect on the line items "results not taxable (Singapore)" and "effects of not recognized deferred tax assets, including reversal of previous years".

Income tax for REC Silicon in the USA is based on nominal 35 percent federal tax rate plus estimated blended state taxes. The effective tax rate for REC Silicon in the USA was 35.2 percent on income in 2014 and 37 percent on losses in 2013.

In 2013, effects of changes in tax rates were primarily related to REC Silicon ASA, with offsetting amounts in "effects of not recognized deferred tax assets, including reversal of previous years".

### Income tax assets and liabilities in the statement of financial position

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Current tax assets | 0.0 | 3.4 |
| Current tax liabilities | 2.6 | 0.0 |
| Net current tax assets (+) / liabilities (-) | -2.6 | 3.4 |
| | | |
| Deferred tax assets | 0.0 | 0.0 |
| Deferred tax liabilities | 94.1 | 90.6 |
| Net deferred tax assets (+) / liabilities (-) | -94.1 | -90.6 |

### Deferred tax assets and liabilities, based on classification as current and non-current are as follows

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax asset to be recovered after 12 months | 49.9 | 226.4 |
| Deferred tax asset to be recovered within 12 months | 0.1 | 13.0 |
| Offset deferred tax assets and liabilities | -50.1 | -239.4 |
| Total | 0.0 | 0.0 |
| | | |
| **Deferred tax liabilities** | | |
| Deferred tax liability to be settled after 12 months | 144.2 | 328.4 |
| Deferred tax liability to be settled within 12 months | 0.0 | 1.7 |
| Offset deferred tax assets and liabilities | -50.1 | -239.4 |
| Total | 94.1 | 90.6 |
| Net deferred tax liabilities | -94.1 | -90.6 |

Tax losses and tax credits carried forward are presented as deferred tax assets to be recovered after 12 months in the table above.

## The following are the major deferred tax liabilities (-) and assets (+) recognized by the Group and movements during 2013

| | | RECOGNIZED IN INCOME | | | | | |
|---|---|---|---|---|---|---|---|
| (USD IN MILLION) | BALANCE JAN 1, 2013 | CONTINUING OPERATIONS | DISCONTINUED OPERATIONS | RECOGNIZED IN OCI/EQUITY | SALE OF SUBSIDIARIES | TRANSLATION DIFFERENCE | BALANCE DEC 31, 2013 |
| Total non current assets | -288.3 | -34.1 | 0.0 | -3.2 | 0.0 | 0.9 | -324.6 |
| Total current assets | 4.1 | 4.7 | -0.2 | 0.0 | -1.3 | 0.3 | 7.6 |
| Total non current liabilities | -23.8 | 41.8 | 0.0 | 0.0 | 0.0 | 1.2 | 19.3 |
| Total current liabilities | 1.3 | 2.4 | 0.0 | 0.0 | 0.0 | -0.0 | 3.7 |
| Tax losses and tax credits carry-forward recognized | 134.1 | 69.7 | 0.0 | 0.0 | 0.0 | -0.4 | 203.4 |
| Total | -172.4 | 84.6 | -0.2 | -3.2 | -1.3 | 2.0 | -90.6 |

## The following are the major deferred tax liabilities (-) and assets (+) recognized by the Group and movements during 2014

| (USD IN MILLION) | BALANCE JAN 1, 2014 | RECOGNIZED IN INCOME | RECOGNIZED IN OCI/EQUITY | TRANSLATION DIFFERENCE | BALANCE DEC 31, 2014 |
|---|---|---|---|---|---|
| Total non current assets | -324.6 | -20.6 | -6.5 | 5.8 | -345.9 |
| Total current assets | 7.6 | -0.3 | 0.0 | 0.1 | 7.4 |
| Total non current liabilities | 19.3 | 37.2 | 5.7 | -1.5 | 60.8 |
| Total current liabilities | 3.7 | -0.0 | 0.0 | 0.1 | 3.8 |
| Tax losses and tax credits carry-forward recognized 1) | 203.4 | -19.1 | 0.0 | -4.4 | 179.9 |
| Total | -90.6 | -2.8 | -0.8 | 0.1 | -94.1 |

1) Tax losses and tax credit carry-forwards recognized at December 31, 2014 relate to REC Silicon in the USA (USD 129.1 million) and REC Silicon ASA in Norway (USD 50.8 million). Amounts recognized for REC Silicon ASA are due to offsetting deferred tax liabilities.

## Accumulated income taxes recognized to equity at December 31

| (USD IN MILLION) | **2014** | 2013 |
|---|---|---|
| Effect of transition to IAS 39 at January 1, 2005 | **2.3** | 2.3 |
| Effect of actuarial gains and losses | **-2.1** | -2.1 |
| Effect of conversion of convertible bonds | **-61.0** | -61.0 |
| Effect of costs for capital increase | **8.5** | 8.5 |
| Effect of translation differences on loans as part of net investment | **7.2** | 0.9 |
| Total deferred tax | **-45.1** | -51.5 |
| Current tax - effect of costs for capital increase | **13.1** | 13.1 |
| Total | **-32.0** | -38.4 |

## The following main deferred tax assets have not been recognized at December 31

| (USD IN MILLION) | **2014** | 2013 |
|---|---|---|
| Total non current assets | **0.0** | 8.3 |
| Tax losses carry forward - not recognized | **443.6** | 599.6 |
| Total | **443.6** | 607.9 |

**Distribution of the deferred tax assets that have not been recognized at December 31**

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| REC Silicon ASA and related eliminations (Norway) | 190.6 | 292.0 |
| REC Solar AS and related eliminations (Norway) | 253.0 | 315.8 |
| Total | 443.6 | 607.9 |

Tax losses carried forward and other deferred tax assets are not recognized due to requirements in IAS 12 for convincing evidence of future profits. There is no expiry date for tax losses in Norway. The decrease in deferred tax assets not recognized is primarily due to the use of tax loss carry forwards to offset taxable income caused by currency gains on intercompany USD loans held by the Company and translation differences caused by the strengthening of the USD in 2014.

Refer to note 31 contingent liabilities for discussion of notices of reassessment from the Central Tax office for large Enterprises.

At December 31, 2014 and 2013, accumulated undistributed earnings for the Company's ownership share in the REC Silicon Group in the USA were approximately USD 363 million and USD 273 million respectively. A 15 percent withholding tax would apply to any dividends paid from the USA. No corresponding deferred tax liability has been recognized (see notes 2.16 and 4.1 (A)).

# 19 RETIREMENT BENEFIT OBLIGATIONS AND EXPENSES

The cost of defined pension benefit plans is expensed in the period that the employee renders services and becomes eligible to receive benefits. The cost of defined contribution plans is expensed as contributions become payable.

At December 31, 2014 the remaining defined benefit pension plans for the Group are in the USA. REC Silicon has an employer-sponsored defined contribution retirement plan (401 (k)) for employees in the USA. The REC Silicon subsidiary ASiMI in the USA had defined benefit plans at the time it was acquired in 2005. At that time, these plans were frozen and no future benefits are accruing to the members of the plans. Previous pension rights remain unchanged and are fully vested.

At December 31, 2013, the Norwegian plans included defined contribution and defined benefit plans. The number of employees in Norway has been reduced and the defined benefit plans were settled at the beginning of 2014. The Company maintains a defined contribution plan for its employees in Norway.

Discontinued operations include parts of the Norwegian defined benefits and contribution plans.

For defined benefit plans the plan assets and the projected benefit obligations were measured at December 31, 2014 and 2013. An independent actuary performed actuarial calculations. The present value of the projected defined benefit obligation, and the related current service cost, were measured using the projected unit credit method.

## Defined benefit plans

| (USD IN MILLION) | TOTAL OPERATIONS 2014 | 2013 | ASIMI 2014 | 2013 | OF WHICH DISCONTINUED OPERATIONS 2013 |
|---|---|---|---|---|---|
| Gross retirement benefit obligations at January 1 | **34.0** | 41.1 | **33.1** | 37.4 | 0.7 |
| Service cost | **0.0** | 0.3 | **0.0** | 0.0 | 0.0 |
| Interest cost on pension obligations | **1.5** | 1.5 | **1.5** | 1.4 | 0.0 |
| Remeasurements recognized through OCI | **5.1** | -4.8 | **5.1** | -4.4 | 0.0 |
| Benefits paid, paid-up policies and disability obligation | **-2.3** | -3.7 | **-1.5** | -1.5 | -0.5 |
| Settlements and curtailments | **0.0** | -0.7 | **0.0** | 0.0 | -0.2 |
| Translation differences | **-0.1** | 0.2 | **0.0** | 0.0 | 0.0 |
| Gross retirement benefit obligations at December 31 | **38.2** | 34.0 | **38.2** | 33.1 | 0.0 |
| | | | | | |
| Fair values of plan assets at January 1 | **19.7** | 19.4 | **19.7** | 19.4 | 0.0 |
| Actual return on plan assets | **0.3** | 0.3 | **0.3** | 0.3 | 0.0 |
| Pension premiums | **1.5** | 1.5 | **1.5** | 1.5 | 0.0 |
| Benefits paid, paid-up policies and disability reserve | **-1.5** | -1.5 | **-1.5** | -1.5 | 0.0 |
| Settlements and curtailments | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 |
| Translation differences | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 |
| Fair value of plan assets at December 31 | **19.8** | 19.7 | **19.8** | 19.7 | 0.0 |
| | | | | | |
| Funded status at December 31 | **18.4** | 14.1 | **18.4** | 13.5 | 0.0 |
| Accrued social security tax | **0.0** | 0.2 | **0.0** | 0.0 | 0.0 |
| Net retirement benefit obligations at December 31 | **18.4** | 14.3 | **18.4** | 13.5 | 0.0 |

The plan assets relate to one of three ASiMI plans, and are currently invested in stable value funds.

## Retirement benefit obligations in the statement of financial position

| (USD IN MILLION) | TOTAL OPERATIONS 2014 | 2013 | ASIMI 2014 | 2013 | OF WHICH DISCONTINUED OPERATIONS 2013 |
|---|---|---|---|---|---|
| Net retirement benefit obligations at January 1 | **14.3** | 22.3 | **13.4** | 18.0 | 0.7 |
| Net periodic benefit costs including net interest | **-0.3** | 0.2 | **-0.3** | 0.7 | -0.2 |
| Remeasurements recognized through OCI | **0.1** | -4.3 | **0.1** | -3.9 | 0.0 |
| Pension premiums and benefits paid | **5.8** | -3.6 | **6.6** | -1.5 | -0.5 |
| Social security tax on pension premiums | **-1.5** | -0.3 | **-1.5** | 0.0 | 0.0 |
| Translation differences | **0.0** | 0.0 | **0.0** | 0.0 | 0.0 |
| Net retirement benefit obligations at December 31 | **18.4** | 14.3 | **18.4** | 13.5 | 0.0 |

### The amounts recognized in the statement of income are as follows

| | TOTAL OPERATIONS | | OF WHICH DISCONTINUED OPERATIONS |
|---|---|---|---|
| (USD IN MILLION) | **2014** | 2013 | 2013 |
| Current service cost | **0.0** | 0.3 | 0.0 |
| Settlements and curtailments | **0.0** | -0.7 | -0.2 |
| Employer's social security tax on defined benefit costs | **0.0** | 0.0 | 0.0 |
| Total benefit plans | **0.0** | -0.5 | -0.2 |
| Contribution plans including employer's social security tax | **3.2** | 8.2 | 4.6 |
| Total pension expenses (see note 24) | **3.2** | 7.7 | 4.3 |
| | | | |
| Net interest expense | **0.6** | 0.7 | 0.0 |

### Remeasurements of the net defined benefit liability recognized through Other Comprehensive Income (gains (-)/losses (+))

| (USD IN MILLION) | **2014** | 2013 |
|---|---|---|
| Experience adjustments | **0.3** | 0.1 |
| Effects of changes in assumptions | **4.8** | -4.3 |
| Total remeasurements (gains (-)/losses (+)) on gross retirement benefit obligations | **5.1** | -4.3 |
| Return on plan assets, excluding amounts included in interest | **0.7** | 0.5 |
| Total remeasurements (gains (-)/losses (+)) recognized through Other Comprehensive Income | **5.8** | -3.8 |

During 2013 the effects of changes in assumptions were due to an increase in discount rate for the ASiMI plans.

The cumulative remeasurement loss recognized to equity through other comprehensive income was USD 10.6 million before income taxes at December 31, 2014. Of this, a loss of USD 15.3 million was related to ASiMI (excluding translation difference).

The actuary risk tables in Norway were based on advice in accordance with published statistics and experience. The names of the risk tables were: Mortality K2005, Marriage K2005 and Disability IR02. The mortality table for ASiMi plans is based on the IRS 2014 Static Mortality Table for 2014.

### The principal actuarial assumptions used to determine retirement benefit obligations at December 31

| | **2014** | 2013 |
|---|---|---|
| Discount rate | **3.8** | 4.77 |
| Future salary increases | **NA** | NA |
| Future pension increases | **NA** | NA |
| Future increase in social security base amount | **NA** | NA |
| Future turnover | **NA** | NA |

The assumptions used to determine the benefit cost for the year are determined at the beginning of the year. The expected return for the ASiMI plans equals the discount rate.

The expected remaining service life (average, in years) of the defined benefit obligation for the ASiMi plans are approximately 11.5 at December 31, 2014 and 11.8 at December 31, 2013. Pension premiums of USD 1.3 million are expected to be paid during 2015 to the ASiMI defined benefit plans.

For the ASiMI benefit plans, a one percentage point increase (decrease) in discount rate is estimated to decrease (increase) the pension obligation by approximately USD -4.8 (6.0) million at December 31, 2014.

# 20 TRADE PAYABLES, PROVISIONS AND OTHER LIABILITIES

### Non-financial liabilities, interest calculation

| (USD IN MILLION | 2014 | 2013 |
|---|---|---|
| Non-current prepayments - interest calculation | **3.2** | 6.7 |
| Current portion of prepayments interest calculation | **6.7** | 9.1 |
| Total prepayments, interest calculation | **10.0** | 15.7 |

### Trade payables and other liabilities

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Trade and other payables | **34.6** | 19.9 |
| Accrued costs for capex - external | **0.0** | 0.0 |
| VAT and other public taxes and duties payables | **26.8** | 23.7 |
| Accrued operating costs - external | **13.6** | 15.6 |
| Accrued finance costs - external | **3.3** | 6.7 |
| Other current liabilities - external | **1.5** | 2.4 |
| Intercompany matching liability account (current) | **0.2** | 0.2 |
| Trade payables and other liabilities | **80.1** | 68.6 |

### Provisions

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Provisions, current | **0.0** | 1.4 |
| Provisions non-current | **0.0** | 0.0 |
| Total provision | **0.0** | 1.4 |

### Specification of provisions

| (USD IN MILLION) | RESTRUCTURING & EMPLOYEE TERMINATION BENEFITS | ASSET RETIREMENT OBLIGATIONS | ONEROUS CONTRACTS | TOTAL |
|---|---|---|---|---|
| At January 1, 2014 | 0.5 | 0.3 | 0.6 | **1.4** |
| Additional provisions | | | 0.3 | **0.3** |
| Amounts reversed | -0.2 | | | **-0.2** |
| Exchange differences | -0.1 | | -0.1 | **-0.1** |
| Used during the year | -0.3 | -0.3 | -0.9 | **-1.4** |
| At December 31, 2014 | 0.0 | 0.0 | 0.0 | **0.0** |

Estimated fair values of the Company's guarantees, indemnification loans and option contract related to the REC Wafer bankruptcy are not reported as provisions, but included in other line items in the statement of financial position, see note 9.

A provision is a liability of uncertain timing or amount. Current provisions are expected to be paid within one year.

## 21 GOVERNMENT GRANTS

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Recognized in the statement of financial position - grants related to assets for continuing operations | 3.5 | -9.4 |
| Recognized in the statement of financial position - grants related to assets for discontinued operations | 0.0 | -1.5 |
| Recognized in the statement of income for continuing operations - grants related to income | 0.0 | 0.0 |
| Recognized in the statement of income for discontinued operations - grants related to income | 0.0 | 9.5 |

[1] Negative amounts for government grants related to assets are adjustments to previously recognized grants.

For continuing operations, the grant relates to an Advanced Energy Manufacturing Tax Credit grant (AEMTC grant) in the USA. See note 4.2(C).

Changes in grants related to assets for continuing operations in 2014 and 2013 are due to a changes in the estimated present value of the AEMTC grant due to changes in the estimated timing of utilization and in discount rates.

## 22 OTHER OPERATING EXPENSES

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Freight, postage and transportation | 5.2 | 3.3 |
| Energy and water | 56.7 | 58.7 |
| Lease expenses | 22.8 | 23.6 |
| Total operating, service and maintenance costs | 59.6 | 53.7 |
| Consultancy and auditor fees | 35.5 | 35.2 |
| Own work capitalized oon fixed assets | -1.9 | -0.9 |
| IT and telecommunications costs | 6.8 | 6.9 |
| Travel and entertainment costs | 3.6 | 3.4 |
| Insurance costs | 5.6 | 4.8 |
| Loss on receivables | 3.6 | -1.0 |
| Other operating costs | -0.5 | 1.4 |
| Other operating expenses | 197.0 | 189.1 |

[1] Loss on receivables, see note 12.

### Auditor's remuneration (continuing operations)

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Statutory Audit (only relating to statutory auditor) | 1.0 | 0.7 |
| Other assurance services (only relating to statutory auditor) | 0.0 | 0.0 |
| Tax advisory services (only relating to statutory auditor) | 0.4 | 0.5 |
| Other non-audit services (only relating to statutory auditor) | 0.1 | 0.0 |
| Total auditors remuneration | 1.6 | 1.3 |

## 23 OTHER INCOME AND EXPENSES

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Restructuring cost and employee termination benefits | 0.2 | -1.4 |
| Onerous contracts | -0.3 | -0.5 |
| Other income | 101.1 | 20.4 |
| Gain/loss on disposal of non-current assets | 0.0 | 0.1 |
| Total other income and expenses | 101.0 | 18.6 |

In February 2013, REC Silicon received USD 27.5 million (NOK 157 million) from a customer. Part of the amount is compensation for volume commitments under contract which was not fulfilled by the customer and was recognized as other income in 2013. The remaining amount is related to future deliveries and has been deferred as a prepayment. See note 20.

During 2014, the Group received USD 198 million upfront payments for technology transfer associated with the formation of the joint venture. Accordingly, the Group recognized a gain of USD 101 million and eliminated the remaining part of the payment against the carrying amount of the investment. See note 8.

## 24 EMPLOYEE BENEFITS

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Salaries | 65.1 | 75.1 |
| Bonus | 8.1 | 7.2 |
| Share option expense | 0.1 | -0.7 |
| Social security tax | 4.8 | 6.4 |
| Pension cost (incl. sosial security tax) | 3.2 | 3.4 |
| Other employee related costs | 12.2 | 14.5 |
| Employee benefit expenses | 93.5 | 105.9 |

The average number of permanent employees during 2014 was 721 for continuing operations (2013: 819). The number of permanent employees at December 31, 2014 for continuing operations was 723 (2013: 756). REC Solar had approximately 1,500 employees at the time of sale in October 2013.

There were no loans or guarantees provided to employees at December 31, 2014 or 2013.

# 25 FINANCIAL INCOME AND EXPENSES

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Interest income from financial assets not at fair value through profit or loss | 1.1 | 5.8 |
| Calculated interest income | 3.5 | 1.7 |
| Total income from financial assets not at fair value through profit or loss | 4.6 | 7.6 |
| Interest expenses for the convertible bonds (fair value through profit or loss) | -9.3 | -18.5 |
| Interest expenses for the NOK Bonds REC01 and REC03 | -5.7 | -18.6 |
| Interest expenses for financial liabilities not at fair value through profit or loss | -2.8 | -9.2 |
| Expensing of up-front fees and costs | -0.3 | -7.3 |
| Calculated interest expenses | -0.3 | -1.5 |
| Capitalization of borrowing costs | 1.2 | 0.8 |
| Other expenses from financial assets and liabilities | -7.1 | -3.3 |
| Net financial expenses | -24.2 | -57.6 |
| Net currency gains/losses | 131.8 | 39.5 |
| Net gain/loss derivatives not hedge accounting | -1.5 | -36.0 |
| Fair value hedge instruments (change in clean value of interest rate swaps) | 0.0 | -2.6 |
| Fair value hedge objects (change in fair value NOK bonds) | 0.0 | 2.7 |
| Total net gains/losses derivatives and fair value hedge (excluding interest) | -1.5 | -35.9 |
| Fair value through profit or loss - convertible bonds (excluding interest) | 14.6 | -112.2 |
| Total fair value through profit or loss | 13.1 | -148.2 |
| Total impairment loss on investments in shares and other non-current receivables | 0.0 | 0.0 |
| Net financial items | 125.3 | -158.8 |

In 2013, Interest expenses on borrowings include commitment fees on undrawn credit facilities. In addition, the Group recognized expenses for previously paid up-front fees due to the reduction and termination of credit facilities and the repurchase of NOK bonds.

Calculated interest is interest calculated on prepayments (See note 20).

Other expenses for financial assets and liabilities in 2014 consisted primarily of USD 6.4 million due to the effect of exchange rate fluctuations on interest expense recognized on intercompany between group members with different functional currencies. It also includes USD 0.6 million interest on defined benefit pension obligations. In 2013, other expenses for financial assets and liabilities was primarily related to the partial repurchase of the convertible EUR bond and the issue of the convertible USD bond (USD 2 million). It also includes USD 0.7 million interest on defined benefit pension obligations, and USD 0.6 million due to the effect of exchange rate fluctuations on interest expense recognized on intercompany between group members with different functional currencies.

Net currency gains in 2014 and 2013 are primarily related to changes in currency rates on intercompany loan balances between group members with different functional currencies. These gains reflect the strengthening of the USD and are partially offset by currency losses EUR and USD convertible bonds.

Net losses on derivatives in 2014 and 2013 are primarily due to the strengthening of USD against NOK. See note 11.

Estimated fair values are shown in the table below.

### EUR convertible bond

| (EUR IN MILLION) | AT ISSUE | DEC 31, 2009 | DEC 31, 2010 | DEC 31, 2011 | DEC 31, 2012 | DEC 31, 2013 | DEC 31, 2014 |
|---|---|---|---|---|---|---|---|
| Nominal value | 320.0 | 320.0 | 320.0 | 320.0 | 320.0 | 81.0 | 0.0 |
| Value of the total loan | 320.0 | 339.0 | 278.0 | 170.0 | 218.0 | 81.0 | 0.0 |

### EUR convertible bond

| (USD IN MILLION) | AT ISSUE | DEC 31, 2009 | DEC 31, 2010 | DEC 31, 2011 | DEC 31, 2012 | DEC 31, 2013 | DEC 31, 2014 | CHANGE TO P/L 2013 | CHANGE TO P/L 2014 |
|---|---|---|---|---|---|---|---|---|---|
| Nominal value | 475.7 | 460.6 | 426.9 | 414.0 | 422.0 | 111.9 | 0.0 | 26.2 | 1.7 |
| Value of the total loan | 475.7 | 487.5 | 371.4 | 219.4 | 286.9 | 111.1 | 0.0 | 144.1 | 1.1 |
| | | | | | | | Fair value adjustment excluding currency | 117.9 | -0.6 |

### USD convertible bond

| (USD IN MILLION) | AT ISSUE | DEC 31, 2013 | DEC 31, 2014 | "CHANGE TO P/L 2013" | "CHANGE TO P/L 2014" |
|---|---|---|---|---|---|
| Nominal value | 110.0 | 110.0 | 110.0 | 0.0 | 0.0 |
| Value of the total loan | 110.0 | 104.5 | 91.3 | 5.5 | 13.2 |
| | | | Fair value adjustment excluding currency | 5.5 | 13.2 |

Estimated fair value excludes accrued interest.

During 2013, an increase in the fair value of the convertible EUR bond has been recognized as an expense because the anticipated share price moved below the strike price and the option feature had no value. A decrease in the fair value of the convertible USD bond has been reported as income in 2013, due to an increase in share price from issue to December 31, 2013. These were partially offset by a gain on settlement of USD 9.2 million due to the repurchase during May 2013. USD 6.5 million of this gain has been expensed as amortization and settlement loss on NOK bonds in 2013.

During 2014, the convertible EUR bond was extinguished and the convertible USD bond declined in value due to reduction in the share price.

**ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS ON INTEREST, UP-FRONT FEES, AND OTHER COSTS PAID.**
Interest paid is approximately USD 21 million in 2014 and USD 56 million in 2013.

## 26 EARNINGS PER SHARE

**BASIC**
Basic earnings per share (EPS) is calculated by dividing the profit/loss attributable to equity holders of the Company by the weighted average number of ordinary shares issued during the year, excluding treasury shares.

On May 14, 2013, the Company issued 200 million ordinary shares through a private placement which increased the average outstanding shares during 2013. In addition the re-presentation of REC Solar as discontinued operations in 2013 affected the profit/loss from continuing operations. There were no changes in the Company’s outstanding ordinary shares during 2014.

| | **2014** | 2013 |
|---|---|---|
| Profit/loss from continuing operations (USD IN MILLION) | **213.4** | -160.0 |
| Profit/loss from total operations (USD IN MILLION) | **212.8** | -352.7 |
| Weighted average number of ordinary shares in issue (IN MILLION) | **2 314** | 2 314 |
| Basic earnings per share from continuing operations (USD per share) | **0.09** | -0.07 |
| Basic earnings per share from total operations (USD per share) | **0.09** | -0.15 |

**DILUTED**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares from the convertible bonds and employee share options. Earnings are adjusted to reverse interest expense, currency gains or losses, changes in fair value and the related tax amounts of the convertible bonds. The calculation is made individually for each of the convertible bonds and for each of the partial repurchases of the EUR bond in 2013. If the effect increases EPS from continuing operations, it is anti-dilutive, and is then not included in diluted EPS.

The calculation shows that the convertible bonds and the share options are anti-dilutive for 2014 and 2013. Consequently, dilutive EPS equals basic EPS for both years.

## 27 DIVIDENDS PER SHARE

The Board of Directors did not propose any dividend payments for the financial year 2014 or 2013.

## 28 RESEARCH AND DEVELOPMENT

| (USD IN MILLION) | 2014 | 2013 |
|---|---|---|
| Research and development expenses - continuing operations | 11.9 | 13.5 |
| Research and development expenses - discontinued operations | 0.0 | 8.7 |
| Research and development expenses - total operations | 11.9 | 22.2 |

Research and development activities consist of improvements to current production processes and equipment as well as activities designed to enhance quality, improve efficiency, and reduce production cost throughout the value chain.

REC Silicon's program for producing higher grade FBR polysilicon has resulted in the development of the next generation FBR-B technology; customer acceptance of product has not occurred. Accordingly, additional development costs of USD 1.4 million has been capitalized beginning in the fourth quarter of 2014. See note 4.1(C).

Ongoing activities to advance technology in other areas have been focused on improvements to the consistency of quality, process controls, and waste management.

# 29 COMMITMENTS, GUARANTEES, PLEDGES

Purchase obligations consist of significant items for which the Group is contractually obligated to purchase from third parties at December 31, 2014 and 2013. Operating lease payments show contractual minimum future payments.

In cases where contracts can be terminated or reduced, the reduced amount has been included as estimated payments in the first period subsequent to the reporting period. Consequently, the amounts presented in the table represent the estimated unavoidable portion of the Group's expected future costs related to purchase obligations and lease payments. It does not reflect the Group's expected future cash outflows.

Purchase obligations and operating lease payments are undiscounted and exclude the payment of amounts recognized for other assets, liabilities, and investments.

**Contractual purchase obligations and minimum operating lease payments at December 31, 2014**

| | | DISTRIBUTION OF PAYMENTS | | | | | |
|---|---|---|---|---|---|---|---|
| (USD IN MILLION) | TOTAL FUTURE PAYMENTS | 2015 | 2016 | 2017 | 2018 | 2019 | AFTER 2019 |
| **Purchase of goods and services** | | | | | | | |
| REC Silicon | 173.4 | 134.5 | 30.1 | 1.5 | 1.5 | 1.5 | 4.4 |
| Other | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total purchase of goods and services | 173.5 | 134.6 | 30.1 | 1.5 | 1.5 | 1.5 | 4.4 |
| **Minimum operating lease payments** | | | | | | | |
| REC Silicon | 97.2 | 20.6 | 19.4 | 19.2 | 16.7 | 12.8 | 8.4 |
| Other | 0.0 | 0. 0 | 0. 0 | 0. 0 | 0. 0 | 0. 0 | 0. 0 |
| Total minimum operating lease payments | 97.2 | 20.6 | 19.4 | 19.2 | 16.7 | 12.8 | 8.4 |

Purchase obligations consist primarily of long term contracts for Metallurgical Grade Silicon. Operating leases consisted primarily of agreements for facilities that provide hydrogen and nitrogen used in production processes for which the lease and commodity component cannot be separated.

In July 2014, Rec Silicon became a partner in a joint venture in China (See Note8). The Group has agreed to contribute additional equity to the joint venture of USD 15 million in August 2016 and USD 154 million in August 2017 which has not been included in the table above.

**GUARANTEES AND PLEDGES**

Bank guarantees at December 31, 2013 amounted to USD 22.6 million related to purchases of energy, performance guarantees (REC Solar), and salary related liabilities. Restricted cash balances related to guarantees were USD 6.6 million (see note 14).

Bank guarantees at December 31, 2014 amounted to USD 1.2 million related to performance guarantees (REC Solar). Restricted cash balances related to guarantees were USD 1.1 million (see note 14).

The Group provided parent company guarantees for the REC Solar Group related to the performance of solar panels and systems and the sale of REC ScanModule AB. The Group has been provided with offsetting guarantees by REC Solar Holdings AS as part of the sale of the REC Solar division. The guarantees are valid for relevant warranty periods and are limited by warranties provided on solar panels and systems. Parent company guarantees for REC Solar were USD 69.5 million and USD 107.9 million at December 31, 2014 and 2013 respectively. Parent company guarantees of USD 14.5 million will expire in 2015. The remaining guarantees will decrease from 2022 to 2039 when they will expire in their entirety.

The Company has provided guarantees and indemnification agreements in connection with the bankruptcy of REC Wafer Norway AS in 2012. See notes 9, 11, 17 and 30.

# 30 OTHER INFORMATION FINANCIAL INSTRUMENTS

**FAIR VALUES OF FINANCIAL INSTRUMENTS**
The estimated fair values of the Group's financial instruments are based on market prices and the valuation methods described below.

**Financial instruments recognized at fair values (partially or in whole)**

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (USD IN MILLION) | ASSETS | LIABILITIES | ASSETS | LIABILITIES |
| Convertible bonds - fair value whole instrument | 0.0 | 91.3 | 0.0 | 215.5 |
| Derivatives | | | | |
| Currency and interest rate derivatives from banks | 0.0 | 0.0 | 19.7 | 6.9 |
| Option related to REC Wafer bankruptcy | 0.0 | 2.0 | 0.0 | 2.5 |

Determining the categorization of fair value measurements in accordance with IFRS 13 involves judgment.

**Level 2**
EUR and USD Convertible bonds: The Group accounts for these instruments at fair value. The convertible bonds are not listed on any exchange but are traded in limited markets. Quotations published by Bloomberg and actual trades are used to estimate fair value during the year. At year-end the value is adjusted to the tax assessment value published by Norges Fondsmeglerforbund. This value is an estimate of fair value.

Norwegian bonds: The fair value adjustments recognized in the financial statements were due to fair value hedge from the fixed swap interest rate to the floating NIBOR rate. In November 2013 the hedging designation was revoked and the hedged part of the bonds is no longer adjusted to their fair values (see note 17). Derivative instruments purchased from banks: The fair value estimates are based on contractual cash flows and traded prices for input components. The fair values are compared to estimates by external parties; primarily banks.

**Level 3**
Option contract is part of the indemnification agreements in connection with the REC Wafer Norway AS bankruptcy, and the estimated fair value is subject to change. The change in estimated fair value has been reported as part of the net gain on disposal of discontinued operations, see note 9. There are no anticipated cash flows associated with this option until estimated maturity in February 2016. The option price is dependent on the share price of the Company and dividend payout from the REC Wafer Norway AS's bankruptcy estate.

A ten percent change in the Company's share price would result in a change of NOK 2 million (USD 0.3 million at year end 2014) in the fair value of the indemnification liability. A similar change to the dividend payout from REC Wafer Norway AS's bankruptcy estate would result in a corresponding change of NOK 1 million (USD 0.2 million at year end 2014) in the fair value of the liability. A gain of USD 1.0 million for 2014 and a loss of USD 1.3 million for 2013 is included in profit or loss from discontinued operations.

**Other financial liabilities and assets**
The NOK bonds are traded on the Oslo Stock Exchange. Although trading is limited, market values of the bonds are estimated using trades near year-end and Norges Fondsmeglerforbund (level 2 in the fair value hierarchy).

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (USD IN MILLION) | NOMINAL VALUE | CARRYING VALUE | ESTIMATED FAIR VALUE | NOMINAL VALUE | CARRYING VALUE | ESTIMATED FAIR VALUE |
| REC01 | NA | NA | NA | 32.1 | 32.5 | 33.0 |
| REC02 | 31.5 | 30.7 | 30.9 | 38.5 | 37.1 | 36.3 |
| REC03 | 40.4 | 41.6 | 38.4 | 49.4 | 51.1 | 47.3 |

For all remaining financial assets and liabilities the carry amounts represent a reasonable approximation of fair value.

## CREDIT RISK

The maximum credit risks related to financial assets are estimated in the table below

| | 2014 | | 2013 | |
|---|---|---|---|---|
| (USD IN MILION) | CARRYING AMOUNT | MAX. EXPOSURE | CARRYING AMOUNT | MAX. EXPOSURE |
| Cash and bank (incl. restricted bank accounts) | 101.7 | 101.7 | 73.2 | 73.2 |
| Trade receivables and accrued revenues | 104.1 | 104.1 | 105.1 | 105.1 |
| Other non-current and current receivables | 0.5 | 0.5 | 5.5 | 5.5 |
| Finance receivables and short-term loans | 9.7 | 9.7 | 10.7 | 10.7 |
| Other derivatives - assets | 0.0 | 0.0 | 19.7 | 19.7 |
| Total | 216.1 | 216.1 | 214.2 | 214.2 |

The bank guarantees, parent company guarantees, and indemnification agreements (see note 29) expose the Group to credit risk. The fair values of bank and parent company guarantees are estimated at zero. The maximum amount of the indemnification agreements is NOK 270 million and has been recognized in liabilities for NOK 215 million for both years presented (USD 31.3 million at year end 2014).

### Shared characteristics that identify each concentration of trade receivables at December 31

| GEOGRAPHICAL | 2014 | 2013 | SECTOR | 2014 | 2013 | INDUSTRY | 2014 | 2013 |
|---|---|---|---|---|---|---|---|---|
| China | 37 % | 25 % | Manufacturing | 88 % | 92 % | Solar | 75 % | 78 % |
| Hong Kong | 34 % | 34 % | Wholesale | 10 % | 8 % | Electronic | 23 % | 15 % |
| Taiwan | 10 % | 10 % | Other | 2 % | 0 % | Other | 2 % | 7 % |
| Other Asia | 10 % | 12 % | | | | | | |
| Japan | 4 % | 15 % | | | | | | |
| Europe | 2 % | 4 % | | | | | | |
| North America | 2 % | 1 % | | | | | | |
| Total | 100 % | 100 % | | 100% | 100% | | 100% | 100% |

Continuing operations are dependent on a small number of customers. In 2014, five customers represented approximately 50 percent of revenue (four customers in 2013). Five customers represented approximately 50 percent of total trade receivables at the end of both years.

Generally, a more challenging and competitive market environment increases credit risk due to financially weaker customers and extended payment terms. At December 31, 2014, amounts overdue but not impaired between 90 and 365 days were associated with only four customers (one customer in 2013).

### Analysis of aging of receivables at December 31, 2014

| | | | AGING OF RECEIVABLES THAT ARE NOT IMPAIRED | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | PAST DUE | | | | | |
| (USD IN MILLION) | TOTAL CARRYING AMOUNT | NOT DUE | < 30 DAYS | >30<90 DAYS | >90<365 DAYS | >365 DAYS | IMPAIRED |
| Trade receivables | 115.8 | 80.7 | 11.2 | 11.8 | 0.1 | 0.4 | 11.6 |
| Provision for loss on trade recivables | -11.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -11.6 |
| Other non-current and current receivables | 0.5 | 0.4 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 |
| Finance receivables and short-term loans | 9.7 | 9.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 114.4 | 90.8 | 11.2 | 11.8 | 0.1 | 0.5 | 0.0 |

### Analysis of aging of receivables at December 31, 2013

| | | | AGING OF RECEIVABLES THAT ARE NOT IMPAIRED | | | | |
|---|---|---|---|---|---|---|---|
| | | | PAST DUE | | | | |
| (USD IN MILLION) | TOTAL CARRYING AMOUNT | NOT DUE | < 30 DAYS | >30<90 DAYS | >90<365 DAYS | >365 DAYS | IMPAIRED |
| Trade receivables | 113.1 | 82.7 | 11.3 | 3.5 | 7.5 | 0.0 | 8.1 |
| Provision for loss on trade recivables | -8.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -8.1 |
| Other non-current and current receivables | 2.1 | 1.1 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 |
| Finance receivables and short-term loans | 10.7 | 10.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 117.9 | 94.5 | 11.3 | 3.5 | 7.5 | 0.9 | 0.0 |

At December 31, 2014, approximately 27 percent of the not due receivables were secured by bank guarantees. At December 31, 2013 approximately 33 percent of not due and 26 percent of past due but not impaired trade receivables were secured by bank guarantees.

Overdue other receivables are related to the bankruptcy of REC Wafer and are uncertain as to the timing and amount of settlement. Other receivables consist primarily of VAT and other taxes.

Finance receivables and short-term loans are primarily related to an investment in municipal bonds and are serviced by property tax payments by REC Silicon.

Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. For derivatives traded with banks, the credit risk is regarded as limited to positive market value due to master netting agreements and some interest rate derivative instruments which are settled net. All the banks currently used as derivative counterparties have credit ratings in the A or higher categories assigned by Standard & Poor's or Moody's.

## SENSITIVITIES

### Convertible EUR and USD bond – sensitivity to changes in the Company's share price

At December 31, 2013 it is estimated that a ten percent change in the Company's share price will not change the estimated fair value of the EUR convertible bond.

At December 31, 2014 and 2013 it is estimated that a ten percent increase (decrease) in the Company's share price will increase (decrease) the estimated fair value of the USD convertible bond by USD 4 million.

### Interest rate sensitivity

A change in interest rates will affect interest payments on variable interest rate liabilities, cash, and restricted cash. The net effect of a one percentage point increase (decrease) in interest rates is estimated to affect profit or loss for the year by USD -0.7 (0.7) million calculated on outstanding amounts at December 31, 2014. The same calculation at December 31, 2013 was USD -0.3 (0.3) million.

A one percentage point increase (decrease) in market interest rates is estimated to change the net estimated fair values of the bonds with an effect to profit or loss by USD 2.6 (-2.7) million at December 31, 2014. The same calculation at December 31, 2013 including derivatives was USD 0.8 (-0.8) million.

### Exchange rate sensitivity

The tables below show the estimated impact of a 10 percent increase or decrease in foreign currencies rates compared to functional currencies for each entity. The amounts are calculated at period end and do not reflect fluctuations during the year.

The exchange rate sensitivity for financial assets in USD relates to the Company's loans to REC Silicon of which a portion is regarded as a net investment and consequently recognized to equity through other comprehensive income. The sensitivity of financial liabilities relates to the convertible bonds. In addition, sensitivity related to financial liabilities has declined with the extinguishment of debt.

**Exchange rate sensitivity on financial instruments at December 31, 2014**

| | CHANGE + 10% COMPARED TO FUNCTIONAL CURRENCIES | |
|---|---|---|
| (USD IN MILLION) | USD | TOTAL |
| Financial assets | 98.9 | **98.9** |
| Financial liabilities | -18.5 | **-18.5** |
| Derivatives | 0.0 | **0.0** |
| Total | 80.4 | **80.4** |
| Of which to equity | | |
| USD receivables as part of net investment | 13.2 | **13.2** |
| Rest is to profit or loss | 67.2 | **67.2** |

**Exchange rate sensitivity on financial instruments at December 31, 2013**

| | CHANGE + 10% COMPARED TO FUNCTIONAL CURRENCIES | | |
|---|---|---|---|
| (USD IN MILLION) | EUR | USD | TOTAL |
| Financial assets | 0.0 | 100.1 | **100.1** |
| Financial liabilities | -11.3 | -11.0 | **-22.5** |
| Derivatives | 0.2 | -12.3 | **-12.2** |
| Total | -11.2 | 76.8 | **65.4** |
| Of which to equity | | | |
| USD receivables as part of net investment | 0.0 | 13.1 | **13.1** |
| Rest is to profit or loss | -11.2 | 63.4 | **52.3** |

As described in note 3.1(A), the Group's currency risk on a consolidated basis relates primarily to the sufficiency of net positive cash flows in USD to meet debt service requirements in NOK. The Company currently holds NOK 538 million in NOK bonds with a carrying value of USD 72.4 million. A 10 percent increase or decrease in the NOK/USD exchange rate would result in a decrease of USD 6.6 million or increase of USD 8.0 million in the carrying values of these bonds in USD.

# 31 CLAIMS, DISPUTES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group is involved in legal disputes in the ordinary course of business. Provisions are recognized for the expected outcomes in accordance with applicable accounting rules. Provisions are based on Group Management's estimate of likely outcomes based on prior experience, the source, and the facts and circumstances of a claim. The final outcomes of such disputes and litigation are subject to significant uncertainty and actual outcomes may vary from provisions recognized. Provisions are adjusted to reflect the most recent facts and circumstances.

**PROPERTY TAXES**

REC Silicon has appealed property taxes in Grant County, Washington (USA). The 2012 assessment year is currently subject to an appeal currently pending in the Thurston County Superior Court. REC Silicon has received a Notice of Change of Value from Grant County for the 2013 and 2014 assessment year and has also appealed these valuations.

REC Silicon has contested Grant County's valuations of taxable property. At December 31, 2014, there was no difference between expenses recognized and amounts claimed by Grant County; the total provision in the statement of financial position is USD 23.3 million. At December 31, 2013, the difference between expenses recognized and amounts claimed by Grant County is USD 3.7 million; the total provision in the statement of financial position is USD 16.8 million. Under relevant law and previous agreements, REC Silicon is required to pay only the undisputed amount and a portion of the disputed amount while the appeals are pending; accordingly, payments made in 2013 for 2012 property taxes totaled USD 6.7 million and payments made in 2014 for 2013 property taxes totaled USD 4.0 million.

**INCOME TAXES**

The Company has received notices of reassessment from the Norwegian Central Tax office for large Enterprises (CTO) regarding the tax returns for fiscal years 2009 through 2011. The CTO has questioned the deductibility of losses on loans to REC ScanModule AB in 2009 and losses on loans and guarantees to Sovello GmbH in 2009 and 2010. In addition, the CTO has questioned the deductibility on losses on loans to REC Wafer Norway AS, REC Solar AS, and REC

ScanCell AS in 2011. These losses amounted to NOK 7.8 billion in total (at 28 percent the tax would be approximately NOK 2.2 billion or an equivalent USD 292 million at 2014 closing rates).

The Company has opposed the notices by filing legal assessments of the cases and presented supporting documentation. A decision has not been communicated by the CTO. Should the CTO make a decision denying the deductibility of the losses, any re-assessed tax is generally due two weeks after the decision, whether or not such decision is appealed. If this occurs, the Company believes that the amounts should be adjusted for group contributions and carry back of tax losses, reducing the potential tax effect (excluding any interest) to approximately NOK 230 million (USD 31 million).

The Company believes the losses are tax deductible and has made no provision for potential tax liabilities.

**USA/CHINA TRADE DISPUTE**
REC continues to sell its solar grade polysilicon into China by working with customers to utilize available options, namely the "Process in Trade," under China Customs laws.

On December 17, 2014, the US Department of Commerce announced final AD/CVD determinations against solar panels manufactured in China containing non-Chinese solar cells and Taiwanese made solar cells. This determination related to the second trade cases filed by SolarWorld with the US Department of Commerce at the end of 2013.

However, on December 31, 2014, the US Department of Commerce announced the preliminary results of the first review of AD/CVD duties imposed in 2012 following the first trade case filed by SolarWorld and substantially reduced duties applicable to solar panels containing Chinese cells imported into the US. If these lower duties become final, which is expected to occur in mid-2015, panels containing Chinese made components will be subject to significantly lower tariffs.  This should substantially enhance Chinese panel maker access to the US PV panel market.

On August 14, 2014, the China Ministry of Commerce made an announcement which could make Process in Trade unavailable for imports of solar grade polysilicon into China. However, Process in Trade has continued to be used by Chinese wafer makers for imports of solar grade polysilicon. If Process in Trade becomes unavailable for polysilicon imports into China, REC Silicon's earnings and cash flows would be negatively impacted by import tariffs until mitigating measures are implemented. Sales of semi-conductor grade polysilicon and silicon gases are not subject to the tariff; therefore, changes in the availability of the Process in Trade will not have an impact on sales of these products.

The company is actively working to mitigate the impact of potential duties should the availability of Process in Trade change.  Initiatives include expanding REC Silicon's customer base outside of China, increasing sales to customers within free trade zones inside China, and utilizing other opportunities, including the sale of solar grade polysilicon in a manner that would not be subject to the tariffs.

The US Government has advised REC Silicon that it is continuing to make diplomatic efforts to engage with the Chinese government to obtain a resolution to the trade dispute. However the outcome and timing of discussions or any resolution is uncertain.

## 32 SHARE-BASED COMPENSATION

The Group has share option programs from 2008 to 2011 for management and key personnel. Each program spans six years with a lock up period in the first three years. Options can be exercised in the remaining years, with four exercising periods per year. These periods start after presentation of the quarterly financial results and last 14 days. Any unexercised options are forfeited upon termination of employment.

Each program has a profit cap of one to two years fixed base salary. The number of share options awarded is limited to a maximum profit in each calendar year relative to the employee's annual fixed base salary effective at January 1 in the year of exercise. The profit is calculated as the difference between the exercise price and the market price at the time of exercise.

Fair values were estimated using the Black-Scholes option price model. Expected volatility was based on historical volatility and no dividends were expected in the periods. Expected lifetime and vesting periods were set at the time of allocation based on expectations that employees would exercise options early due to the structure of the programs, including the annual profit cap, and the high volatility of the Company's share price. Fair values for options are expensed over the estimated vesting periods. Due to the low share price compared to the exercise prices, the expected vesting periods have increased from approximately three years to approximately six years.

The exercise periods were shortened for all REC Solar employees due to the sale of REC Solar. Options in the 2008, 2009 and 2010 programs may be exercised within six months following the sale and will thereafter lapse. Options in the 2011 program were forfeited. No further expense is recognized for the share options to REC Solar employees.

In 2014, the 2008 option plan expired.

During 2014, REC Silicon granted 8,000,000 share options to certain key employees. This Program is a six year program. The first three years are a lock-up period. The vesting of the options for eligible employees will take place in equal parts in the fourth, fifth and sixth years of the program, on June 30 of each year. The options were granted at a strike price of NOK 3.50. This option program is a synthetic program where options will be settled in cash. Cash payments due to an eligible employee following any disbursement date is limited to a maximum amount in each calendar year equal to the employee's base annual salary effective January 1st in the year of the disbursement.

**OPTIONS OUTSTANDING AT DECEMBER 31, 2014**
REC Silicon excluding REC Solar

| PROGRAM | EXERCISE PRICE (NOK) | NO. OPTIONS | TOTAL FAIR VALUE (USD MILLION) | TOTAL EXPENSED (USD MILLION) | REMAINING TO BE EXPENSED (USD MILLION) | REMAINING CONTRACTUAL LIFE (YEAR) |
|---|---|---|---|---|---|---|
| 2009 | 32.69 | 461 922 | 0.3 | 0.3 | 0.0 | 0.6 |
| 2010 | 15.32 | 1 374 020 | 0.4 | 0.3 | 0.1 | 1.6 |
| 2011 | 10.09 | 1 999 188 | 0.5 | 0.3 | 0.1 | 2.6 |
| 2014 | 3.50 | 8 000 000 | 0.6 | 0.1 | 0.5 | 5.5 |
| Total | | 11 835 130 | 1.7 | 1.0 | 0.7 | |

At year-end 2014, the options in the 2009 and 2010 programs were exercisable. None of the options were in the money, as the REC Silicon ASA share price at December 31, 2014 was NOK 1.77 per share.

The amount recognized in the statement of income from continuing operations for share based compensation was an expense of USD 0.2 million in 2014 and an income of USD 0.7 million in 2013. The income in 2013 was due to options forfeited upon termination of employment.

# BALANCE SHEET (NGAAP)
# REC SILICON ASA

| AT DECEMBER 31 (NOK IN MILLION) | NOTES | 2014 | 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | B | **0.0** | 3.0 |
| Property, plant and equipment | B | **0.4** | 2.2 |
| Investments in subsidiaries | C | **228.9** | 227.9 |
| Non-current receivables from subsidiaries | D | **6 125.7** | 6 078.2 |
| Derivatives | L | **0.0** | 93.1 |
| Restricted bank accounts non-current | E | **30.5** | 39.0 |
| Total non-current assets | | **6 385.5** | 6 443.4 |
| | | | |
| **Current assets** | | | |
| Group account system, subsidiaries | | **0.0** | 1.3 |
| Trade recievables | | **1.1** | 19.5 |
| Other receivables from subsidiaries | D | **559.2** | 0.2 |
| Other receivables | | **3.5** | 12.0 |
| Derivatives | L | **0.0** | 26.8 |
| Restricted bank accounts current | E | **8.3** | 31.2 |
| Total current receivables | | **572.2** | 91.1 |
| Cash and cash equivalents | E | **125.3** | 63.8 |
| Total current assets | | **697.4** | 154.9 |
| Total assets | | **7 082.9** | 6 598.3 |

# BALANCE SHEET (NGAAP)
# REC SILICON ASA

| AT DECEMBER 31 (NOK IN MILLION) | NOTES | 2014 | 2013 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' eguity** | | | |
| Share capital | H | **2 313.8** | 2 313.8 |
| Share premium reserve | H | **1 841.1** | 1 841.1 |
| Total paid-in capital | H | **4 154.9** | 4 154.9 |
| Other equity and retained earnings | H | **1 332.9** | 0.3 |
| Total shareholders' equity | H | **5 487.8** | 4 155.2 |
| | | | |
| **Non-current liabilities** | | | |
| Interest-bearing liabilities | F | **1 552.8** | 2 280.3 |
| Retirement benefit obligations | I | **0.0** | 5.2 |
| Deferred tax liabilities | J | **0.0** | 0.0 |
| Derivatives | L | **15.0** | 31.2 |
| Total non-current liabilities | | **1 567.8** | 2 316.8 |
| | | | |
| **Current liabilities** | | | |
| Group account systems, subsidiaries | E | **0.0** | 0.6 |
| Trade payables | | **0.4** | 4.8 |
| Social security, VAT and other taxes | | **0.3** | 11.9 |
| Current provisions | G | **0.0** | 6.2 |
| Other current liabilities | | **26.7** | 76.8 |
| Derivatives | L | **0.0** | 26.1 |
| Total current liabilities | | **27.4** | 126.3 |
| Total liabilities | | **1 595.1** | 2 443.1 |
| Total equity and liabilities | | **7 082.9** | 6 598.3 |

Fornebu, April 15, 2015

Espen Klitzing
Member of the Board

Jens Ulltveit-Moe
Chairman of the Board

Ragnhild Wiborg
Member of the Board

Erik Løkke-Øwre
Member of the Board

Inger Berg Ørstavik
Member of the Board

Tore Torvund
President and CEO

# INCOME STATEMENT (NGAAP)
# REC SILICON ASA

| YEAR ENDED DECEMBER 31 (NOK IN MILLION) | NOTES | 2014 | 2013 |
|---|---|---|---|
| Lease revenues and other revenues - external | | **0.6** | 3.0 |
| Revenues from subsidiaries | | **0.0** | 9.0 |
| Total revenues | | **0.6** | 12.0 |
| | | | |
| Employee benefit expenses | I | **-13.6** | -63.0 |
| Other operating expenses | K | **-16.2** | -43.0 |
| Depreciation, amotization and impairment | B | **-5.0** | -6.7 |
| EBIT | | **-34.2** | -100.7 |
| | | | |
| Interest Income, internal | L | **418.9** | 605.9 |
| Interest Income, external | L | **3.8** | 29.2 |
| Interest expense, internal | L | **0.0** | -13.2 |
| Interest expense, external | L | **-123.8** | -315.1 |
| Other financial expenses | L | **-0.8** | -11.8 |
| Net currency gains/loses | L | **1 082.2** | 302.9 |
| Net gains/losses on derivatives | L | **-10.2** | -211.4 |
| Impairment and gains/losses on financial instruments | M | **-4.3** | -1 269.1 |
| Net financial items | | **1 365.8** | -882.6 |
| | | | |
| Profit/loss before income tax | | **1 331.6** | -983.2 |
| | | | |
| Income tax expense | J | **0.0** | -4.2 |
| Profit/loss for the year | | **1331.6** | -987.4 |
| | | | |
| **Profit/loss for the year is distributed as follows** | | | |
| Share premium | H | **0.0** | -987.4 |
| Other eguity | H | **1 331.6** | 0.0 |
| Total distributed | | **1 331.6** | -987.4 |

# STATEMENT OF CASH FLOWS (NGAAP) REC SILICON ASA

| YEAR ENDED DECEMBER 31 (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit/loss before tax | 1 331.6 | -983.2 |
| Taxes paid/received | 0.0 | -4.2 |
| Depreciation, amortization and impairment | 5.0 | 6.7 |
| Writedowns and losses on financial instruments | 0.0 | 1 268.3 |
| Changes in receivables [1] | -533.1 | 0.6 |
| Changes in payables | -54.2 | -30.6 |
| Changes in provisions | -6.2 | 1.3 |
| Changes in VAT and other public taxes and duties | -11.6 | 5.7 |
| Changes in derivatives | 77.7 | 2.0 |
| Currency effects not cash flow or not related to operating activities [2] | -997.7 | -299.9 |
| Other items [3] | 4.7 | 39.9 |
| Net cash flow from operating activities | -193.2 | 6.6 |
| | | |
| **Cash flows from investing activities** | | |
| Investement in equity in subsidiaries | 0.0 | -335.0 |
| Repayments of equity from subsidiaries | 0.0 | 467.3 |
| Payments finance receivables and restricted cash | 0.0 | -286.4 |
| Proceeds finance receivables and restricted cash | 31.4 | 753.6 |
| Payments for property, plant and equipment and intangible assets | -0.2 | 0.0 |
| Proceeds from sale of property, plant and equipment and intangible assets | 0.0 | 0.5 |
| Net change in internal part of group account system [2] | 0.6 | -373.0 |
| Net cash from disposal of subsidiaries | 0.4 | 55.6 |
| Net cash flow from investing activities | 32.2 | 282.8 |
| | | |
| **Cash flows from financing activities** | | |
| Increase in equity | 0.0 | 368.1 |
| Payments of borrowings and up-front/waiver loan fees | -859.8 | -2 579.3 |
| Proceeds from borrowings | 1 082.4 | 211.6 |
| Net cash flow from financing activities | 111.2 | -1 999.7 |
| | | |
| Net increase/decrease in cash and cash equivalents | 61.5 | -1 710.3 |
| | | |
| Cash and cash equivalents at the beginning of the period | 63.8 | 1 774.1 |
| Cash and cash equivalents at the end of the period | 125.3 | 63.8 |

[1] Change in receivables includes receivable on REC Silicon AS that will be converted to share capital in REC Silicon AS. See note D.

[2] Currency gains and losses are primarily related to interest bearing liabilities, loans to subsidiaries and the Group account systems. In 2013 it also included effects related to the Group account systems. The net currency gains and losses in the Group account systems relates to Group internal receivables and the Company's external bank accounts. It is impractical to separate these effects in the Group account systems. However, the internal receivables and payables in the Group account systems have been significantly higher than the external bank accounts. The Company has consequently included the net currency effects in the net change in the internal part of the Group account systems as a part of investing activities in the statement of cash flows. The Group account systems were closed in 2014.

[3] Other items consist primarily of the expensing of up-front loan fees.

# INDEX OF THE NOTES TO THE FINANCIAL STATEMENTS REC SILICON ASA

# NOTES TO THE FINANCIAL STATEMENTS REC SILICON ASA

## A SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND GENERAL

Renewable Energy Corporation ASA was renamed REC Silicon ASA at the end of October 2013. REC Silicon ASA (the Company) is a holding company with corporate functions. At the end of October 2013, the Company sold the Group segment REC Solar. The remaining corporate functions have been scaled down and most for the corporate functions are transferred to US.

In 2013 the Company recognized losses on the sale of the REC Solar segment; directly by sale of REC Site Services Pte. Ltd. and indirectly through REC Solar AS's sale of its subsidiaries

The financial statements have been prepared in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP) in effect at December 31, 2014. The functional and reporting currency of the Company is Norwegian Krone (NOK). The reporting currency used in the consolidated financial statements was changed from NOK to US Dollar (USD) in 2014, comparable figures (2013) have been restated. The consolidated financial statements of the Group have been prepared in accordance with IFRS. However, except as stated, the Company's accounting principles are similar to the accounting principles for the Group, as described in the notes to the consolidated financial statements. Financial statement disclosures for the Company that are substantially different from the disclosures for the Group are shown below. Otherwise, refer to the notes to the consolidated financial statements for the Group.

Group contributions and dividends that are subject to approval by the Annual General Meeting are according to IFRS recognized in the consolidated financial statements at the time of approval. For the Company's financial statements according to NGAAP, these are recognized in the fiscal year they relate to. Group contributions to subsidiaries are recognized as investment in shares in subsidiaries, net of tax. In the Company's financial statements, subsidiaries, jointly controlled entities and associates are carried at the lower of cost and estimated recoverable amount. In the consolidated financial statements, these are consolidated or accounted for using the equity method. In the consolidated financial statements, the convertible EUR and USD bond loans issued in 2009 and 2013 have been measured at fair value. In the Company's financial statements they are measured at amortized cost. The convertible EUR bond was settled in 2014.

In the Company's financial statements, payments expected to be made during the next 12 months on non-current financial assets or liabilities are not reclassified to current financial assets or liabilities. In the consolidated financial statements these are reclassified.

The financial statements are presented in NOK, rounded to the nearest tenth of million, unless otherwise stated. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements may not add up to the total of that row or column.

The financial statements of the Company have been approved for issue by the Board of Directors on April 15, 2015 and are subject to approval by the Annual General Meeting on May 6, 2015.

# B PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

| (NOK IN MILLION) | LEASEHOLD IMPROVEMENTS | MACHINERY AND EQUIPMENT | OFFICE AND OTHER EQUIPMENT | INTANGIBLE ASSETS | **2014 TOTAL** | 2013 TOTAL |
|---|---|---|---|---|---|---|
| Cost at January 1 | 5.2 | 2.3 | 14.8 | 31.2 | **53.6** | 116.0 |
| Additions | 0.0 | 0.0 | 0.2 | 0.0 | **0.2** | 0.0 |
| Disposal | -5.2 | -2.3 | -14.3 | -31.2 | **-53.0** | -62.4 |
| Cost at December 31 | 0.0 | 0.0 | 0.7 | 0.0 | **0.7** | 53.6 |
| Accumulated depreciation January 1 | -3.6 | -1.2 | -14.1 | -25.3 | **-44.2** | -37.6 |
| Depreciation for the year | -1.6 | 0.0 | -0.1 | -3.0 | **-4.7** | -6.7 |
| Disposal depreciation | 5.2 | 1.2 | 14.2 | 28.3 | **48.9** | 0.0 |
| Accumulated depreciation December 31 | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | -44.2 |
| Accumulated impairment januar 1 | 0.0 | -1.2 | 0.0 | -2.9 | **-4.1** | -4.1 |
| Imairment for the year | 0.0 | 0.0 | -0.3 | 0.0 | **-0.3** | 0.0 |
| Disposal impairment | 0.0 | 1.2 | 0.0 | 2.9 | **4.1** | 0.0 |
| Accumulated impairment December 31 | 0.0 | 0.0 | -0.3 | 0.0 | **-0.3** | -4.1 |
| Carrying value at December 31 | 0.0 | 0.0 | 0.4 | 0.0 | **0.4** | 5.3 |

All additions in 2014 (office and other equipment) are related to furniture and office equipment as a consequence that the Company's moved to new offices in May 2014. All tangible assets from 2013 where fully depreciated at that time and disposed, except certain assets with a cost of NOK 0,5 million. These assets were impaired by NOK 0,3 million. All intangible assets were fully amortized in April 2014 and disposed in 2014.

# C SHARES IN SUBSIDIARIES

| COMPANY | OWNERSHIP/ VOTING RIGHT | BUSINESS OFFICE | CARRYING VALUE DECEMBER 31 (NOK IN MILLION) **2014** | 2013 |
|---|---|---|---|---|
| REC Silicon AS | 100% | Bærum | **227.9** | 226.9 |
| REC Solar AS | 100% | Bærum | **1.0** | 1.0 |
| REC Technology Ventures AS | 100% | Bærum | **NA** | 0.0 |
| Total | | | **228.9** | 227.9 |

In 2014 REC Technology Venture AS was liquidated. In 2013 the Company paid in equity of NOK 29 million to REC Technology Ventures AS, NOK 1 million to REC Solar ASA, and NOK 306 million to REC Solar AS. In 2013 the Company received repayment of equity from REC Site Services Pte Ltd of NOK 467 million, and in October sold its shares in REC Site Services Pte Ltd and REC Solar ASA for total net cash after deduction of costs of approximately NOK 56 million. It recognized losses on sale of REC Site Services Pte Ltd and REC Solar ASA and write down of REC Solar AS and REC Technology Ventures AS, see note M.

| SUB-SUBSIDIARIES | OWNERSHIP/ VOTING RIGHT | BUSINESS OFFICE |
|---|---|---|
| REC Solar AS subsidiaries | | |
| Gitzeli Solar Energy Production S.A. | 100% | Greece |
| REC Greece S.A. | 100% | Greece |
| REC Silicon AS subsidiaries | | |
| REC Silicon Inc | 100% | Moses Lake, USA |
| REC Solar Grade Silicon LLC | 100% | Moses Lake, USA |
| REC Advanced Silicon Materials LLC | 100% | Butte, USA |
| REC Technology US Inc | 100% | California, USA |
| REC Silicon Pte Ltd | 100% | Singapore |

At December 31, 2014, REC Solar AS's subsidiaries were under liquidation.

## D RECEIVABLES FROM SUBSIDIARIES

Non-current interest bearing receivables from subsidiaries are USD loans to the subsidiaries in USA (REC Silicon Inc and REC Solar Grade Silicon LLC), with USD 824,1 million at December 31, 2014 and USD 999,1 million December 31, 2013.

Other receivables (current) form subsidiaries is mainly receivable on REC Silicon AS with USD 75 million (NOK 557,5 million) that will be converted to share capital in REC Silicon AS.

## E CASH AND CASH EQUIVALENTS, GROUP ACCOUNT SYSTEMS AND RESTRICTED BANK ACCOUNTS

### Cash and cash equivalents

| (NOK IN MILLION) | **2014** | 2013 |
|---|---|---|
| Group account systems (cash pools) | **0.0** | 3.4 |
| Other bank deposits | **125.3** | 60.4 |
| Total cash and cash equivalents | **125.3** | 63.8 |

### Restricted bank accounts (not included as cash and cash equivalents)

| (NOK IN MILLION) | **2014** | 2013 |
|---|---|---|
| Non-current | **30.5** | 39.0 |
| Current | **8.3** | 31.2 |
| Total restricted bank accounts | **38.8** | 70.2 |

At December 31, 2014, current restricted bank accounts include NOK 0,2 million to secure employees' tax deductions in REC Silicon ASA. In 2013 the employees' tax deductions were covered by bank guarantees.

See note 14 to the consolidated financial statements for a description of cash and cash equivalents, restricted bank accounts.

The amounts in the Group account systems representing receivables on and liabilities to subsidiaries are shown in separate accounts in the balance sheet and below. The Group account systems were closed in 2014.

### Group account systems, current receivables on subsidiaries

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Group account systems , subsidiaries | **0.0** | 1.3 |

### Group account systems, current liabilities to subsidiaries

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Group account systems , subsidiaries | **0.0** | 0.6 |

## F INTEREST BEARING LIABILITIES

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| NOK bonds | **538.3** | 735.6 |
| Up-front loan fees etc (amortized as part of effective interest) | **-3.2** | -5.1 |
| EUR convertible bind | **0.0** | 680.7 |
| USD convertible bond | **817.7** | 669.2 |
| Indemnification loan | **200.0** | 200.0 |
| Total interest bearing liabilities | **1 552.8** | 2 280.3 |

See note 17 to the consolidated financial statements for details of the Company's interest bearing liabilities.

## G PROVISIONS

| (NOK IN MILLION) | EMPLOYEE TERMINATION BENEFITS | LOSS CONTRACT | TOTAL |
|---|---|---|---|
| At January 1, 2013 | 4.5 | 0.3 | **4.9** |
| Additional provision | 9.1 | 3.2 | **12.3** |
| Unused amount reversed | -1.0 | 0.0 | **-1.0** |
| Used during the year | -9.7 | -0.3 | **-10.0** |
| At December 31, 2013 | 3.0 | 3.2 | **6.2** |
| Additional provision | 0.0 | 2.0 | **2.0** |
| Unused amount reversed | -1.2 | 0.0 | **-1.2** |
| Used during the year | -1.8 | -5.2 | **-7.0** |
| At December 31, 2014 | 0.0 | 0.0 | **0.0** |

All provision were settled in 2014.

At December 31, 2013 provisions were current.

# H EQUITY

| (NOK IN MILLION) | SHARE CAPITAL | SHARE PREMIUM | OTHER EQUITY AND RETAIND EARNINGS | TOTAL |
|---|---|---|---|---|
| Equity at January 1, 2013 | 2 113.8 | 2 660.5 | 0.0 | **4 774.3** |
| Share option program | 0.0 | 0.0 | -1.7 | **-1.7** |
| Share issues | 200.0 | 168.0 | 0.0 | **368.0** |
| Acturial gains/-losses on defined pension schene, net of tax | 0.0 | 0.0 | 2.0 | **2.0** |
| Loss for the year | 0.0 | -987.4 | 0.0 | **-987.0** |
| Equity at December 31, 2013 | 2 313.8 | 1 841.1 | 0.3 | **4 155.2** |
| Share option program | 0.0 | 0.0 | 1.0 | **1.0** |
| Profit for the year | 0.0 | 0.0 | 1 331.6 | **1 331.6** |
| Equity at December 31, 2014 | 2 313.8 | 1 841.1 | 1 332.9 | **5 487.8** |

Share capital at December 31, 2014 was 2,313,818,785 shares at par value of NOK 1 (2,113,818,785 shares at December 31, 2013). There is one class of shares which all have the same voting rights. See note 15 to the consolidated financial statements for more information.

In 2013 the Company increased equity through share issues of 200 million shares at a price of NOK 1.86 per share. The net proceed was NOK 368 million after deduction of costs of NOK 4 million.

# I EMPLOYEE BENEFITS

## Employee benefit expenses

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Payroll | **-8.4** | -42.3 |
| Bonus | **-2.4** | -12.8 |
| Share options expenses | **0.0** | 4.4 |
| Social security tax | **-1.6** | -8.7 |
| Pension expense including social security tax | **-0.8** | -0.7 |
| Other employee related costs | **-0.5** | -2.9 |
| Employee benefit expenses | **-13.6** | -63.0 |

The average number of employees measured in man-years was 5 during 2014 and 27 during 2013. There were no loans or guarantees to employees at December 31, 2014 and 2013.

For compensation and shareholdings for Group management and Board of Directors see note 16 to the consolidated financial statements.

**PENSION PLANS**
In the beginning of 2014, the defined benefit plans were settled. At December 31, 2014 the Company maintained a defined contribution pension plan for employees that fulfill requirements according to Norwegian law: "Lov om obligatorisk tjenestepensjon".

Pension plans in 2013 included a defined contribution plan with annual contributions of five to eight percent of fixed salary up to 12 G (average G-amount in 2013 was NOK 84,204) and an early retirement benefit plan accounted for as a defined contribution plan. There were also a compensation plans for salaries up to 12 G (a defined benefit plan for those who were employed at January 1, 2010 and estimated to earn less pension benefits in the contribution plan than in the previous benefit plan) and a defined benefit plan for salaries over 12 G and individual defined benefit plans for two employees. For information on assumptions used, see note 19 to the consolidated financial statements.

## RETIREMENT BENEFIT OBLIGATIONS AND PENSION EXPENSES

### Defined benefit plans

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Gross retirement benefit obligations at January 1 excl. social security tax | 5.2 | 20.0 |
| Service cost | 0.0 | 1.7 |
| Interest cost on pension obligations | 0.0 | 0.3 |
| Actuarial gains and losses | 0.0 | -1.7 |
| Benefits paid, paid-up policies and disability obligation | -5.2 | -12.3 |
| Liabilities taken over due to REC Wafer Norway AS bankruptcy, included as a loss (see note P) | 0.0 | 0.0 |
| Settlements and curtailments | 0.0 | -3.4 |
| Gross retirement benefit obligations at December 31 excl. social security tax | 0.0 | 4.6 |
| Accrued social security tax | 0.0 | 0.6 |
| Net retirement benefit obligations at December 31 incl. social security tax | 0.0 | 5.2 |

### Retirement benefit obligations in the balance sheet

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Net retirement benefit obligations at January 1 | -5.2 | 22.8 |
| Net periodic benefit costs | 0.0 | -1.6 |
| Actuarial gains and losses recognized directly in equity | 0.0 | -2.0 |
| Liabilities taken over due to REC Wafer Norway AS bankruptcy, included as a loss (see note P) | 0.0 | 0.0 |
| Pension premiums and benefits paid | 5.2 | -12.3 |
| Social security tax on pension premiums | 0.0 | -1.7 |
| Net retirement benefit obligations at December 31 | 0.0 | 5.2 |

### The amounts recognized in the income statement are as follows

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Current service cost | 0.0 | -1.7 |
| Interest cost on gross retirement benefit obligations | 0.0 | -0.3 |
| Settlements and curtailments | 0.0 | 3.4 |
| Employer's social security tax on defined benefit costs | 0.0 | 0.2 |
| Total benefit plans | 0.0 | 1.6 |
| Contribution plans including employer's social security tax | -0.8 | -2.2 |
| Pension expense including social security tax | -0.8 | -0.7 |

**SHARE OPTION PROGRAMS**

See note 32 to the consolidated financial statements for details of the share option programs.

At December 31, 2014 there was one previous employee of the Company that had 1.1 million share options remaining:

| | PROGRAM | | |
|---|---|---|---|
| TOTAL NO. OPTIONS DEC 31, 2014 | 2009 | 2010 | 2011 |
| 1 137 668 | 166 321 | 365 715 | 605 632 |

At December 31, 2014 and 2013 the accumulated share option expense recognized by the Company was NOK 4 million. At December 31, 2013 there was no remaining expense to be recognized. In the income statement, income of NOK 4.4 million for 2013 was recognized due to the cancellation of share options. At December 31, 2014 the accumulated amount recognized to equity was NOK 14 million and NOK 13 million at December 31, 2013. At December 31, 2014 there was NOK 2 million potential remaining to be recognized to equity by the Company relating to 2.7 million options outstanding for employees in the US subsidiaries.

The difference between the amounts recognized to equity and the expense are share options offered by the Company to employees in subsidiaries that are recognized as additions to the cost price of shares in subsidiaries.

# J INCOME TAXES

| (NOK IN MILLION) | **2014** | 2013 |
|---|---|---|
| Current income tax benefit (+) / expense (-) for the year | **0.0** | -4.2 |
| Total deferred tax benefit (+) / expense (-) for the year | **0.0** | 0.0 |
| Total income tax benefit (+) / expense (-) for the year in the income statement | **0.0** | -4.2 |

**Relationships of income tax expense/benefit to profit/loss before taxes**

| (NOK IN MILLION) | **2014** | 2013 |
|---|---|---|
| Profit/loss before tax | **1 331.6** | -983.2 |
| Tax calculated at domestic tax rate of 27 percent / 28 percent | **-359.5** | 275.3 |
| Effect of change in tax rate on gross temporary differences | **0.0** | -65.8 |
| Income not subject to tax | **0.1** | 1.2 |
| Expenses not deductible for tax (permanent differences) | **0.0** | -278.0 |
| Recognition of previosuly not recognized deferred tax assets | **359.4** | 67.3 |
| Net deferred tax assets not recognized this year | **0.0** | 0.0 |
| Adjustment of prior years' income taxes | **0.0** | 0.0 |
| Withholding tax payable on interest income | **0.0** | -4.2 |
| Total income tax benefit (+) / expense (-) for the year in the income statement | **0.0** | -4.2 |
| Effective tax rate | **0 %** | 0 % |

### Current income tax

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Profit/loss before taxes | 1 331.6 | -983.2 |
| Impairments and losses on shares and loans - permanent difference | 0.0 | 993.0 |
| Other permanent differences | 0.0 | -4.4 |
| Changes in temporary differences | -816.7 | -2 409.1 |
| Utilization (-) / increase (+) of tax losses carried forward | -514.9 | 2 403.7 |
| Basis for current tax in the income statement | 0.0 | 0.0 |
| Estimated 27 percent /28 percent current income tax | 0.0 | 0.0 |
| Withholding tax payable on interest income | 0.0 | -4.2 |
| Current income tax benefit (+) / expense (-) in the income statement | 0.0 | -4.2 |
| | | |
| Basis for current tax in the income statement | 0.0 | 0.0 |
| Cost for capital increase, recognized to equity | 0.0 | -3.9 |
| Tax loss carried forward | 0.0 | 3.9 |
| Basis for current tax in the balance sheet | 0.0 | 0.0 |
| Current tax asset (+) / liability (-) | 0.0 | 0.0 |

### Specification of temporary differences and tax loss, deferred tax assets and liabilities

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Fixed assets | -8.3 | -10.5 |
| Shares in subsidiaries | 0.0 | 0.0 |
| Up-front fees | 3.2 | 5.1 |
| Interest bearing liabilities | -213.8 | -205.1 |
| Pension liability | 0.0 | -5.2 |
| Derivatives | 0.0 | 62.7 |
| Net unrealized gains on non-current foreign exchange receivables and liabilities | 1 375.6 | 480.7 |
| Other | -80.0 | -86.2 |
| Tax losses carried forward | -6 305.6 | -6 820.6 |
| Total temporary differences and tax loss carried forward | -5 228.9 | -6 579.1 |
| | | |
| Tax percentage | 27 % | 27 % |
| Deferred tax assets (-) / liabilities (+) | -1 411.8 | -1 776.4 |
| Deferred tax assets not recognized | 1 411.8 | 1 776.4 |
| Deferred tax assets (-) / liabilities (+) in the balance sheet | 0.0 | 0.0 |
| | | |
| Change in deferred tax assets (-) / liabilities (+) in the balance sheet | 0.0 | 0.0 |
| Of which actuarial gains and loss, recognized to equity | 0.0 | 0.0 |
| Total deferred tax benefit (-) / expense (+) for the year | 0.0 | 0.0 |

# K OTHER OPERATING EXPENSES

### Specification of other operating expenses

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Operating lease expenses | -1.6 | -4.3 |
| Operating and maintenence costs | -0.5 | -0.8 |
| Audit remuneration | -2.5 | -2.1 |
| Consultancy fees | -3.5 | -8.9 |
| Travel cost | -0.9 | -1.9 |
| Insurance | -2.4 | -2.0 |
| IT and telecomunication costs | -0.9 | -4.7 |
| Other operating expenses | -3.1 | -6.0 |
| Service costs from subsidiaries | 0.0 | -0.9 |
| Onerouse (loss) contracts | -2.0 | -3.2 |
| Employee termination benefits | 1.2 | -8.1 |
| Total other operating expenses | -16.2 | -43.0 |

### Audit remuneration

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Statutory audit | -1.9 | -2.0 |
| Other non-audit services | -0.6 | -0.1 |
| Total auditor's remuneration expensed | -2.5 | -2.1 |

Amounts in 2013 are exclusive VAT. In 2014 NOK 0.3 million is included as expensed.

### Future payment obligations

The future aggregate minimum payment obligations are as follows

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| (NOK IN MILLION) | OPERATING LEASE | OTHER | TOTAL | OPERATING LEASE | OTHER | TOTAL |
| No later than 1 year | 0.1 | 0.8 | 0.9 | 1.9 | 0.0 | 1.9 |
| Later than 1 year but not later than 5 years | 0.2 | 0.0 | 0.2 | 2.4 | 0.0 | 2.4 |
| Later than 5 years | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 0.3 | 0.8 | 1.1 | 4.3 | 0.0 | 4.3 |

In 2014 the Company replaced the operating lease with a new contract (office rental).

The 2013 payment obligations do not include amounts recognized for onerous contracts for offices. The reduction in future payment obligations is primarily due to the scale down of the activities.

# L INTEREST, CURRENCY, DERIVATIVES

**INTEREST INCOME AND EXPENSES**
The Company conducts financing for the Group. See note 17 to the consolidated financial statements of the Group. Interest income was reduced in 2014 compared to 2013 primarily due to reduction of Group internal loans. External interest expenses are reduced in 2014 compared to 2013 due to reduction in interest bearing liabilities and reduced borrowing costs. Interest expenses include expensing of upfront fees, see note 25 to the consolidated financial statements.

**CURRENCY GAINS AND LOSSES**
Net currency gains in 2014 of NOK 1 082,2 million and NOK 302,9 in 2013 related primarily to USD loans to subsidiaries, partially offset by currency effects on USD interest bearing liabilities.

**DERIVATIVES**
In the beginning of 2014, all derivatives instruments except of the indemnification option contract were settled. The Company was the only entity within the Group holding derivative instruments. The overview of derivatives in note 11 to the consolidated financial statement is therefore representative for the Company for the periods presented.

See notes 3 and 11 to the consolidated financial statements for a description of derivatives, the purpose of entering into derivative transactions and accounting for derivatives.

# M WRITEDOWNS AND GAINS/LOSSES ON FINANCIAL INSTRUMENTS

| (NOK IN MILLION) | 2014 | 2013 |
|---|---|---|
| Loss on loans/impairment of shares in REC Solar AS | 0.0 | -960.5 |
| Impairment of shares in REC Technology Ventures AS | 0.0 | -28.5 |
| Loss on loans/impairment of shares in subsidiaries | 0.0 | -989.0 |
| Gain/loss in connection with the bankruptcy of REC Wafer Norway | -4.3 | 84.0 |
| Loss on sale of REC Solar (primarily sale of REC Site Services Pte Ltd) | 0.0 | -417.8 |
| Net gains/losses | -4.3 | -333.8 |
| Gain on repurchase of interest bearing liabilities | 0.0 | 53.8 |
| Net writedowns and gains/losses on financial intruments | -4.3 | -1 269.1 |

The gain/loss in connection with the bankruptcy of REC Wafer Norway AS relates to estimated values of liabilities taken on by the Company and loss on receivables, see note O below. In 2014 and 2013 some adjustments to these estimated liabilities were made. In 2013 the Company sold the segment REC Solar, directly by sale of shares primarily in REC Site services Pte Ltd and through REC Solar AS's sale of most of its subsidiaries. As a consequence, the Company realized a loss on sale and impaired its shareholding in REC Solar AS. See note 9 to the consolidated financial statement for more information on discontinued operations.

The Company conducted several repurchases of bonds in 2013, see note 17 and 25 to the consolidated financial statements. Gain on repurchase is primarily related to estimated gain on repurchase of part of the EUR convertible bond in May, which was recognized as a reduction to the carrying value of NOK bonds issued. This adjustment is amortized as part of effective interest on the NOK bonds. The main remaining unamortized part was expensed as part of the repurchase of bonds in November, offset by recognition to income of part of the fair value hedge adjustment.

## N RESEARCH AND DEVELOPMENT

No research and development expenses were recognized in 2014 and 2013.

## O GUARANTEES AND INDEMNIFICATION AGREEMENTS

At December 31, 2014 bank guarantees amounted to NOK 9 million. These guarantees were cosigned by REC Solar.

Bank guarantees at December 31, 2013 amounted to NOK 137 million. This includes cosigned bank guarantees for subsidiaries of NOK 58 million and NOK 50 million for REC Solar (see note 29 to the consolidated financial statements for further information). The bank guarantee of NOK 2 million in the favor of Bærum Municipality covering employees' tax deductions in REC Silicon ASA.

The Company and some of its subsidiaries are jointly and several liable for certain loans established by the Company.

- Relevant loan agreements established by the Company at December 31, 2014:
  - REC02: senior unsecured bonds with NOK 235 million outstanding. The tenor is from May 2011 to May 2016.
  - REC03: senior unsecured bonds with NOK 301 million outstanding. The tenor is from May 2011 to May 2018.

- The Company and the following direct or indirect 100 percent owned subsidiaries of the Company are jointly and several liable for the above mentioned loans at December 31, 2014: REC Silicon AS, REC Silicon Inc, REC Advanced Silicon Materials LLC and REC Solar Grade Silicon LLC.

The Company has provided guarantees and indemnification agreements in connection with the bankruptcy of REC Wafer Norway AS in 2012. The maximum amount of indemnification agreements is NOK 270 million at December 31, 2014. Recognized liabilities at December 31, 2014 were indemnification loans estimated to NOK 200 million and an option agreement with estimated fair value of NOK 15 million. See note 29 to the consolidated financial statements for more information.

## P RELATED PARTIES

Related parties transactions for the Company are primarily interest income and interest expenses towards its directly and indirectly owned subsidiaries (see the income statement). These interests are on non-current receivables from subsidiaries (see the balance sheet). Furthermore, the Company had in 2013 some revenues from and expenses to the subsidiaries (see the income statement and note K). During the 2013, the Company has also contributed equity funding (see note C). Group Management and Board of Directors' compensation, ownership of shares in the Company and options, loan agreements and guarantees are shown in note 16 to the consolidated financial statements.

## Q CONTINGENT LIABILITIES

See note 31 to the consolidated financial statements for description, especially of notices of reassessment from the Central Tax Office for Large Enterprises. No provisions for potential tax liabilities have been recognized at December 31, 2014 or 2013 related to these.

# AUDITOR'S REPORT

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To the Annual Shareholders' Meeting of REC Silicon ASA

INDEPENDENT AUDITOR'S REPORT

**Report on the Financial Statements**

We have audited the accompanying financial statements of REC Silicon ASA, which comprise the financial statements of the parent company REC Silicon ASA and the consolidated financial statements of REC Silicon ASA and its subsidiaries. The parent company's financial statements comprise the statement of financial position as at 31 December 2014, the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the statement of financial position as at 31 December 2014, and the statement of income and the statement of other comprehensive income, statement of changes in equity and statement of cash flows 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 parent company financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the 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 audit opinion.

KPMG

*Independent auditor's report 2014*
*REC Silicon ASA*

*Opinion on the separate financial statements*

In our opinion, the parent company's financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of REC Silicon ASA as at 31 December 2014, and of 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.

*Opinion on the consolidated financial statements*

In our opinion, the consolidated financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of REC Silicon ASA and its subsidiaries as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report and the statement on Corporate Governance*

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 and in the statements on Corporate Governance concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

*Opinion on Accounting 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 the 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, 14 April 2015
KPMG AS

Vegard Tangerud
*State Authorized Public Accountant*

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About REC Silicon ASA

REC Silicon ASA is a leading producer of advanced silicon materials, delivering high-purity polysilicon and silicon gas to the solar and electronics industries worldwide. We combine 25 years of experience and proprietary technology with the needs of our customers, and annual production capacity of more than 20,000 MT of polysilicon from our two US-based manufacturing plants. Listed on the Oslo Stock Exchange (ticker: REC), the company is headquartered in Moses Lake, Washington and employs approximately 720 people.

For more information, go to: www.recsilicon.com