Solar-powered growth

04

REC
Renewable Energy Corporation

Annual Report

www.recgroup.com

Estbl.:
1996

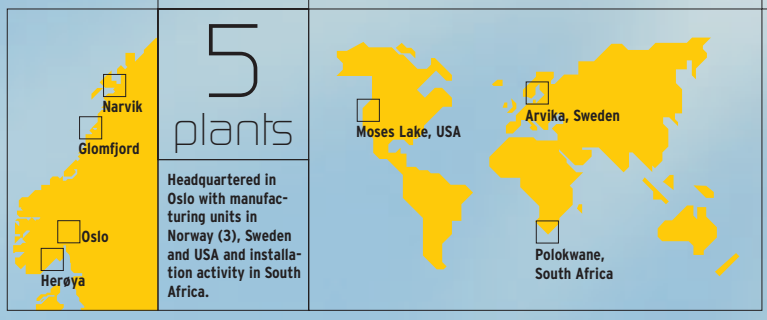
Vision

To increase the global use of clean and renewable energy, thereby reducing the negative environmental impacts from traditional energy sources.

657
Employees at year-end

5
plants

Headquartered in Oslo with manufacturing units in Norway (3), Sweden and USA and installation activity in South Africa.



Mission

Renewable Energy Corporation shall become the most cost-efficient solar energy company in the world.

Strategy

REC will focus its resources on its leading position in the upstream part of the value chain. This strategy will be realized both through organic growth and acquisitions, mergers and partnerships.

Renewable Energy Corporation (REC) is a significant player in the international solar energy* industry. Through 2004 we have united our resources behind an ambitious growth plan. Our effort is powered by a surge in the demand for solar energy and our own consolidation around a dominant position in the upstream part of the value chain.

OUTPACING A HIGH-GROWTH MARKET. The market for solar power has grown by an average of 37 percent each year since 1997, from 128 to 1146 MW produced cell capacity. In the same period REC's production of wafers has grown from zero to a run rate at the beginning of 2005 of 162 MW, implying a continuous increase in market share. We have a clear ambition to maintain this strong performance.

COST LEADERSHIP THROUGH INDUSTRIALISATION. Focus in our industry is being shifted from innovation to industrialisation. By targeting our resources at the upstream part of the value chain, we are able to further strengthen our cost position and pioneer the industrialisation of the solar power business.

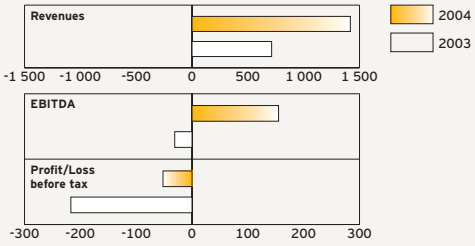
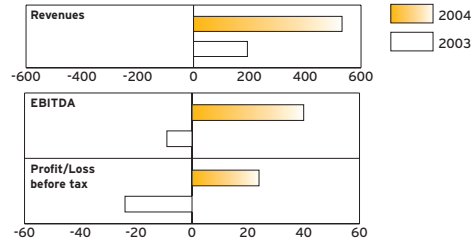
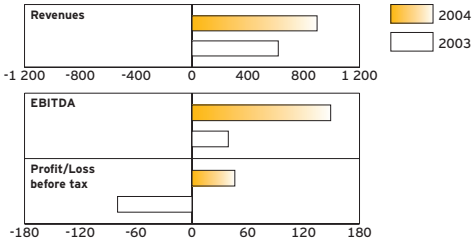
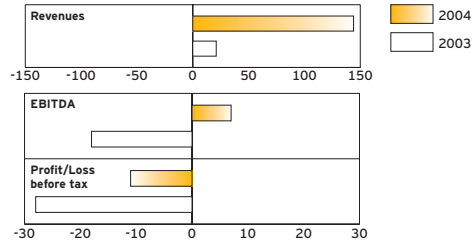
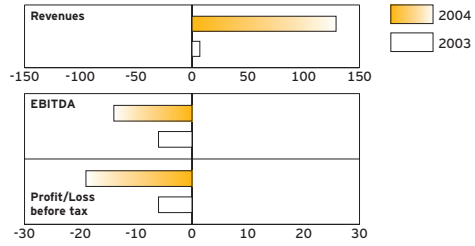
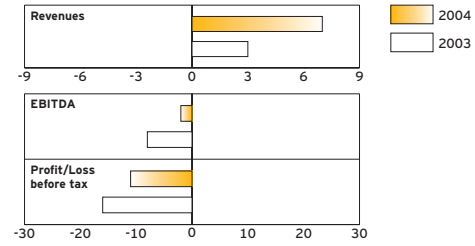
ROBUST STRATEGY WITH BALANCED RISKS. REC is exposed to the typical risks of an industry in a phase of rapid growth. We respond to these risks with a robust technology strategy, a unique and strong upstream position and long-term downstream contracts. Operational risks are reduced by our proven industrial process competence.

CONTENTS:

* Throughout this document the term solar energy refers to the generation of electricity based on the photovoltaic effect. In other literature, solar energy may also include additional technologies for converting solar radiation into electricity.

	Description	Key figures (mill NOK)	
Group	Renewable Energy Corporation (REC) is a significant player in the international solar energy industry. Our goal is to make solar energy increasingly competitive, as we believe this is the best answer to the world's need for long term clean energy.		**2004** 2003(p)
		Sales	**1 418** 713
		EBITDA	**155** -31
		EBIT	**-4** -162
		Profit/Loss before tax	**-52** -245
		Employees	**657** 546
		EBITDA margin	**10.9%** n/a
		EBIT margin	**n/a** n/a
Solar Grade Silicon (SGS)	SGS is the world's only dedicated producer of polycrystalline silicon for the solar power industry. At the end of 2004 the company was owned 70 percent by REC and 30 percent by ASiMi LLC, and is fully consolidated in REC's accounts. SGS is located in Moses Lake, Washington, USA.		**2004** 2003
		Sales	**534** 193
		EBITDA	**42** -9
		EBIT	**41** -10
		Profit/Loss before tax	**40** -17
		Employees	**175** 167
		EBITDA margin	**7.8%** n/a
		EBIT margin	**4.7%** n/a
ScanWafer	ScanWafer is one of the world's largest and most cost-effective manufacturers of multicrystalline silicon wafers for the solar power industry. ScanWafer has two manufacturing sites; one in Glomfjord in northern Norway and one at Herøya in southeast Norway.		**2004** 2003(p)
		Sales	**884** 618
		EBITDA	**149** 39
		EBIT	**68** -30
		Profit/Loss before tax	**46** -81
		Employees	**316** 277
		EBITDA margin	**16.9%** 6.3%
		EBIT margin	**7.7%** n/a
ScanCell	ScanCell has established a world class facility in Narvik, Norway for cost effective production of multicrystalline silicon-based solar cells. ScanCell focuses on producing good quality cells at a low price.		**2004** 2003
		Sales	**144** 21
		EBITDA	**7** -18
		EBIT	**-8** -26
		Profit/Loss before tax	**-11** -28
		Employees	**68** 57
		EBITDA margin	**5.1%** n/a
		EBIT margin	**n/a** n/a
ScanModule	ScanModule is established in order to manufacture multicrystalline solar modules for the European market. ScanModule is located in Glava, Sweden.		**2004** 2003
		Sales	**129** 7
		EBITDA	**-14** -6
		EBIT	**-17** -7
		Profit/Loss before tax	**-19** -6
		Employees	**70** 18
		EBITDA margin	**n/a** n/a
		EBIT margin	**n/a** n/a
SolEnergy	SolEnergy is a wholly owned subsidiary of REC that aims to exploit profitable business opportunities involving the integration and installation of PV power systems. The main activity is a concession to install 50 000 solar home systems granted to SolEnergy's subsidiary Solar Vision in South Africa.		**2004** 2003
		Sales	**7** 3
		EBITDA	**-2** -7
		EBIT	**-5** -11
		Profit/Loss before tax	**-11** -15
		Employees	**15** 13
		EBITDA margin	**n/a** n/a
		EBIT margin	**n/a** n/a

(p) Pro-forma figures for 2003 assuming ScanWafer on a fully consolidated basis.

	Highlights	Strategy
	• Revenue growth of 99 percent in 2004 • Significant improvement in operational profitability • Increased ownership in SGS and ScanWafer • Acquired minority share in CSG Solar • Decision to sell ScanCell and ScanModule • Intention to acquire ASiMI LLC after letter of intent signed in February 2005	Cost leader in the upstream part of the industry value chain. Build scale benefits and strong market positions. Develop and improve key technologies. Lead the industrialization of the industry. Maintain long term close relations with customers.
	• Revenue growth of 177 percent • Significant improvement in profitability • Increased capacity utilisation and reduced cost level • REC increased ownership to 70 percent • New FBR technology ready for pilot production	Maintain leading market position. Secure cost leadership with existing technology. Develop new proprietary and cost efficient technology and evaluate capacity expansion. REC intends to acquire ASiMI LLC following a letter of intent signed in February 2005.
	• Revenue growth of 43 percent • Significant improvement in profitability • Capacity expansion continued, run rate at end of 2004 of 162 MW. Expected run rate at end of 2005 of 240 MW • REC decided to acquire monocrystalline ingot producer SiTech AS	Achieve cost leadership in the production of wafers for the solar energy industry, through continuous improvements in productivity, scale and quality. Increase market share through capacity increases with the aim of becoming the largest global wafer producer. Continue to build and maintain close long-term customer relations.
	• Major capacity expansion and revenue growth of 585 percent • Changed production to larger and thinner cells • Profitable from Q4 2004 • Currently at capacity	The Board of Directors in REC has decided to divest this operation to focus the Group's total resources on achieving a leading position upstream in the industry value chain.
	• Moved from test production to full capacity • Changed production to modules based on larger and thinner cells • Profitable within Q4 2004 • Expected to be at capacity by end of Q1 2005	The Board of Directors in REC has decided to divest this operation to focus the Group's total resources on achieving a leading position upstream in the industry value chain.
	• Solar Vision has installed close to 6 500 solar home systems • Currently running at an average installation rate of 350 to 450 installations per month	REC's long-term involvement in the business of installation and operation of PV systems in developing countries is currently under review.

Our goal is to make solar energy increasingly competitive, as we believe this is the best answer to the world's need for long term clean energy.

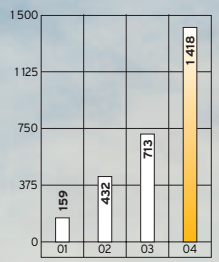
99%
revenue growth in 2004

2005
Sold out!

04
Results

Sales revenues 2004:
NOK 1.4 billion

17%
market share in multicrystalline silicon wafers



Sales revenue development 2001–2004 (NOK million)

REC is today the only solar energy company with its own production of high-quality silicon feedstock, providing a strong foundation for further growth and cost reduction.

Dr. Alf Bjørseth
President and CEO

A letter from Alf Bjørseth, President and CEO

Consolidating for growth

Developments in 2004 have confirmed that the global solar energy industry is fast becoming a significant business, with total global revenues exceeding 7 billion USD. In some areas, solar energy is already competitive with electricity generated from conventional sources, and will in the years ahead become competitive in even more countries. The year has also demonstrated REC's ability to operate profitably and take leadership in the industry. On this platform, we are now focusing our efforts to pave the way for continued strong growth.

When ScanWafer started production in 1997, the facilities were designed for an annual production of wafers with the capability to generate 10 MW of cells. Eight years later, this production capacity has grown by a factor of 20. This development is fuelled by a surge in market demand, which also has confirmed the position of crystalline silicon wafers as the preferred technology for generating electricity from solar energy. Equally important, the development reflects REC's ability to grow with – and even outpace – the market through technology and cost leadership.

AN UPSTREAM FOCUS

The further development of REC will rest on the same two pillars that we have based our business on so far. First, we will constantly strive to improve production technology in our plants in order to reduce cost in all phases of manufacturing. This will contribute to making solar energy a more cost-effective and attractive energy source and improve our own competitive position. Secondly, we will continue to build long-term relations and grow with our customers. These priorities are supported by a strategic choice that has been made explicit during 2004: We will focus on the upstream part of the value chain – the production of solar grade silicon and wafers. This is where REC has its strongest competitive advantages. Through SGS – our US factory for production of solar grade silicon – we have unique access to solar grade silicon feedstock, which is an acutely scarce resource in the industry today. Having access to both technology and production competence, REC is prepared to expand further in this important business area. We also possess a unique and proprietary technology for wafer production which is being constantly refined and developed. This is a good basis for further expansion of wafer production capacity in the years to come.

In parallel with our strong focus on multicrystalline silicon technology, we are also open for technology hedging in the sense that we have made small investments in other technologies such as crystalline silicon on glass in CSG Solar AG and monocrystalline ingot production in SiTech AS. Our role as a producer and supplier of silane and silicon will be further strengthened by the development of these technologies.

A MOVE TOWARDS INDUSTRIALIZATION

Our intent to consolidate around the upstream part of the value chain reflects of our ambition to grow to global leadership, maintaining high quality and profitability. As our industry grows more mature, focus is gradually being shifted from innovation to industrialization. We want to pioneer that development, and have started a systematic effort to implement best-practice procedures in our factories, inspired by industries that have reached advanced levels of manufacturing. We have achieved significant progress in 2004, but still see large improvement potentials.

WELL PREPARED FOR THE NEXT LEVEL

Our performance in 2004 is encouraging throughout our business. At the end of the year, all our factories, in all parts of the value chain, delivered positive results. The plants are also sold out for 2005 and, to a large degree, for subsequent years. Our factory in the US is running at full production capacity. We are now in the process of acquiring additional production capacity, also in the US. In Norway, the extension of our wafer plant at Herøya is up and running, and there is a positive development also at the Glomfjord site. After a hectic start-up period, both our cell and module production plants are delivering positive results, and are running at capacity. Thus, we can pursue the next level in our development from a strengthened platform.

Outpacing a high-growth market

The market for photovoltaic solar energy has on average grown by 37 percent annually the last seven years, from 128 MW in 1997 to an estimated 1 146 MW produced cell capacity in 2004. In the same period REC's production of wafers has grown from zero to a run rate at the beginning of 2005 of 162 MW. Our annual production capacity is expected to increase to 240 MW by the end of 2005, implying a continuous increase in our market share.

In the 1990s many industry sceptics viewed the solar power industry primarily as an idealistic and environmentally friendly business with limited commercial potential.

The markets have proved the sceptics wrong. Energy supply problems and the increasing need for renewable energy sources have primed political action. Heavily financed subsidy schemes have fuelled a rapid demand growth in key markets like Germany and Japan.

Now decreasing production costs and increasing market penetration seem to be taking over as drivers of demand growth. The world's second largest solar power market – Japan with 30 percent of the global market in 2003 – is expected to grow further in 2005 with only marginal subsidies. Approximately 38 percent of REC revenues in 2004 came from the Japanese market.

INCREASINGLY COMPETITIVE

Solar power's relative competitiveness as an energy source is influenced both by the cost of solar cell modules and by local market characteristics like energy prices and available alternative sources, interest rates and expected yearly sun hours.

This indicates that a competitive position is first reached in markets with high energy prices and relatively low interest rates in typical sun belt areas, and for off-grid applications. Typical geographical candidates are Japan and California followed by other parts of the US, the Mediterranean countries and industrialised parts of South-East Asia. Solar power is already competitive as a power source for appliances like mobile telephony networks, traffic surveillance and lighthouses.

Cost decreases follow from technological advances, economies of scale and productivity gains from industrialisation as the whole industry climbs the learning curve. In 2003, about 94 percent of the solar power industry used Silicon as raw material. At a global level, the industry is characterised by a high concentration upstream. There are five significant global producers of solar-grade silicon, 28 wafer producers, of which the three largest cover 60 percent of the market, and an estimated 65 cell producers of which the five largest cover 75 percent of the market. Solar module production is even more fragmented, and a great number of the manufacturers are national and regional players. Further downstream, there is an even larger number of system integrators, distributors, resellers and financial players involved in the sale to end users.

Technological progress, economies of scale and productivity gains are first achieved among the largest international players. As the industry matures, technological progress is achieved in smaller steps, and economies of scale

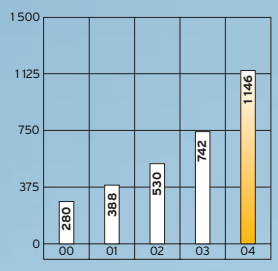
54%
Market growth

New record growth

1 146 MW
Solar Cells

The global production of solar cells grew by 54 percent in 2004 to an annual production representing a power generating capacity of 1 146 MW.

GLOBAL CAPACITY OF PRODUCED CELLS (MWP)



Source: Solarbuzz: Marketbuzz 2005

Solar-energy park in Bavaria, Germany (Photo: Courtesy of Conergy)

SOLAR POWER PRICE: SENSITIVITY TO SYSTEM PRICE AND INTEREST RATE

SYSTEM	INTEREST RATE						
PRICE	8%	7%	6%	5%	4%	3%	2%
6	0.32 €	0.30 €	0.27 €	0.25 €	0.23 €	0.21 €	0.19 €
5	0.27 €	0.25 €	0.23 €	**0.21 €**	0.19 €	0.17 €	0.15 €
4	0.22 €	0.20 €	0.18 €	0.17 €	0.15 €	0.14 €	0.12 €
3	0.16 €	0.15 €	0.14 €	0.12 €	0.11 €	0.10 €	0.09 €
2	0.11 €	0.10 €	0.09 €	0.08 €	0.08 €	0.07 €	0.06 €

Example: At an installation price of 5 EURO per Wp in an area with 2 000 sun hours per year and an interest rate of 5 percent a typical cost calculation implies a price of 21 € cent per kWh.

The table shows the sensitivity of implied electricity prices per kWh form a solar cell system to interest rate and system installation price given a durability of 30 years, 2 000 yearly sun hours, 5 percent DC/AC conversion loss and maintenance cost of 1.5 percent per year. In March 2005 the lowest retail price recorded by Solarbuzz implied a retail system price including installation cost of 5–6 EURO per Wp exl. VAT. For comparison with other areas: Prices in areas with only 1 000 yearly sun hours will be twice as high. The map below on this page indicates yearly sun hours in different regions.
Comparable residential electricity prices in 2004:

California 21–28 € cent per kWh
Tokyo 17 € cent per kWh

Price in Tokyo is estimated by REC as average electricity price based on available price information from Tokyo Electric Power Company (TEPCO) including transmission tariffs. Price in California is summer peak price (top-load) incl. transmission tariffs from Pacific Gas and Electricity Company.

and productivity gains in manufacturing grow in relative importance. In the distribution part of the value chain, productivity gains from development of best practice dominate as the driver of increased efficiency.

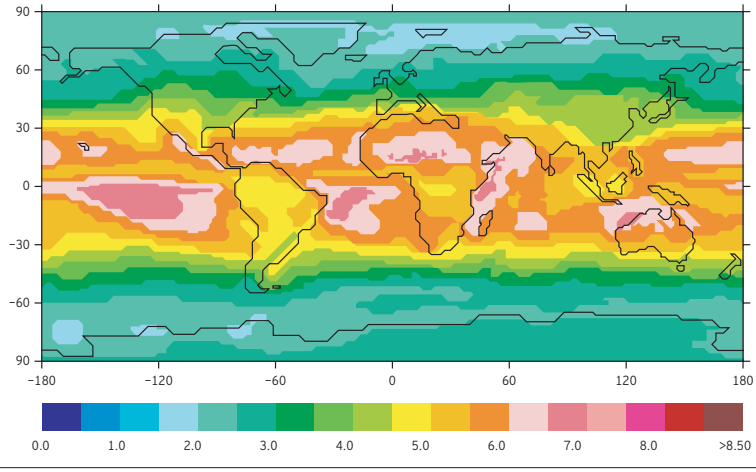
These industry characteristics indicate that development upstream is determined by technological progress and the size and growth of the global market, while local or national market developments may determine the development in the part of the industry that serves the end customers.

As the industry matures, national market subsidies, and associated political risks, are more important for the downstream part of the value chain and local players, and less important for the global players upstream. Downstream players in heavily subsidised markets also gain competitiveness which can be exploited to compete in other markets. The industry cost development illustrates these points.

When comparing the relative competitiveness of solar power, alternative cost is the relevant measure. For roof top installations in private homes the implicit cost of electricity from a solar cell module should be compared to end-consumer electricity price including transmission tariffs. (See table on this page for illustrations)

In many areas, high sun intensity coincides with high electricity consumption, typically connected to the use of air conditioning. This creates a peak load in the grid which can induce delivery problems or require overinvestments in grid and power generation capacity. Peak load also affects electricity prices as marginal high-cost production covers peak demand. Solar power can be used to shave off such peak price spikes, reduce delivery problems and reduce the investment level in electricity grids. If customers do not face price differentiation during the day (typically private homes), the supplier will have incentives to sponsor the installation of solar cell modules on rooftops, to reduce peak load and hence reduce own costs. If price-differentiation is possible, the end consumer faces this incentive directly. Large customers, like shopping malls, office buildings and factories are commonly exposed to hourly electricity tariffs in modern, market economies. In rural areas electricity grids may be non-existent. Here the alternative is other unconnected energy sources, like biomass, propane etc. with associated direct and indirect costs.

ANNUAL EXPOSURE TO SOLAR RADIATION MEASURED IN KWH PER M² PER DAY.

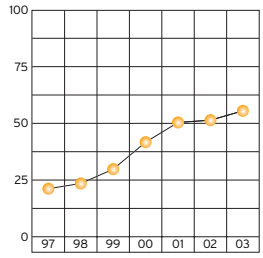


An insolation of 6 kWh/m²/day (dark orange) translates into 2 190 hours of electricity generation from a solar cell module. Source: Based on insolation map from NASA

Region average = 3.8649 (kWh/m²/day)

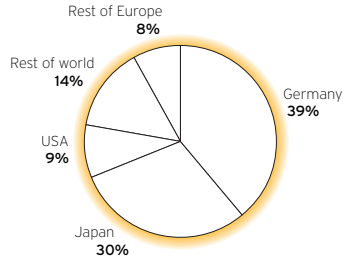
NASA/SSE 23 Feb 2005

SHARE OF GRID-CONNECTED SOLAR ENERGY (%)



Source: Renewable Energy World
Based on market volum (MW)

PV MARKET SIZE, GEOGRAPHICAL SEGMENTATION (2004)



Source: Solarbuzz: Marketbuzz 2005

CHANGING GROWTH DRIVERS

The single most important growth driver for the solar power industry so far has been subsidies. In 2004 the Japanese and the German market accounted for 30 and 39 percent of the global market respectively. In both countries far-sighted politicians have introduced subsidy schemes to make it profitable to install PV systems on private home roof tops and invest in PV parks for commercial energy production.

In the Japanese market energy prices are relatively high. In 2004 we estimate a peak power price including transmission tariff for residential customers of 20–25 € cent per kWh. Interest rates have stayed at a low level for several years, so the financial cost of investing in solar cell modules has been relatively low. Southern parts of the country receive as much as 2 000 sun hours per year, enabling a relatively high output from solar cell modules.

Hence, industry observers have looked to Japan for the first signs of solar power's unsubsidised competitiveness. In 2004 an important milestone was reached. From a subsidy level of 45 percent when the main subsidy programmes started in 1994, the average subsidy level fell to around 7 percent in 2004 and is expected to fall to 3 percent in 2005. At this low level, investing in solar cell modules is profitable even without subsidies in the sunniest parts of the country.

In the largest national market, Germany, the grid-connected part of the market will still depend on subsidies for many years. Even in this market, and with a yearly reduction in the absolute subsidy level of five percent, the German market is growing rapidly, and was the fastest growing geographical market in 2004 with a growth rate of 152 percent.

Reduced production cost is only part of the explanation both in Japan and Germany. Increased market penetration seems to grow more important as a growth driver. Penetration affects both supply and demand. Distributors, system integrators and resellers increase their cost-efficiency and their marketing effectiveness as they gain both size and experience. At the same time, increased penetration lowers the consumer's perceived barriers to trying out a new energy source. A good example is the current massive and unsubsidised

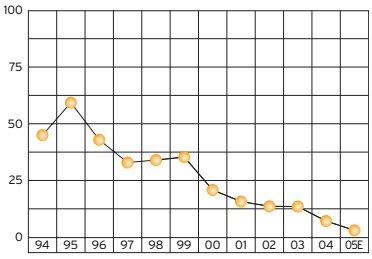
ENERGY IN ITS PUREST FORM

The total amount of radiation energy from the sun which reaches the earth is approximately 10 000 times the global energy consumption yearly. At the earth's surface the radiation corresponds to 0.5 kW/m².

In 1888 W. Hallwacs discovered that a negatively charged metal is often discharged when light falls on it. One hundred years ago, in 1905, a young scientist called Albert Einstein showed that this effect could be explained if light was seen as particles (photons) and not waves, and described a physical law for this photovoltaic effect. This law paved the way for identifying which metals could be used to generate electricity from solar radiation. He received the Nobel Prize in Physics for this work in 1921.

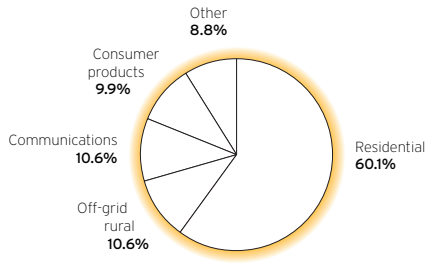
In solar cells, semiconductor material is placed between two electrodes. When the sun reaches the cell, free negatively charged electrons are discharged from the metal enabling conversion to electricity. In theory a single junction solar cell can convert about 30 percent of the solar radiation energy it is exposed to into electricity. So far the solar power industry has been able to produce commercial cells with an effect of 15 to 21 percent. Effects of up to 24 percent have been recorded in laboratory experiments.

SUBSIDY LEVEL IN JAPAN (%)



Calculated on the basis of information about system prices and NEF subsidies, from PV status report 2004 to the EU commission (Joint Research Centre)

PHOTOVOLTAIC SOLAR POWER BY USE – GLOBALLY



Source: Renewable energy world (2003 figures)

installation of PV-powered traffic signs on German highways.

DECREASING POLITICAL RISKS

Parts of the global market for solar power have been heavily subsidised as governments have chosen to assist the startup of a new industry. A high level of subsidies may leave the impression of high political risk in the industry. As the industry matures and becomes more commercially competitive, reliance on subsidies is reduced. However, the size and timing of future market growth is still influenced by political decisions. If all declared political initiatives are followed up with action, the already high growth rate will increase substantially over the next years. On the other hand, political changes may lead to temporary setbacks in certain geographical areas.

Political initiatives to promote renewable energy sources, like photovoltaic solar power, are motivated by the need to secure long-term energy supply.

A wide range of measures are used by governments to increase the use of solar power. The overall objective is to create a financial bridge to help the industry to achieve a cost level where solar power can compete fully with other energy alternatives without subisidies. Better relative competitiveness in supply, in terms of new technology, is stimulated directly through funding of research and development programmes. Demand is stimulated by economic incentives and legislation. The most frequently used mechanisms for stimulating demand are so-called feed-in tariffs, tax-breaks and subsidised financing for consumers, and direct or indirect (certificates etc.) obligations for energy producers to increase their share of renewable energy.

Japan has become the world's second largest market for solar power, and the world's largest and most competitive producer of PV components, as a result of a well planned subsidy scheme being part of a long-term commitment from the Japanese Government. The government programmes started in 1994, aiming to increase Japan's own energy supply, and build a new globally competitive industry. With zero domestic production of fossil fuels Japan is vulnerable to supply issues and price changes. Fossil fuels constitute app. 53 percent of Japan's energy consumption. Japan's nuclear energy industry also faces serious security issues and increasingly serious problems with disposal of used nuclear fuel.

Japan has chosen to target their subsidies towards private homes and commercial rooftops, in the form of investment support. The program has been highly successful both in terms of reducing cost and stimulating demand and supply.

In Europe the European commission has set explicit targets for an increase in the use of renewable electricity from 12 percent in 2000 to 20 percent of electricity generation in 2010. The target for photovoltaic solar power is an installed base of 3 000 MW by 2010, a 100-fold increase from 1995. Member countries are free to find their own solutions for reaching this overall target.

The German government has so far been the most proactive in Europe. As a result, Germany has the world's largest market for solar power, and a well developed and competitive industry. Germany has chosen feed-in tariffs as their subsidy scheme. Under this scheme consumers are guaranteed a fixed price on the electricity they generate on their rooftops for 20 years. The level of feed-in tariffs is reduced by 5 percent each year to account for decreasing costs. This has enabled attractive financial solutions for investment in solar power. The program was renewed in 2004, but is still viewed as vulnerable to political changes. Both the Italian and Spanish governments approved feed-in tariffs in 2004. The effect on demand is still uncertain, but with a high number of sun hours, solar power can reach a competitive price level earlier in these markets than in Northern and Central Europe.

In USA, the world's third largest market for solar power, state-run programmes are more important than federal programmes. The energy situation (supply and price) varies from state to state, and some states are considerably more exposed to solar radiation than others. California has so far been the largest US market for solar

Rooftop solar-power installation using REC solar modules (ScanModule) at the headquarters of UBS Acacias in Geneva.

Solar-energy park in Europe.

power. The governor of California has set an ambitious goal of 50 percent of new homes with PV installations. It is still unclear how this goal will be followed up by subsidies or other incentives.

Industry analysts and observers point to China and India as two major future markets for solar power. Both countries experience strong economic growth, face energy supply challenges and have limited energy infrastructure in rural areas. Statements from key politicians also indicate clear and ambitious intentions to support development of solar power.

There is still a degree of uncertainty about when substantial growth can be achieved in these markets. Both countries have conventional energy sources (primarily coal, hydro and nuclear), and a relatively low labour cost influences the comparable cost-levels of the different energy sources. The main problem with these sources is the reliance on electricity grids. This is one of the reasons why the use of solar energy in these countries is expected to grow rapidly at least in the medium and long term.

DOWN TO EARTH

The first commercial use of solar cells was for powering satellites in the 1950s and 1960s. In the space industry the then high cost of solar cells was of less importance, as the only alternative was placing small nuclear reactors in earth-orbit. Another early application was solar cells as a substitute to batteries in electronic appliances. The low energy demanded by calculators and watches made the cost insignificant.

With decreasing costs, solar cell modules first became commercially attractive for use in areas outside established electric grids, where the alternative was prohibitively costly and often unrealisable grid extensions. Lighthouses, cabins and radio transmitters in rural areas are good examples of applications creating the first real down-to-earth commercially viable markets for solar power. Today the mobile communications industry relies on solar cell modules for powering mobile base stations in off-grid areas.

The combination of continuously increasing cost efficiency and economic subsidies has made solar power in grid-connected private homes and solar-energy parks commercially attractive. From 1997 to 2003 the share of grid-connected solar power has increased from 21 to 56 percent, illustrating the rapidly increasing economic attractiveness of solar power.

99.999999 %

We provide solar grade silicon of a purity which is among the highest in the industry.

All technology choices in REC are conditioned by the possibilities for industrialisation and we pursue scalability in everything we do.

SOS is the only poly-silicon plant dedicated to the manu-facturing of solar grade silicon, providing significant cost advan-tages.

Polysilicon prod. vol. 2004

2 100 metric tonnes

Cost leadership through industrialisation

As the solar power business grows more mature, focus is being gradually shifted from innovation to industrialisation. REC is a pioneer in this development, and has established cost leadership as a key competitive strength. By consolidating our business around the upstream part of the value chain, we intend to further strengthen this position.

REC is among the world's largest producers of silicon wafers for solar power applications. We are currently present throughout the industry value chain – from the production of solar grade silicon (SOG) to the installation of solar home systems. However, in 2004 we affirmed our strategic decision to focus on the upstream part of the business. Our activities in the upstream area include our production facilities for solar grade silicon in Moses Lake, Washington, USA, and our silicon wafer production plants in Norway. In both these operations we have established unique competitive advantages that are being constantly enhanced.

SGS – DEDICATED TO SOLAR APPLICATIONS

Solar Grade Silicon LLC (SGS) is the world's first dedicated producer of polysilicon (high purity silicon) for solar applications. SGS was established in August 2002 as a joint venture between REC and Advanced Silicon Materials LLC (ASiMI), a subsidiary of the Japanese industrial group Komatsu Ltd. REC presently holds 70 percent of SGS. Production was launched in November 2002 after converting ASiMI's former plant in Moses Lake into a dedicated plant for solar grade polysilicon. In the production process, polysilicon is produced by converting metallurgical grade silicon into silane gas which is then purified and deposited in so-called Siemens reactors. This technology provides for a process that produces solar grade silicon of a very high purity (>99.999999%). Production is based on a license to utilize ASiMI's proprietary silane and polysilicon technology. SGS has since the opening shipped quality products to customers worldwide, while achieving record production rates with a safety record that is among the best in the industry. Since the

The 300 metres long reactor hall at the SGS plant in Moses Lake, Washington, USA.

Overview of the SGS plant in Moses Lake, Washington, USA.

opening in 2002, production volume at SGS has grown by approx. 20 percent. In 2004, SGS produced about 2 100 metric tonnes of polysilicon, corresponding to about 200 MW equivalent of solar energy.

Making it simple

The SGS plant benefits strongly from being dedicated to the manufacturing of solar grade silicon, which simplifies the production process. Other polysilicon producers typically also serve the market for electronic grade silicon (EG), which adds significant complexity to production and logistics. Simplicity is an overriding theme also for the general cost improvement efforts at SGS. Inspired by the principles of "lean manufacturing", we continually seek to simplify production processes and the business processes around them. As a part of this effort, we constantly evaluate overall factors like the supply chain, the product portfolio and the planning horizon. We also seek to continually enhance our competence and administrative systems, and ensure the right level and quality of manpower.

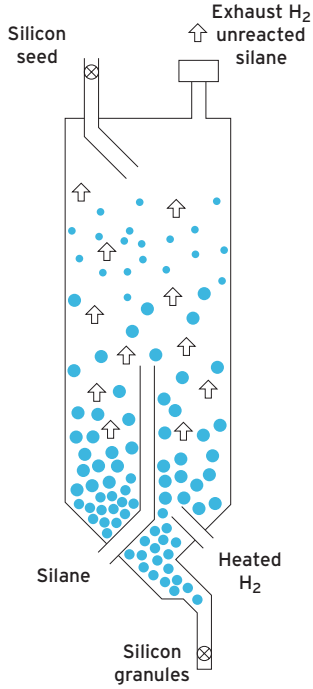
Our approach to cost improvement has yielded significant results also in 2004.

Investing in new technology and capacity

SGS has made substantial investments in a new proprietary fluidised bed reactor (FBR) technology to produce granular polycrystalline silicon at a lower cost. The fluidised bed reactor consists of a deposition chamber where the silane gas is deposited on small particles which are continuously being blown upwards by the silane gas itself. The millions of small particles floating in this gas stream provide a surface area for deposition which can be more than a hundred times larger than the rods of the traditional so-called Siemens reactors. This new process can provide substantial reductions in investment and labour cost, high production yield due to continuous operation, and dramatic reductions in energy consumption. With this reduced energy consumption the environmental quality of PV will be further improved since the energy payback time will be strongly reduced.

Pilot production using the new FBR technology started in the first quarter of 2005 with the 200 MT/year reactor, and the plan is to start regular production with the new technology by 2006. FBR technology can be integrated in existing plants and can also form the basis for new plants. Successfully implemented, this new technology will enable REC to invest in new production capacity for solar grade silicon at a competitive cost.

Under the agreement between ASiMI and REC, REC will increase



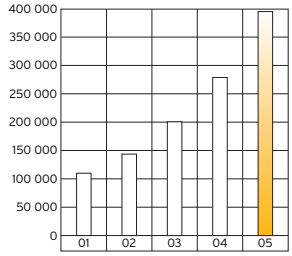
FLUIDISED BED REACTOR TECHNOLOGY (FBR)

In the reactor, silane gas is deposited on small particles which provide a surface area for deposition which can be more than a hundred times larger than in a traditional Siemens reactor.

This process provides substantial reductions in investment and labour cost, high production yield due to continuous operation, and dramatic reductions in energy consumption.

So-called Siemens reactors at Moses Lake plant.

SCANWAFER PRODUCTIVITY DEVELOPMENT SINCE 2001



Wafer area in dm^2 per employee. (Estimate for 2005)

its ownership in SGS to 75 percent in September 2005.

In February 2005, REC signed a letter of intent to buy a 75 percent interest in ASiMI (see above), from Komatsu Ltd. Should the acquisition take place, REC will take over ASiMI's facilities in Butte, Montana which manufactures and sells polycrystalline silicon principally for semiconductor applications and silane gas mainly for semiconductor and LCD applications. The agreement also includes ASiMI's proprietary silane and polysilicon technology. REC intends to continue operating ASiMI's silane gas business as it is operated today, while gradually shifting the polycrystalline silicon business from electronic applications to PV applications. REC views the purchase of ASiMI as an excellent opportunity to strengthen its position in the rapidly growing solar power industry.

SCANWAFER – CONSTANT ADVANCES IN PRODUCTIVITY

ScanWafer, a wholly owned subsidiary of REC, is among the world's largest producers of silicon wafers for solar applications. ScanWafer operates two plants in Norway – one in Glomfjord in northern Norway, and one at Herøya in southern Norway. In 2004, these plants produced wafers with an implied effect of approx. 130 megawatts, corresponding to a wafer area of 88 million square decimetres. This gives ScanWafer a market share of approx. 17 percent of multicrystalline wafers and approx. 11 percent of the total wafer market. In 2005 the production is estimated at approx. 205 megawatt or 138 million square decimetres. As each wafer measures about 2.4 square decimetres, this means that more than one million wafers are produced at ScanWafer every week. With an ongoing expansion, ScanWafer is expected to reach a capacity run rate of close to 240 MW/year by the end of 2005. Backed by its unique access to silicon feedstock, ScanWafer will maintain a strong market position and we see significant opportunities to further increase our market share.

The production of multicrystalline silicon wafers can be divided into two steps: casting and cutting. The process starts by placing solar grade silicon into crucibles which are then placed in special crystallisation furnaces. The silicon is melted and then gradually cooled through a controlled process called directional solidification and silicon crystals are formed. The result is a large block of crystallised silicon, called an ingot. After the ingot has been taken out of the crystallisation furnace it is first cut into blocks of defined sizes. Afterwards, an efficient wire saw cuts the silicon block into thin slices – wafers. Today multicrystalline wafers typically have a thickness of 240–280 micron with a drive towards thinner wafers to reduce cost. Finally, the wafers are washed and controlled for quality, before they are packaged and shipped to the customers.

Governed by the demands of industrialisation

All technology choices in ScanWafer are conditioned by the possibilities for industrialisation, and we seek to build scalability into everything we do. Already today, many of our solutions have a higher productivity than those of our competitors.

In parts of the production line, ScanWafer benefits from proprietary technology. This includes the crystallisation stage of the process, where we, together with partners, have developed a furnace to accommodate four crucibles in parallel, as opposed to one crucible, which is the industry norm. This provided for a significant step forward in productivity. In addition, we have achieved significant continuous improvements in furnace operations. This has contributed to improving the production efficiency by approx. 70 percent since we started using the new furnaces. Unique and world-leading technologies are also developed for the wafering, singulation, cleaning and quality control parts of the process, reducing run time and manpower cost.

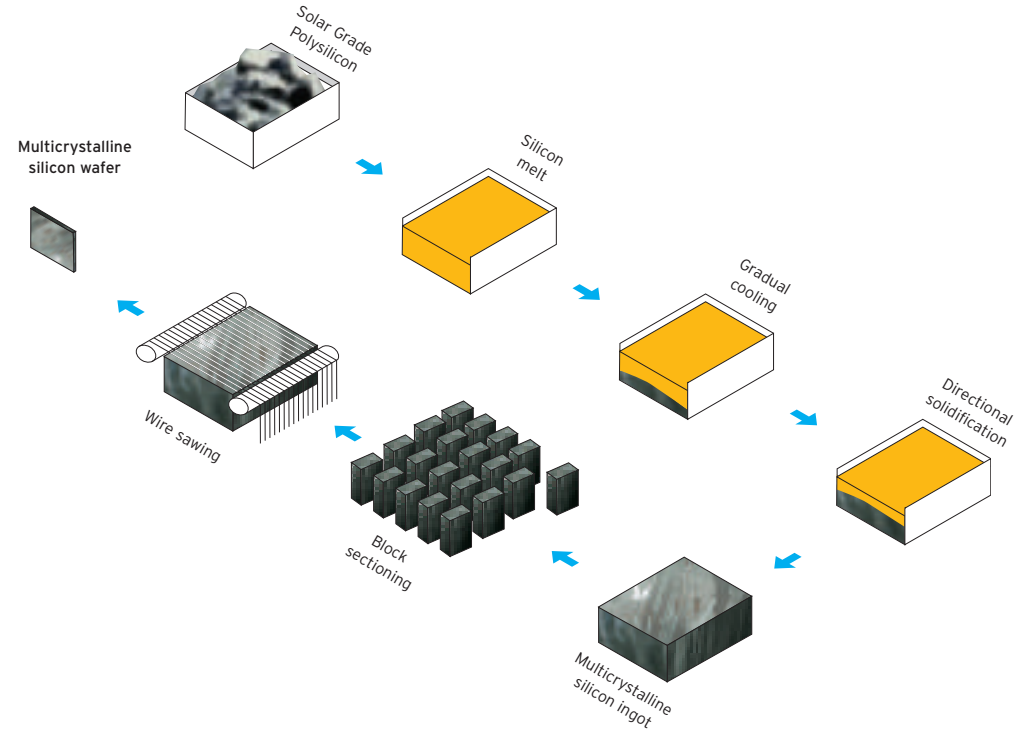
Dedicated efforts are made to achieve a higher degree of automation and effectiveness at all steps of the production process. The cutting of ingots into blocks is done by means of industry standard saws. At this stage, a critical factor is the fixation of blocks to achieve precision. We are now introducing a new ingot fixation system as a way to further improve efficiency and precision in this part

The ScanWafer plant in Glomfjord in northern Norway.

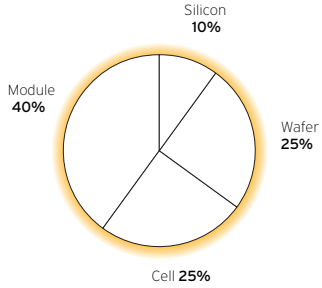
of the process. At the next stage, the blocks are sliced into wafers in a cutting process where we use an industry standard wire saw equipped with patented improvements. To be able to cut the silicon, the wire grid must be furnished with a cutting substance called slurry, consisting of silicon carbide mixed with polyethylene glycol. The slurry is a significant cost component in the production process. Through different measures, including recycling of slurry, we have reduced the cost by over 40 percent. It is also essential to develop good operating routines for the wafer saws. High precision is absolutely critical, and we are constantly looking for improvement measures in this area.

In the industry there is a strong focus on wafer yield, i.e. what fraction of high quality products that are achieved from each block. Improvements in wafer yield will directly affect bottom line results in a significant way. The limited supply of raw material is an incentive to reduce wafer thickness. However, as thinner wafers also increase the risk of breakage, all succeeding stages of the process, including cell and module processing, will need to be improved and adjusted to new wafer and cell thickness. ScanWafer has also introduced recycling of production consumables, which is a significant measure with regard to the environment as well as to cost reduction.

SCANWAFER PRODUCTION PROCESS

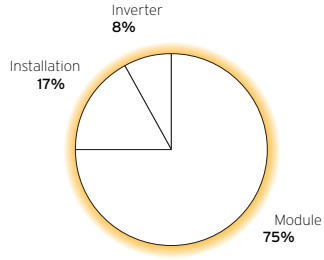


MODULE COST BREAKDOWN



Source: REC estimate

TOTAL INSTALLATION COST BREAKDOWN



Source: REC estimate for costs in high effect module. Smaller residential modules is estimated to have a module cost share of 45–55%.

Inspired by industrial best practice

As we move forward, incremental improvements will be the main contributor to our cost position, interspersed with stepwise upgrading of our technology base. In this effort, we are seeking to learn from industries that have reached an advanced level of industrialisation in the manufacturing of components, such as the car industry. A key take-away from these industries is the importance of continuous improvements. In particular, we are inspired by the Toyota model, which describes a systematic approach to making all operations simple and all decision-making unambiguous down to the lowest possible level in the organisation. Our efforts to this end have already resulted in significant improvements. Since we started the new production plant at Herøya in 2001, we have managed to increase productivity by more than 30 percent through incremental improvements.

Organised for improvement

The cost improvement efforts in ScanWafer rely on close monitoring and follow-up at the plants, combined with a systematic sharing of competence. Three arenas are defined for this work, each with clearly described responsibilities. The first arena is the shop floor, with the production managers being responsible for the day-to-day improvement work in each factory. To ease communication and promote a commitment to high performance, one shift is responsible for the whole production string. We monitor the performance of each shift with a particular focus on wafer yield, and communicate our performance to the whole organisation. We rely on operators that are deeply involved in the improvement effort, and have been able to attract highly qualified personnel. The next arena is the technical departments in each factory. Here, performance data is aggregated and analysed and plans are developed for how each production line can become more efficient. Finally, the technology department is responsible for long-term technology management and development, as well as technology monitoring and benchmarking in ScanWafer.

COST FOCUS DOWNSTREAM

REC's current business portfolio also includes two production companies in the downstream part of the industry value chain. ScanCell produces solar cells based on multicrystalline silicon wafers manufactured by ScanWafer. ScanModule manufactures multicrystalline solar modules for the international market. While being less mature in their development, the operations in ScanCell and ScanModule have followed the same track of stepwise improvements and professional industrialisation as REC's other production companies. At the end of 2004 both of these companies ran a profitable operation, and caught up with industry standards in terms of product quality, yield and production systems.

ScanCell's world-class facility in Narvik, Norway is focused on cost-effective production of high-efficiency cells. The facility has a production capacity of 20 MW solar cells per year. The products are sold to ScanModule and other module manufacturers for use in the manufacturing of solar modules, arrays and systems.

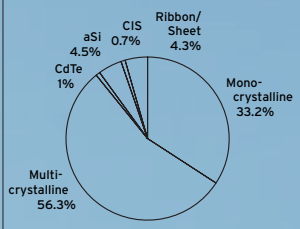
ScanCell's approach to cost reduction is based on close and long-term co-operation with equipment suppliers, highly focused technology development and long-term sales contracts.

ScanModule is situated in Glava, Arvika in Sweden. Production started up in June 2003. ScanModule is equipped with the most modern and flexible production equipment in order to deliver competitive products according to changes in the market. ScanModule has established a cost effective and competitive manufacturing process, with continuously improving results.

To summarize, solar energy is fast becoming a major industry, with a rapid rate of industrialisation. Focusing on technical innovation, economies of scale and synergies along the value chain, REC aims to be a leader in this industry, offering high-performing products at continuously decreasing prices. The constant pursuit of cost leadership is a vital part of this ambition.

Leading tech-nology

MARKET SHARE, WAFER TECHNOLOGIES



Source: Photon International (2003 figures)

90%

of solar energy applications is based on silicon wafers

Silicon wafers is the dominant technology today and has a potential for further cost-efficiency and productivity that can make it the dominant technology for the foreseeable future.

Silane gas production unit at the SGS plant in Moses Lake, Washington, USA.

Robust strategy with balanced risks

The market for photovoltaic solar energy is currently undergoing rapid growth, and the applied technologies for producing wafers, cells and modules are relatively young. This implies that solar power producers face a broad range of risk factors. REC meets these risks with a robust technology strategy, a unique and strong upstream position in silicon feedstock and long-term downstream customer contracts. Our proven industrial process competence reduces operational risks.

Risks and opportunities go hand in hand. In young industries a high growth rate and a seemingly rapid technological development may distort assessments of both. From our inception, as ScanWafer, in 1997 we have strived to build a management culture where careful assessment of risks and opportunities in both technologies and markets is balanced with a commercial instinct. Such careful assesment of the future silicon supply situation led us to invest in silicon feedstock production in 2002. Our industrial and engineering background has led us to focus on improving existing technologies in addition to developing and monitoring new technologies. We continuously reduce costs in all our operations, and we prioritize intimate long-term relations with our customers to ensure that we can grow with them.

A ROBUST TECHNOLOGY

REC is a silicon-based photovoltaic solar energy company. We believe that silicon will be the preferred material for the solar power industry, short term as well as medium term. The improvement potentials of silicon-based solar power are so large there is a high probability that silicon will be the preferred material also in the long term.

Silicon is the second most abundant element in the earth's crust, only surpassed by oxygen. Even in the long term, supply and prices will never be influenced by scarcity of metallurgical silicon as raw material. Capacity for purification of metallurgical silicon to solar grade polysilicon (SOG) is currently a bottleneck for feedstock to the industry. REC's upstream position protects us from supply problems.

Silicon-wafer based solar cells are today commercially competitive as energy source in parts of the world. The industry has identified both new cost-reducing production technologies (as described on pages 12–17) and a potential for more cost-efficient manufacturing. Industry observers expect a yearly cost-reduction of five percent to continue at least for the rest of the decade. REC's improvements so far have outpaced these expectations. Expected increases in energy-efficiency, and new production technologies, can add further to long-term competitiveness.

The whole value chain in the solar power industry, from production of SOG to installation and financing of solar modules, has worked with silicon-based technologies for several decades. Producers, suppliers, partners, academia, researchers, customers and authorities are all familiar with the basic technologies. They know its characteristics, costs, risks and benefits. The subsequent benefits in terms of industry robustness, industry dynamics, cost efficiency and market reach are increased year by year. A wide range of industry players have made substantial investments in technology throughout the value chain for production of silicon-based solar cell modules, and are highly motivated to ensure a good return on these investments.

In addition silicon-based solar cells are very durable. Manufacturers guarantee a lifetime of 20 to 40 years, and estimated lifetime can be up to 100 years. This is highly relevant as costs are tied primarily to investments, and benefits only to use over time.

Non-wafer based technologies do not have these advantages. Even the most promising alternative technologies are many years away from the same level of robustness, competitiveness and market reach. With a market share of approximately 90 percent and an increasing momentum in the whole industry, we believe silicon wafers have gained a head start that can not be caught up with for at least ten more years.

NEW OPPORTUNITIES

REC has invested in assets to produce silane gas, SOG and silicon wafers. The expected profitability of these investments over their lifetime depends on our ability to continue increasing productivity, reducing cost and the robustness of our technology strategy. Through SGS, REC is the world's largest dedicated producer of SOG, the raw material for wafer production. The cost-efficiency of this operation, together with a stable and growing long-term demand, gives a potential for

Inside ScanWafer's plant at Glomfjord, Norway.

further leverage of the business. Silane from SGS can potentially be used in all types of thin film silicon technologies. Silicon from this factory can be used in the production of mono-crystalline and multicrystalline wafers, as well as wafers based on ribbon or RGS technology. Hence we have a unique position for meeting the developments of the different silicon based technologies, and switch between technologies if needed in the long term.

REC has decided to acquire SiTech AS, a producer of monocrystalline silicon ingots. Wafers from such ingots are used in some very interesting high efficiency cell processes currently under development. The high efficiencies reached in these cell processes imply that the competitive position of monocrystalline wafers may be improving. Hence, it has been important for us to secure the monocrystalline competence in REC so that later expansions can take place on both monocrystalline and multicrystalline wafers if the relative competitiveness and market attractiveness changes significantly over the next years.

While ScanWafer today produces multicrystalline wafers, our wafer-manufacturing lines can also handle monocrystalline ingots.

In 2004 REC acquired a minority share in CSG Solar AG, a company developing microcrystalline silicon-based thin-film for the solar energy market. CSG has an excellent technology for low cost manufacturing of low efficency modules, a market wich will be very important both for rural grid-connected applications and for the millions of small off-grid applications. We view CSG Solar's technology as the most promising thin-film technology due to its high stability and high future potential. Their technology does not suffer from the durability, stability, scalability, supply or environmental issues inherent in other competing thin-film concepts.

We have chosen to invest most of our financial and technological resources in the production of solar grade silicon and multicrystalline wafers. This is due to the superior market position of these technologies and the large potential for further reductions in cost/watt.

Our investments in SiTech and CSG Solar are done to secure access to future growth opportunities on a broader technology platform.

A UNIQUE UPSTREAM POSITION

REC's subsidiary SGS is the world's first and so far the only dedicated producer of polycrystalline silicon for solar applications. As the only wafer producer world wide, REC's subsidiary ScanWafer is fully supplied with feedstock, from among others the sister company SGS. This unique upstream position gives REC a strong fundament for further growth and cost reductions.

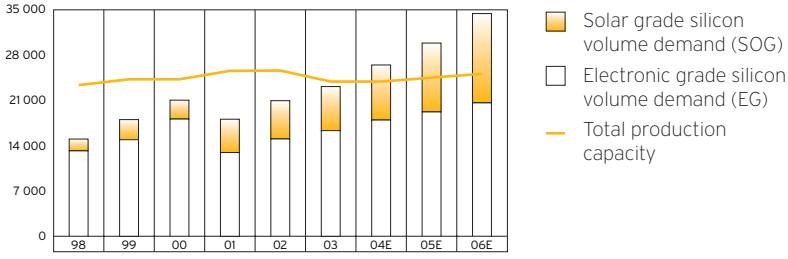
The current economics of supply and demand upstream in the silicon-based solar power business reflects the growing importance relative to the electronic industry. The industry's feedstock (SOG) has historically been a by-product from production of electronic grade silicon (EG), either as a result of scrap (low quality production) and waste, or as a channel for surplus capacity.

As a consequence the solar energy industry does not have a fully predictable supply situation for feedstock. In 2005 the industry is experiencing supply shortages which is reducing the overall growth rate.

Production of SOG is capital intensive. When excess supply drove prices down in 1999 to 2003, industrial investors in EG suffered substantial losses. This has reduced their willingness to invest in further capacity increases, without prior long-term commitments from future customers. Many PV companies have so far been reluctant to take on the risk associated with such long-term commitments.

New and more cost-efficient production technology is under development. Over the last two years REC has made substantial investments in R&D to develop our own proprietary FBR technology (see page 14 for details) for production of SOG. Pilot production started in the first quarter of 2005. If this project continues to develop as planned, REC will be able to invest in new production of solar grade

DEVELOPMENT IN DEMAND FOR ELECTRONIC AND SOLAR GRADE SILICON VS. PRODUCTION CAPACITY (MT)



Source: SAGE Concepts: Polysilicon History 1956-2004 by Richard M. Winegarner. (2004 actual cell production of 1 146 MW represent a considerably higher consumption of SOG than in the graph estimate).

silicon at a very competitive cost. A new plant may be ready in 2007, if building starts already this year.

According to Photon International, a similar FBR technology is under development by Wacker-Chemie GmbH, another EG producer currently delivering also to the SOG market. The joint venture Joint Solar Silicon GmbH & Co, founded by SolarWorld AG and Degussa AG, have announced plans to start testing a new technology called "tube reactor" in 2005, with pilot production planned for 2007.

Investors in the feedstock business without access to any of these proprietary technologies run the risk of investing in production capacity which will become uncompetitive rather quickly.

The time lag from start of construction of a new SOG plant to full operation is estimated at two to three years. Current supply problems in the industry are hence expected to continue at least till 2007-2008.

REC is fully supplied with SOG for wafer production in 2005. Further growth will demand new SOG capacity. In January 2005 REC signed a letter of intent with Komatsu Ltd to buy a 75 percent interest in Advanced Silicon Material LLC (ASiMI). This company currently produces approximately 3 000 tonnes of EG yearly. Signing of definitive agreements is expected to take place in April 2005 and the acquisition is anticipated to close in the first half of 2005, subject to the completion of negotiations and the satisfaction of certain conditions, including regulatory requirements.

If REC acquires ASiMI, we intend to gradually shift production from EG to SOG. This will enable further growth in our wafer production.

The alternative to the ASiMI transaction is for REC to start construction of a new FBR-based plant. With the acquisition of ASiMi in place, the building of a new FBR-based plant will be slightly postponed.

LONG-TERM CONTRACTS DOWNSTREAM

With a unique upstream position in a rapidly growing market it could be tempting to opt for short-term downstream contracts, to maximize profits. We have found it more rewarding to establish long-term relations with our customers, and sign long-term contracts. With long-term contracts and close relations we achieve the predictability needed to take on larger investments. We also create good conditions for focusing all our efforts on growth, reaping benefits of scale and increasing productivity. This is why long-term contracts have been a key strategy for us right from the start.

Our strong customer relations provide us with deep insight into the dynamics of our industry, and contribute essentially to our quality and cost improvement efforts.

CONTROLLED EXPANSION

In 2005, 2006 and 2007 REC intends to grow faster then the solar power industry. We are considering a substantial increase in our wafer production capacity. Through acquisitions or new investments our production of solar grade silicon can potentially increase even more.

Achieving this high growth on time, on budget and with satisfactory quality and productivity is a key challenge. However, we have already demonstrated an ability to take on significant growth initiatives. Over the last years we have expanded our wafer business from a capacity of 2.5 MW in 1997 to a run rate of 162 MW by the beginning of 2005. This has been done through expansions at the Glomfjord plant, and the building and later expansion at the Herøya plant. These expansions have been carried through with gradually better and faster developments in both productivity and quality.

Our history and experience gives us great confidence as we pursue the next levels in our development.

INTRODUCTION TO CORPORATE GOVERNANCE AT REC

REC was established in 1996. The company is growing and posted sales revenues in 2004 of NOK 1 418 million. REC has around 260 shareholders, the largest of which are Good Energies Investments B.V. (40 percent), Elkem ASA (23 percent) and Hafslund Venture AS (22 percent) (together the "Major Shareholders"). Good Energies Investments B.V. is a company based in the Netherlands and primarily invests in solar energy and other forms of clean energy technology. The founders and employees of REC own a total of around seven percent.

REC has high ambitions and regards a more open shareholder structure as a condition for further growth. Broader ownership will be an important catalyst for development of the company and for meeting the company's capital requirements.

REC aims to be a listed company and will for that purpose – to the extent possible and practical – adopt the Norwegian Code of Practice for Corporate Governance (the "Governance Code") or, as an alternative, implement procedures that reflect the governance principles implied by the Governance Code. There are several points in the Governance Code that the company does not meet, and certain features are not relevant for the company in its current form.

BASIC VALUES

REC's business is based on four basic values:

- We are customer-focused
- We deliver quality in our work and products
- We are alert and take responsibility
- We respect and take care of each other

These values are intended to ensure satisfied and loyal customers, good and meaningful jobs and to provide the shareholders with return on invested capital in full confidence that we manage our resources in the best possible way. The Chief Executive Officer has responsibility for implementing these values. The values are applied in overall communication with employees in the various business areas.

ETHICAL GUIDELINES

REC will prepare ethical guidelines during 2005. The ethical guidelines will in relation to the employees and the elected representatives mean

(i) an obligation to abide by Norwegian laws and regulations;
(ii) that in particular areas, there will be binding ethical guidelines that are stricter than the standard set by the relevant laws or regulations; and
(iii) that there will be ethical guidelines in areas of importance to REC, but not regulated by law.

REC's performance in relation to the ethical guidelines will be commented upon in the annual reports.

STAKEHOLDERS

REC's relationship with the stakeholders – shareholders, employees, customers, suppliers and society at large shall be based on the company's business idea, vision and basic values. The relationship with the shareholders will be elaborated upon below.

Customers

REC's customers are the basis for the development of the company and good customer relationships are decisive for the future of the company. REC shall ensure that there is a good dialogue with the customers by an accessible and attentive customer service.

Employees

REC's continued development is dependent on the performance of the employees, which is instrumental to achieve profitability and growth. The company shall provide the employees with a good working environment, working conditions that are regarded as attractive and good opportunities for personal and career development. Employees shall at least have an annual performance appraisal.

Suppliers

REC wishes to have a good business relationship with the company's suppliers of goods and services. The company's basic values will provide guidelines for REC's behaviour towards the suppliers. REC shall continuously

strive to improve the procedures to ensure long term co-operation with the suppliers based on competitive terms and conditions.

Society
REC strives to act responsibly in all areas. REC is therefore prepared to participate in social tasks and obligations to an extent that may be expected of a company like REC. REC will in its annual reports provide information on its work within the area of corporate social responsibility.

THE BUSINESS

REC's business purpose
The business is described in the company's Articles of Association Article 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."

REC's articles of association are posted on the company's internet pages.

Vision and business idea
REC's vision is to increase the global use of clean and renewable energy, thereby reducing the negative environmental impacts from traditional energy sources.

REC's goal is to make solar energy increasingly competitive, since REC believes this is the best answer to the world's need for long term clean energy. REC also aims to become the most cost-efficient solar energy company in the world, with a focus on the upstream part of the value chain.

REC will consolidate the dominant position in the upstream part of the industry and reduce the focus on the downstream part of the value chain through joint ownerships and strategic alliances. This strategy will be realized both through organic growth and acquisitions, mergers and partnerships.

COMPANY CAPITAL AND DIVIDENDS

REC shall have sufficient equity capital to implement the business strategies decided on by the Board of Directors and have financial flexibility in relation to creditors and the capital markets. REC aims to have an equity ratio of at least 30 percent. The equity ratio at the end of 2004 was 46 percent.

REC's objective is to give the shareholders a competitive rate of return compared with alternative investment opportunities with comparable risk. This rate of return will be achieved through a combination of increased share values and dividends. In the coming years, it is probable that REC will show strong growth and that REC will have a need for injection of equity to fund this growth. In these years therefore, it is not likely that REC will be in a position to pay dividends to shareholders. The rate of return will therefore primarily materialize as an increase in share values.

A possible future IPO can be an attractive vehicle for securing sufficient funds to realize REC's growth strategy.

REC's and its affiliates, currently and collectively, have a significant debt facility with DnB NOR. The loan agreement contains a condition that Major Shareholders together shall not own less than 34 percent of the shares of REC.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

REC has one class of shares. The shares are registered in the Norwegian Securities Registry. REC will treat all shareholders equally as provided for in the Private Limited Company Act. Equal treatment will be ensured by:

- Giving all shareholders similar and simultaneous access to information unless there is a factual basis for differential treatment in the interest of the company and the shareholders;
- Offering all shareholders the opportunity to participate in future capital increases in accordance with their ownership shares unless something else is in the interest of the company and the shareholders;
- Entering into any transactions with related parties on an arms length basis.
- Submitting transactions with shareholders to the General Meeting for approval as provided for in the Private Limited Company Act.

Any board authorization to issue new shares shall be restricted to defined purposes and shall not be applicable for a longer period than the period to the next ordinary General Meeting.

THE MARKETABILITY OF THE SHARES

REC's articles of association do not impose restrictions on the marketability of the shares.

The Major Shareholders have entered into a shareholders agreement. This agreement gives the Major Shareholders mutual pre-emptive rights if one or more of them wish to sell shares in REC. The pre-emptive rights serve to provide stability in the ownership structure at the present stage of REC's development, and will at the latest be abolished upon the listing of the company.

THE GENERAL MEETING

The Ordinary General Meeting shall be held annually before the end of June. The meeting shall be called no later than one week prior to the meeting. The call shall specify the agenda for the meeting.

The General Meeting shall consider the following:

1. Approve the financial statements and the annual report, including the allocation of profits or deficits.
2. Determine remuneration to the Board of Directors and approve remuneration to the Auditor
3. Elect Chairman of the Board, Board Members and Auditor
4. Other issues that shall be considered by the General Meeting according to law or the articles of association

In order to be considered by the Ordinary General Meeting, motions from the shareholders must be presented to the Chairman of the Board in writing in good time before the General Meeting. Motions presented less than one week prior to the General Meeting, cannot be considered unless all shareholders approve.

An Extraordinary General Meeting shall be held whenever the Board of Directors deems it necessary. Further, the Board of Directors shall also call for an extraordinary General Meeting when the Auditor or a shareholder representing more than 10 percent of the share capital, requires a specific issue to be considered by the General Meeting.

The call shall be posted no later than 10 days prior to the Extraordinary General Meeting. The call shall specify the issues to be considered. The Board of Directors shall ensure that such General Meeting is held no later than one month subsequent to the date it was required to have such General Meeting. In the Extraordinary General Meeting only the issues specified in the call shall be considered, unless all shareholders approve otherwise.

ELECTION COMMITTEE

The company currently has no election committee; this will be introduced in connection with a potential stock exchange listing.

CORPORATE ASSEMBLY AND BOARD OF DIRECTORS – COMPOSITION AND INDEPENDENCE

Composition of corporate assembly

REC's largest subsidiary, ScanWafer AS, has established a corporate assembly. REC AS is also considering establishing a corporate assembly with broad shareholder representation. The framework and structure for a corporate assembly in REC will be governed by the provisions of the Private Limited Company Act and by the provisions of the shareholders agreement between the Major Shareholders. REC's corporate assembly shall have 12 members, eight elected by shareholders and four by and among the employees. Of the eight members elected by the shareholders, the Major Shareholders nominate two members each and two members are independently nominated.

Composition of Board of Directors

The Board of Directors currently consists of eight members, of whom two are nominated by each of the Major Shareholders. One member is nominated by Mithril GmbH (Deutsche Bank AG), and one member is an independent shareholder. In addition, there may be two employee representatives. Board members are elected for one year at a time. The general Board structure and representation for the three major shareholders is laid down in the shareholder agreement.

Independence of the Board of Directors

The Corporate Governance Code provides that at least half of the members of the Board of Directors elected by shareholders shall be independent of the top management of the company and of the company's main business connections. It is important that the Board of Directors has a membership that allows it to make independent assessments of the top management and of contracts entered into by the company. This is a requirement that is stricter than the relevant provisions of the Private Limited Company Act, namely Section 6-27 Disqualification ("Inhabilitet") and Section 6-28 Abuse of position in the company ("Misbruk av posisjon i selskapet").

The Major Shareholders have elected six out of eight members of the Board of Directors. These elected representatives have close relationships with and/or are employees of the Major Shareholders. The Major Shareholders are companies with a diversity of interests and they may therefore directly, or indirectly through affiliates or associated companies, be a supplier to, customer of or competitor to REC or REC's affiliates. It may therefore be unclear whether the membership of the Board of Directors is in line with the independence requirements of the Governance Code.

THE WORK OF THE BOARD OF DIRECTORS

REC's Board Instructions shall lay down guidelines for the work and proceedings of the Board of Directors, including the most important rules that shall apply to the work of the Chief Executive Officer and the Chief Executive Officer's obligations towards the Board of Directors as well as the competence and authority of the Board of Directors in accordance with applicable law.

Each year the Board of Directors will make up a plan for its work to ensure that the Board of Directors during the year and, in an appropriate sequence, addresses issues in relation to strategy, organization, risk management and internal control as well as important projects, of any substantial intrest to REC. The Board of Directors shall normally meet eight and, as a minimum, no less than four times a year.

The chairman of REC's Board of Directors has a particular responsibility to ensure that the Board of Directors functions in an appropriate manner and that the tasks of the Board of Directors are taken care of in the best possible way. The chairman of the Board of Directors shall also ensure that each Board member's particular skills and experience are put to the best possible use in the work of the Board of Directors.

REC's Board of Directors has established an Audit Committee to oversee, inter alia, the internal control of the company and the work of the auditor. The Audit Committee will also review and make recommendations to the Board of Directors in matters where one or more members of the Board of Directors has a conflict of interest. The Board of Directors has also established a Corporate Governance Committee that shall provide recommendations to the Board of Directors in matters of Corporate Governance.

The Board of Directors of REC will from 2005 establish guidelines for evaluation of its work once a year. These guidelines will be incorporated into the Board Instructions.

COMPENSATION TO THE BOARD OF DIRECTORS

The remuneration of the members of the Board of Directors is decided by the General Meeting and shall reflect the responsibility, competence and the efforts of the Board of Directors. The members of the Board of Directors shall not participate in any incentive or option programme in the company.

COMPENSATION TO TOP MANAGEMENT

During 2005, REC will establish guidelines for compensation to top management. The guidelines will be submitted to the General Meeting for informational purposes.

INFORMATION AND COMMUNICATION

REC emphasises openness and transparency in reporting and communication, providing shareholders with a good basis for considering the investment opportunities. The company also wants, to an increasing degree, to improve communication through a structured dialogue and quarterly financial reports.

ACQUISITION

Except for the pre-emption provisions of the shareholders agreement between the Major Shareholders, there is no defence mechanism present that could prevent potential legitimate offers for the company. The Board of Directors is open to initiatives that are commercially and financially attractive for the owners.

THE AUDITOR

The auditor shall annually present to the Board of Directors a plan for conducting the audit of REC and its affiliated companies. Furthermore, the auditor shall participate in the meeting of the Board of Directors that decides on the annual accounts. Also, the auditor shall participate in at least one meeting each year with the Board of Directors without the chief executive officer or other members of the top management being present.

During 2005, the Board of Directors will establish guidelines governing the top management's opportunity to purchase services other than audit services from the auditor. The auditor shall each year provide to the Board of Directors a written confirmation to the effect that the auditor meets the independence requirements as set forth in laws and regulations, including a report on other services than audit services supplied to REC.

3.) **Paul Kloppenborg (44)**
Member of the Board, CEO Entrepreneurs Fund BV

2.) **Rune Bjerke (45)**
Member of the board, President & CEO Hafslund ASA

4.) **Tore Schiøtz (48)**
Chairman of the Board, CEO Hafslund Venture AS

1.) **Halvor T. Svartdal (49)**
Member of the Board, Private Investor

5.) **Richard Olav Aa (39)**
Member of the Board, Senior VP & CFO Elkem ASA

7.) **Ole Enger (57)**
Member of the Board, President & CEO Elkem ASA

6.) **Marcel Egmond Brenninkmeijer (47)**
Member of the Board, CEO Good Energies Inc.

REPORT OF THE BOARD OF DIRECTORS

- 2004 has been another year with increased capacity and productivity as the REC Group increased the production capacity, particularly in ScanWafer, ScanCell and ScanModule.
- The group achieved revenues of 1 418 million NOK, an increase of 99 percent over 2003 revenues of 713 million NOK [1]. REC's earnings before interest and taxes, depreciation/amortization (EBITDA) was 155 million NOK compared to a loss of 32 million NOK [1] in 2003.
- REC increased its shareholdings in both Solar Grade Silicon LLC (from 60 percent to 70 percent) and ScanWafer AS (from 71 percent to 100 percent).
- The Board of Directors in REC has decided to sell ScanCell and ScanModule and these business areas have consequently been reported as discontinued operations in the group accounts (see Note 16).

THE REC GROUP IN BRIEF

Renewable Energy Corporation AS was established December 3, 1996 and has its headquarter and R&D centre at Høvik outside Oslo, the capital of Norway.

The REC Group business goal is to become the most cost-efficient solar energy company in the world, with a particular focus on the upstream part of the photovoltaic ("PV") value chain, i.e. production of silicon feedstock and wafers. REC will consolidate its dominant position in the upstream part of the industry and reduce the focus on the downstream part of the value chain through joint ownerships and strategic alliances. This strategy will be realized both through organic growth and acquisitions, mergers and partnerships.

The REC Group consists of the parent company REC AS and the five operating subsidiaries Solar Grade Silicon LLC, ScanWafer AS, ScanCell AS, ScanModule AB and SolEnergy AS/Solar Vision Ltd. The subsidiaries are funded independently through bank loans and carry all operating, financial and development costs themselves. All internal transactions between subsidiaries are executed at market prices. Internal transactions between the parent company and the subsidiaries are done at full cost. The accounts of the subsidiaries therefore fully reflect the economic development of the various operations in the REC Group.

Renewable Energy Corporation AS (REC AS) is the parent company in the REC Group. As all subsidiaries have their own accounting, personnel and technology staffs, REC AS activities is concentrated on corporate functions as well as business development. In late 2004, the Board of Directors in REC decided to buy 100 percent of SiTech AS, a mono-crystalline ingot producer with approximately 20 MW production capacity, and 21 percent of CSG Solar AG, a company developing microcrystalline silicon-based thin-film for the solar energy market. The board initiated a process to sell the subsidiaries ScanCell AS and ScanModule AB. After negotiations with Komatsu Ltd., REC signed in February 2005 a letter of intent to buy 75 percent of the ownership interest in ASiMi LLC, a producer of silane gas and polycrystalline silicon. ASiMi LLC is also the minority owner in Solar Grade Silicon LLC, an ownership interest that will be included if the transaction is successfully completed. The execution of definitive agreements is expected to take place in May/June 2005, while the sale of ScanCell AS and ScanModule AB is anticipated to be clarified within 2005. The financial results of ScanCell and ScanModule have consequently been reported as a discontinued operations in the group accounts (see Note 16).

At the end of September 2003, REC increased its shareholding in ScanWafer from 32.6 percent to 71.2 percent. As a result, and with reference to the accounts for 2003, ScanWafer are consolidated into the REC Income

[1] Pro-forma figures for 2003 assuming ScanWafer on a fully consolidated basis.

Statement and Cash Flow according to the equity method for the first three quarters of 2003 and according to the purchase method for the fourth quarter of 2003.

(p) Represents pro-forma figures from 2003 assuming acquisition of the remaining outstanding shares of ScanWafer AS as of 01.01.2003. Therefore ScanWafer AS is consolidated based on a 100 percent ownership and consequently goodwill has been depreciated for 12 months.

FINANCIAL REVIEW

	REVENUE		EBITDA	
YEAR ENDED DECEMBER 31	2004	2003 (p)	2004	2003 (p)
Solar Grade Silicon	**533 678**	192 981	**41 731**	-9 354
ScanWafer	**883 938**	617 744	**149 267**	39 129
ScanCell	**144 494**	20 862	**7 316**	-18 216
ScanModule	**129 376**	7 160	**-14 301**	-5 734
SolEnergy	**6 766**	2 641	**-2 224**	-7 145
Sum	**1 698 252**	841 388	**181 789**	-1 320
Corporate/eliminations	**-280 112**	-128 377	**-26 540**	-30 285
Total	**1 418 140**	713 011	**155 249**	-31 605

	EBIT		PROFIT/LOSS BEFORE TAX	
YEAR ENDED DECEMBER 31	2004	2003 (p)	2004	2003 (p)
Solar Grade Silicon	**40 754**	-9 906	**39 785**	-16 624
ScanWafer	**68 274**	-30 047	**46 487**	-80 811
ScanCell	**-8 061**	-25 941	**-10 585**	-28 498
ScanModule	**-16 964**	-6 548	**-19 123**	-6 324
SolEnergy	**-5 008**	-11 301	**-10 524**	-15 337
Sum	**78 995**	-83 743	**46 040**	-147 594
Goodwill depreciation	**-55 890**	-48 155	**-55 890**	-48 155
Corporate/eliminations	**-26 782**	-30 478	**-41 879**	-48 966
Total	**-3 677**	-162 376	**-51 729**	-244 715

(p) Pro-forma figures for 2003 assuming ScanWafer on a fully consolidated basis.

The overall development in revenues and operating profit is satisfactory, but still highly influenced by expansions, new investments and a ramp up in production in all subsidiaries. In 2004, REC increased the production capacity in ScanWafer, ScanCell and ScanModule.

In 2004, the REC Group achieved revenues of 1 418 million NOK, an increase of 99 percent over 2003 revenues of 713 million NOK. REC's earnings before interest and taxes, depreciation/amortization (EBITDA) was 155 million NOK compared to a loss of 32 million NOK in 2003. The REC Group incurred more than 60 million NOK of research and development cost in 2004. The majority of this cost, 47 million NOK, was incurred by Solar Grade Silicon related to the new Fluidised Bed Reactor (FBR) technology, and is judged to be non-recurring. An additional 12 million NOK was incurred by ScanWafer and the remaining two million NOK by ScanCell and ScanModule.

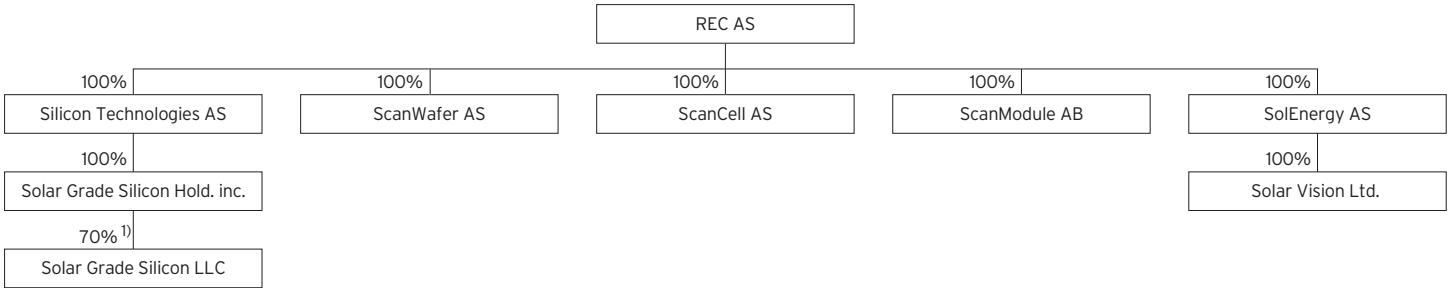
Loss before tax for the REC Group in 2004 was 52 million NOK. This includes goodwill depreciation of 56 million NOK, one-time items like write downs of tangible fixed assets of 7 million NOK and write-downs of financial fixed assets of 7 million NOK. Loss for the year, after minority interest, was 63 million NOK.

As stated above, in late 2004 the Board of Directors initiated a process to sell ScanCell and ScanModule. Assuming a 2004 consolidation without ScanCell and ScanModule, the REC Group achieved revenues of 1 209 million NOK, an increase of 69 percent over 2003 revenues of 716 million NOK. The REC Group earnings before interest and taxes, depreciation/amortization (EBITDA) would then be 162 million NOK compared to a loss of 8 million NOK in 2003. Under the same assumptions, operating profit (EBIT) would have been 21 million NOK compared to an operating loss of 130 million NOK.

Solar Grade Silicon

Solar Grade Silicon LLC (SGS) manufactures polysilicon, the raw material for silicon wafers, at its production plant at Moses Lake, Washington State, USA. The Moses Lake plant has been converted from producing electronic grade silicon into polycrystalline silicon for the solar power industry. Sales contracts typically run for three to five years with price/volume negotiations in the fall of each year for the following year. The company has 175 employees. SGS is the worlds only dedicated producer of polycrystalline silicon for the solar power industry. The company was at the end of 2004 owned 70 percent by REC and 30 percent by ASiMi LLC, and is fully consolidated in REC's accounts. REC's shareholding increased in September 2004 from 60 percent in accordance with the joint venture agreement between the two owners of SGS. Revenues in 2004 were 534 million NOK, compared to 193 million NOK in 2003, constituting a revenue growth of 177 percent. 49 million NOK of the revenue recognized in 2004 was pushed over from 2003, in accordance with good accounting principles. Inventory of finished goods, silicon feedstock, also decreased from slightly more than 600 metric tonnes by the end of 2003 to less than 200 tonnes by the end of 2004. However, the majority of the increase in revenues was a result of ramp up efficiencies and production improvements.

SGS produced 2 100 metric tonnes of silicon in 2004, compared with 1 750 tonnes in 2003. SGS is currently producing at near full capacity.



1) Joint Venture agreement with ASiMI LLC, a company 100 percent owned by Komatsu Ltd of Japan. According to the agreement with ASiMI, REC will increase its ownership to 75 percent by September 2005 and a put/call option arrangement will then enable REC to increase further to 100 percent.

Further de-bottlenecking and productivity improvements are expected to increase capacity by approximately 5 percent in 2005 and another 5 percent in 2006.

In 2004, 25 percent of SGS revenues came from sales to ScanWafer. In 2005, SGS expects to sell approximately 70 percent of its production to ScanWafer.

The average market price (long-term contracts) of solar grade silicon was around 25 USD/kg in 2004. It is now evident that prices for 2005 will increase considerably as a result of the worldwide shortage of solar grade silicon. This will positively affect revenues and profit in SGS.

SGS earnings before interest and taxes, depreciation/amortization (EBITDA) was 42 million NOK compared to a loss of 9 million NOK in 2003. In 2004, SGS incurred close to 47 million NOK of research and development cost related to the new Fluidised Bed Reactor (FBR) technology, judged to be non-recurring. EBITDA margin was, excluding the FBR development cost, 16.4 percent in 2004. The improvement is mainly due to increased revenue efficiency and production improvements.

SGS achieved a profit of 40 million NOK before taxes in 2004 compared to a loss of 17 million NOK in 2003.

ScanWafer

In 2004, ScanWafer was the world's second largest manufacturer of multicrystalline silicon wafers for the solar power industry, with a market share of around 17 percent. ScanWafer has two manufacturing sites; one in Glomfjord in the northern Norway and the latest factory at Herøya in the south of Norway. The company has 316 employees.

With total production in 2004 of 130 MW, Scanwafer had revenues of 884 million NOK, a growth of 43 percent from 2003 revenues of 618 million NOK. The revenue growth was a result of capacity increases in the second half of 2003 and during 2004. ScanWafer has over the last two years increased its production capacity significantly. The run rate were at the beginning of 2003 61 MW/year, at the beginning of 2004 105 MW/year and increased further to a run rate at the beginning of 2005 of 162 MW/year. With planned ramp-up and improvements in production, the run rate is expected to be close to 240 MW/year at the end of 2005.

Global market prices for multicrystalline wafers decrease by 5 percent in 2004. Further decreases are expected as the industry achieves further benefits of scale and improves productivity. However, the significant increase in the price of silicon feedstock will, in 2005, temporarily stall the reduction in wafer prices.

The ramp-up and capacity increases have in the short run affected the margin level negatively as consumption of input factors tend to be higher and investment costs are incurred before full production is achieved. Even with a cost level higher than expected during normal operations, ScanWafer managed to increase its EBITDA to 149 million NOK compared 39 million NOK in 2003. The profit level should be relatively comparable as ScanWafer both in 2003 and 2004 incurred substantial costs (and delayed income) due to capacity increases. In 2003 ScanWafer started up the new plant at Herøya with a capacity of around 60 MW. In late 2004 and early 2005, the capacity of this plant was doubled to 120 MW. Production will then gradually be ramped up reaching capacity in the third quarter of 2005. The EBITDA margin was 16.9 percent in 2004.

The increase in operational profit is then mainly explained by a higher revenue level through increased production and continuous productivity gains.

ScanWafer achieved a profit before tax of 46 million NOK in 2004 compared to a loss before tax of 81 million NOK in 2003.

ScanCell
Revenues of ScanCell, our solar cell plant located in Narvik, Norway, were 144 million NOK in 2004, up from 21 million NOK in 2003. In 2004, ScanCell started the year with a small scale production and expanded its operations throughout the year and changed its production to larger and thinner cells. The transition from 125mm x 125mm cells to 156mm x 156mm cells, and from 330 micron to 280 micron in cell thickness, initially had a negative impact on production volumes and cost. ScanCell incurred delayed delivery of production equipment and experienced certain start up problems. The capacity increase and production transition has now been successfully completed. By the forth quarter all transition challenges were solved, and production was running with a satisfactory level of productivity, quality and profitability. ScanCell was at year-end running at capacity and currently employs 68 people.

The board of REC has decided to sell the ScanCell business to concentrate the group's efforts on achieving a market leader and cost leader position upstream. ScanCell's results are therefore reported as a discontinued operation in the group accounts (see Note 16), with a loss after tax of 6 million NOK.

ScanModule
Revenues in ScanModule, based in Glava, Sweden, were 129 million NOK in 2004, up from 7 million NOK in 2003. 2004 has been the ramp-up year for ScanModule which started the year with a small scale test production and increased the production capacity to a normalized level throughout the year. ScanModule has additionally changed its module production to be based on larger and thinner cells. The move to larger and thinner cells is positive for the business in the medium and long term, as customers increasingly expect more cost-efficient modules. The ramp-up in ScanModule has been more challenging than expected. However, the company was profitable on a monthly basis by the end of 2004, and is expected to run at capacity by the end of the first quarter 2005. ScanModule employs 70 people.

The board of REC has decided to sell the ScanModule business to concentrate the group's efforts on achieving a market and cost leader position upstream. ScanModule's results are therefore reported as a discontinued operations in the group accounts (see Note 16), with a loss after tax of 14 million NOK.

SolEnergy
SolEnergy is dedicated to the installation and operation of PV systems in developing countries, particularly in South Africa where SolEnergy operates through it's subsidiary Solar Vision. The Government of South Africa has awarded a concession to Solar Vision giving the company preferred rights to install up to 50 000 solar home systems. Towards the end of 2004 Solar Vision changed it's accounting principles based on guidance from local auditors. Grants received per installations from the local government are now recognized as revenue over the lifetime of the installation, 20 years. Consequently, the comparable figures for 2003 have also been restated to reflect the same accounting principles. This has also triggered the need for calculation and depreciation of goodwill from earlier share purchases in Solar Vision.

Total revenues for SolEnergy at year-end 2004 were 7 million NOK. The business area had then installed close to 6 500 solar home systems in its dedicated concession area in Polokwane, South Africa. The current demand from the local community for new installations is strong and the rate of installations is expected to average between 350 and 450 installations per month in 2005. The business area has 15 employees and engages close to 90 local contractors in the rural areas where it operates.

Solar Vision was cash generating in 2004, but recorded an accounting loss of 4 million NOK after tax. The holding company SolEnergy additionally wrote down the book value of selected other investments with a total negative income statement effect of 6 million NOK.

REC Group & Holding
During 2004, REC undertook three major capital increases, of which two had cash effect. This contributed more than 300 million NOK of new equity into the company. These funds, and additional loans, will be used to finance REC's aggressive growth strategy going forward. At December 31, 2004, total equity for the REC Group amounted to 925 million, which gives an equity book value ratio of 46 percent and an interest bearing debt to equity ratio of 0.86.

In REC, the holding company, AS net operating expenses and personnel costs (net after internal sale of services to subsidiaries) amounted to 22 million NOK in 2004, compared with 30 million NOK in 2003. A significant portion of these costs were transaction related costs. Interest expenses rose to 20 million NOK in 2004, from 12 million NOK in 2003, costs largely related to the convertible bond that was set up in the third quarter of 2003 and which is part of REC's subsidiary financing.

Net loss for REC AS in 2004 was 23 million NOK. The Directors propose that no dividend should be paid for 2004 and that the net loss for the year is transferred and displayed separately under other equity and retained earnings. At December 31, 2004, the REC AS's free equity was 254 million NOK.

Pursuant to Section 3-3 of the Norwegian Accounting Act, the directors confirm that the accounts have been prepared under the assumption that the enterprise is a going concern and that this assumption was realistic at the date when the accounts were approved.

CURRENCY AND INTEREST RATE EFFECTS

Subsidiaries are funded in local currencies. SGS's cost base is in USD an all sales are done in USD. ScanWafer's cost base is partly in USD (silicon feedstock from SGS), in NOK and in EURO. Income is also calculated in EURO, NOK and USD. All new customers are credit checked before entering into long-term contracts. With a relatively small number of end customers, strong product demand and good transparency in the industry, the credit risk is perceived to be low. The REC Group mainly carries interest bearing debt with floating interest (tied to Nibor), with the exception of the convertible bond held at holding level of 255 million NOK, and is therefore exposed to fluctuations in the short-term interest level.

INTERNAL AND EXTERNAL ENVIRONMENT

The working environment in the REC Group is in general good. All business areas are committed to equal employment opportunities in all of our employment practices. All employees and applicants will be provided equal employment opportunities without regard to age, race, color, creed, sex, sexual orientation, national origin, religion, marital status, disability, or any other protected status. The REC Group requires that all employees to cooperate fully to ensure the fulfillment of this commitment in all actions and decisions, including hiring, promotions, upgrades, transfers, layoffs, training, education, pay, benefits, and social and recreational programs. Selection of personnel for hiring and promotion is based on such factors as education, experience, proven skills, initiative, dependability, cooperation, availability, and growth potential. Employees are encouraged to recommend for promotion those individuals whose past performance demonstrates an ability to assume greater responsibility. Such recommendations are in no way allowed to be influenced by an individual's race, sex, or other protected factors. Despite these principles, Renewable Energy Corporation AS has no female Directors. Both the Board of Directors and the corporate management are aware of social expectations and regulations concerning the promotion of gender equality on the board and in the business.

There were no serious injuries of personnel or loss of lives reported in 2004 within the REC Group. A number of smaller injuries, mostly related to minor cuts and bruises, were reported and some resulted in lost time. All injuries have been documented and measures adopted to avoid their recurrence.

In general, the working environment in the company is satisfactory. Absence on sick leave was on average for the Group 5.2 percent and the company aims to keep this low by continuously improving the working and safety conditions.

There was no significant damage to property or equipment in 2004.

The REC Group can report no material emissions to the external environment above what is granted by permits by local environmental authorities. REC continuously works on assuring the quality of its subsidiaries operations and puts great emphasis on the significance of the environment. We will continue to reduce the consumption of non-renewable inputs throughout the different business areas in the Group, both directly in the production process and indirectly in administrative and supporting functions. We will continue to reduce energy consumption and other emissions to the environment.

OUTLOOK FOR 2005

The global market for solar cells increased by 54 percent in 2004 (according to Solarbuzz, an international research institution). Industrial forecasts indicate that the world market for PV solar energy will continue to show strong growth also in 2005.

Market demand is influenced by – among other factors – interest rate levels, subsidies and prices of other energy sources. If interest rates are increased markedly, specifically in Japan or Germany, this may influence market demand negatively if the changes are not compensated by other improvements. Changes in subsidy schemes and other support measures in specifically California, Spain, Italy, India or China may increase the demand for solar energy in 2005. On the other hand, political changes, or changes in subsidies, in Germany or Japan can affect subsidy levels and hence market demand negatively. Continued high oil and natural gas prices may also both stimulate demand and prices, lead to positive changes in the use of subsidies, and induce further investments in the industry.

The industry is expected to experience supply shortage of silicon feedstock for production of wafers in 2005. This will lead to increased prices, positively affecting revenues and profit in our subsidiary SGS. ScanWafer is not expected to be negatively affected by the industry's feedstock problems as REC is the only solar energy company with its own production of high-quality silicon feedstock.

The REC Group focus will be to consolidate the dominant position in the upstream part of the industry and reduce the focus on the downstream part of the value chain through joint ownerships and strategic alliances. This strategy will be realized both through organic growth and acquisitions. We will continue negotiations with Komatsu Ltd. with the intent to reach a definitive agreement in line with the letter of intent to buy ASiMi LLC that was signed in February 2005. We also expect to clarify the sale of ScanCell and ScanModule and use the funds that this potentially generates to further fuel our strategy upstream.

Høvik, April 28, 2005

Tore Schiøtz
Chairman of the Board

Rune Bjerke
Member of the Board

Marcel Egmond Brenninkmeijer
Member of the Board

Ole Enger
Member of the Board

Paul Kloppenborg
Member of the Board

Halvor T. Svartdal
Member of the Board

Richard Olav Aa
Member of the Board

Alf Bjørseth
President and CEO

Income Statement REC Group

YEAR ENDED DECEMBER 31 (NOK IN THOUSAND)	NOTES	2004	2003 (P)	2003
Sales of product and services		**1 408 052**	703 404	285 862
Other operating income		**10 088**	9 607	3 540
Total revenues	1, 2	**1 418 140**	**713 011**	**289 402**
Material expenses		**-512 401**	-309 156	-62 109
Change in work in progress and finished goods		**-81 902**	68 835	53 581
Payroll expenses	4, 13	**-291 539**	-221 586	-138 696
Other operating expenses	4	**-377 049**	-282 709	-230 162
Earnings before interest and taxes, depreciation/amortization	2	**155 249**	**-31 605**	**-87 984**
Goodwill depreciation	5	**-55 890**	-48 155	-20 859
Write downs of tangible fixed assets	6	**-6 593**	-4 405	-4 293
Depreciation	5, 6	**-96 443**	-78 211	-31 550
Earnings before interest and taxes	2	**-3 677**	**-162 376**	**-144 686**
Earnings from equity accounted companies	10	**-1 578**	-372	-5 790
Interest income		**1 548**	1 745	1 377
Write downs of financial fixed assets	10	**-6 715**	-3 661	-3 661
Interest expense		**-46 058**	-46 272	-28 235
Other financial income/expenses		**4 751**	-33 779	-18 794
Profit/loss before tax	2	**-51 729**	**-244 715**	**-199 789**
Taxes	7	**3 608**	63 179	56 727
Profit/loss before minority interests		**-48 121**	**-181 536**	**-143 062**
Minority interest	14	**14 472**	-3 640	-14 881
Profit/loss for the year		**-62 593**	**-177 896**	**-128 181**

Balance Sheet REC Group

YEAR ENDED DECEMBER 31 (NOK IN THOUSAND)	NOTES	2004	2003 (P)	2003
ASSETS				
Fixed Assets				
Deferred tax assets	7	**113 205**	110 639	110 639
Goodwill	5	**200 124**	221 247	248 543
Other intangible fixed assets	5	**28 508**	32 550	32 550
Intangible Fixed Assets		**341 837**	**364 436**	**391 732**
Land and buildings	6	**181 719**	185 037	185 037
Machinery and equipment	6	**548 910**	450 837	450 837
Other tangible fixed assets	6	**54 024**	53 612	53 612
Tangible Fixed Assets		**784 653**	**689 486**	**689 486**
Financing receivables	9	**13 043**	16 773	16 773
Investments in associated companies	10	**10 910**	5 888	5 888
Investments in shares	10	**3 086**	1 091	1 091
Other long-term receivables	9	**37**	5 071	5 071
Financial Fixed Assets		**27 076**	**28 823**	**28 823**
Total Fixed Assets		**1 153 566**	**1 082 745**	**1 110 041**
Current Assets				
Inventories	3	**207 544**	293 939	293 939
Trade receivables	9	**189 538**	127 681	127 681
Other current receivables	9	**65 601**	39 312	39 312
Cash and bank deposit	8	**415 185**	52 324	52 324
Total Current Assets		**877 868**	**513 256**	**513 256**
Total Assets		**2 031 434**	**1 595 999**	**1 623 295**

YEAR ENDED DECEMBER 31 (NOK IN THOUSAND)	NOTES	2004	2003 (P)	2003
EQUITY AND LIABILITIES				
Shareholders' Equity				
Share capital	14	**37 286**	26 436	26 436
Own shares	14	**0**	-766	-766
Share premium reserve	14	**667 170**	372 391	372 391
Other paid in capital	14	**337 739**	312 568	312 568
Paid-in capital		**1 042 195**	710 629	710 629
Other equity and retained earnings	14	**-103 980**	-45 433	-79 333
Profit/loss for the year	14	**-62 593**	-177 896	-128 181
Minority interest	14	**49 245**	44 442	146 789
Retained earnings		**-117 328**	-88 021	-60 725
Total Shareholders' Equity		**924 867**	622 608	649 904
Non-current liabilities				
Pension liabilities	13	**14 676**	10 774	10 774
Deferred tax liabilities	7	**0**	0	0
Medium- and long-term loans	9, 11, 12	**575 486**	559 118	559 118
Other liabilities non-current		**15 790**	9 367	9 367
Total Non-current Liabilities		**605 952**	579 259	579 259
Current liabilities				
Trade payables		**212 608**	148 733	148 733
Other current liabilities		**66 591**	65 539	65 539
Short-term loans	9	**221 416**	179 860	179 860
Total Current Liabilities		**500 615**	394 132	394 132
Total Liabilities and Equity		**2 031 434**	1 595 999	1 623 295

Statement of cash flow REC Group

YEAR ENDED DECEMBER 31 (NOK IN THOUSAND)	NOTES	2004	2003 (P)	2003
Cash flows from operating activities				
Profit/loss before tax		**-51 729**	-244 715	-199 789
Adjustments for depreciation of fixed assets		**165 641**	134 432	60 363
Adjustments for changes in pension liabilities		**3 759**	4 658	4 658
Loss on sale of subsidiaries not consolidated		**0**	0	0
Other adjustments		**11 962**	8 003	8 851
Changes in operating assets and liabilities:				
Changes in trade receivables		**-62 262**	-74 121	-26 817
Changes in inventories		**86 305**	-122 752	-75 863
Changes in trade payables		**64 027**	28 110	2 502
Taxes paid		**0**	0	0
Net cash flow from operating activities		**217 703**	**-266 385**	**-226 095**
Cash flows from investing activities				
Capital expenditure on financial fixed assets		**-11 527**	-78 421	-78 421
Capital expenditure on other fixed assets		**-205 191**	-217 936	-66 239
Net cash flow from investing activities		**-216 718**	**-296 357**	**-144 660**
Cash flow from financing activities				
Changes in financing receivables		**-3 431**	12 680	372
Changes in short-term loans		**41 600**	-161 798	7 408
Changes in medium- and long-term loans		**17 367**	440 341	172 035
Increase in equity		**308 874**	158 200	158 200
Dividends paid		**0**	0	0
Other items		**-2 165**	-1 572	-7 385
Net cash flow from financing activities		**362 245**	**447 851**	**330 630**
Cash and equivalents translation difference		**-369**	841	841
Net change in cash and equivalents		**362 861**	**-114 050**	**-39 284**
Cash and equivalents – beginning of the year	8	**52 324**	166 374	87 422
Cash acquires during the year				4 186
Adjusted cash and equivalents – beginning of the year				91 608
Cash and equivalents – end of the year	8	**415 185**	52 324	52 324

Notes to the REC Group accounts

Note 01: ACCOUNTING PRINCIPLES

Consolidated financials The consolidated accounts include the parent company, subsidiary companies and equity accounted companies and give the Group's combined financial position of these companies as one unit and as collective statements.

At the end of September 2003, Renewable Energy Corporation AS (REC) increased its shareholding in ScanWafer AS from 32.6% to 71.2%. As a result, ScanWafer AS is consolidated into REC Income Statement and Cash Flow according to the equity method for the first three quarters of 2003 (from 01.01.2003 to 30.09.2003) and according to the purchase method for the fourth quarter of 2003 (from 01.10.2003 to 31.12.2003).

(p) Represent pro-forma figures for 2003 assuming acquisition of the remaining outstanding shares of ScanWafer AS as of 01.01.2003. Therefore ScanWafer AS is consolidated based on a 100% ownership and consequently goodwill has been depreciated for 12 months. The acquisition of the remaining outstanding shares of ScanWafer AS was acquired by issuing shares in Renewable Energy Corporation AS. The pro-forma minority interest consequently consist only of the minority in Solar Grade Silicon LLC and Solar Vision Ltd.

Subsidiaries A company is treated as a subsidiary where REC holds a shareholding of more than 50% and has a controlling interest. The Income Statement and Balance Sheet are included in their entirety in the Consolidated Accounts. The minority interests' share of the profit or loss for the year and shareholders' equity is shown as separate items in the accounts.

Shares purchased in subsidiaries are dealt with according to the purchase method of accounting, by which the cost price of the shares is set off against the book value of the shareholders' equity in the subsidiary at the time of purchase. Added or reduced values resulting from the purchase are assigned to identifiable assets or liabilities. Added value that cannot be assigned to identifiable assets and liabilities is presented in the Balance Sheet as goodwill. Depreciation of added value and goodwill is presented in the Income Statement. Goodwill is depreciated at 20% throughout the Group.

Associated companies Associated companies are enterprises in which Renewable Energy Corporation AS has a substantial interest (normally more than 20% of the shares), but which are not subsidiaries or joint ventures. For associated companies REC use the equity method in the consolidated accounts. According to the equity method, investments are valued as the share of equity capital in the enterprise and the share of the profit is entered as income. The share of the profit and the investment are presented as separate items in the Income Statement (Earnings from equity accounted companies) and Balance Sheet. At the time of purchase, the investment is valued at full cost, i.e. including the added or reduced value resulting from the purchase.

Conversion of foreign companies Balance sheet items relating to foreign companies are converted at the exchange rate applying on the date of the Balance Sheet, while Income Statement and Cash Flow items are converted at average exchange rates for the year. Conversion differences for foreign subsidiaries are entered against the Group's shareholders' equity.

Internal transactions All internal transactions between consolidated units have been eliminated. This applies to internal trading, interest, dividends and internal gains. It also applies to internal receivables and liabilities, in addition to share and capital investment.

Pensions REC has both defined-benefit pension schemes and defined-contribution pension schemes for its employees. Employees' pension rights under the defined-benefit pension schemes are charged to expenses as they are earned and net pension commitments/pension funds are entered in the Balance Sheet. An actuarial calculation is made annually of pension expenses and pension commitments, taking into account anticipated wage growth based on linear accumulation. "Pension funds" includes premium funds and REC's share of the insurance company's funds (premium reserves). "Pension expenses" includes the present value of the year's pension earnings, plus interest on commitments, less return on pension funds. For the defined-contribution pension schemes the contributions are charged to expenses as they are paid. No commitments are entered in the Balance Sheet for these schemes.

Taxes This year's Income Statement does not contain any payable taxes, but rather a carry forward tax loss and change in deferred tax. The tax loss is calculated on the basis of the year's loss in each of our subsidiaries and parent company. Deferred tax asset is a provision for future reduced payable tax, calculated on temporary

differences between accounts and tax. The reason why temporary differences arise is that some of the items in the Income Statement are treated differently for accounting purposes and for tax purposes.

Depreciation Depreciation is based on the economic life of the fixed assets.

Development costs Costs relating to research and development of technology are charged to expenses.

Receivables and debts Receivables and debts that relate to production are classified as current assets and short-term liabilities. Debts to credit issuing institutions etc. which are taken up to finance fixed assets (investments) are classified as long-term liabilities, while loans taken up to finance working capital (current assets) are classified as short-term liabilities. Other receivables and debts which are not due for more than a year, are classified as fixed assets and long-term liabilities. Receivables are entered in the Balance Sheet at their nominal value less provision for bad debts. Receivables and debts in foreign currency are converted at the exchange rate on the date of the Balance Sheet.

Stocks Stocks are assessed at full cost price or net realizable value, whichever is lower.

The accounting principals are in detail described in the disclosures to the financial statements in the parent company.

Note 02: SEGMENT DATA

	2004	2003 (P)
Sales revenues by segment		
Solar Grade Silicon	533 678	192 981
ScanWafer	883 938	617 744
ScanCell	144 494	20 862
ScanModule	129 376	7 160
SolEnergy	6 766	2 641
Gross revenues	**1 698 252**	**841 388**
Corporate/eliminations	-280 112	-128 377
Total revenues	**1 418 140**	**713 011**

	2004	2003 (P)
EBITDA by segment		
Solar Grade Silicon	41 731	-9 354
ScanWafer	149 267	39 129
ScanCell	7 316	-18 216
ScanModule	-14 301	-5 734
SolEnergy	-2 224	-7 145
Sum	**181 789**	**-1 320**
Corporate/eliminations	-26 540	-30 285
Total EBITDA	**155 249**	**-31 605**

	2004	2003 (P)
EBIT by segment		
Solar Grade Silicon	40 754	-9 906
ScanWafer	68 274	-30 047
ScanCell	-8 061	-25 941
ScanModule	-16 964	-6 548
SolEnergy	-5 008	-11 301
Sum	**78 995**	**-83 743**
Goodwill depreciation	-55 890	-48 155
Corporate/eliminations	-26 782	-30 478
Total EBIT	**-3 677**	**-162 376**

	2004	2003 (P)
Profit/loss before tax by segment		
Solar Grade Silicon	39 785	-16 624
ScanWafer	46 487	-80 811
ScanCell	-10 585	-28 498
ScanModule	-19 123	-6 324
SolEnergy	-10 524	-15 337
Sum	**46 040**	**-147 594**
Goodwill depreciation	-55 890	-48 155
Corporate/eliminations	-41 879	-48 966
Total Profit/loss before tax	**-51 729**	**-244 715**

Note 03: INVENTORIES

	2004	2003
Inventories		
Finished goods	35 677	103 917
Goods in production	18 135	44 283
Raw materials	153 732	145 739
Total inventories	**207 544**	**293 939**

Note 04: PAYROLL EXPENSES

	2004	2003
Payroll expenses		
Pay	227 626	127 176
Bonus and sales commission	2 818	-647
Employer's National Insurance contribution	43 414	8 611
Pension expenses	15 408	1 493
Other pay-related expenses	2 273	2 063
Total payroll expenses	**291 539**	**138 696**
Average number of permanent employees	**601**	**505**
Number of employees at December 31, 2004	**657**	**546**

AUDITOR'S REMUNERATION FOR 2004 *	AUDIT FEES EXPENSED	CONSULTANCY SERVICES
KPMG	4 054	1 303
Other	10	70
Total auditor's remuneration	**4 064**	**1 373**

* Audit and other audit services contain:

- Audit work related to Norwegian auditing standard RS 700, to give a qualified opinion regarding the financial statements
- Audit work related to tax form signature according to RS 801
- Audit work related to confirmations according to RS 802

Note 05: INTANGIBLE FIXED ASSETS

	RESEARCH AND DEVELOPM.	LICENCES AND OTHER INTANGIBLE ASSETS	GOODWILL	2004	2003
Cost price					
January 1	2 755	42 000	274 817	319 572	30 887
Additions	-	265	13 371	13 636	292 749
Sale	-	-	-	-	-
Translation difference	-	-1	-8 348	-8 349	-4 064
Cost price at December 31	**2 755**	**42 264**	**279 840**	**324 859**	**319 572**
Accumulated depreciation					
January 1	-	-9 450	-23 585	-33 035	-3 240
Depreciation for the year	-	-4 306	-55 890	-60 196	-30 309
Translation difference	-	-	2 448	2 448	514
Depreciation at December 31	**-**	**-13 756**	**-77 027**	**-90 783**	**-33 035**
Write downs					
January 1	-2 755	-	-2 689	-5 444	-
Write downs for the year	-	-	-	-	-5 444
Translation difference	-	-	-	-	-
Write downs at December 31	**-2 755**	**-**	**-2 689)**	**-5 444**	**-5 444**
Net book value	**-**	**28 508**	**200 124**	**228 632**	**281 093**
Estimated economic lifetime		10 y.	5 y.		
Depreciation method		linear	linear		

Note 06: OPERATIONAL FIXED ASSETS

	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	2004	2003
Cost price					
January 1	200 356	599 780	69 697	869 833	64 307
Additions	7 740	182 155	14 842	204 737	811 802
Sale	-	-45 764	-1 154	-46 918	-9 862
Translation difference	-486	-1 267	-44	-1 797	3 586
Cost price at December 31	**207 610**	**734 904**	**83 341**	**1 025 855**	**869 833**
Accumulated depreciation					
January 1	-15 319	-143 877	-16 059	-175 255	-100 914
Depreciation on disposals		41 188	146	41 334	-
Depreciation for the year	-10 579	-68 677	-12 882	-92 138	-74 012
Translation difference	7	-2 998	-471	-3 462	-329
Depreciation at December 31	**-25 891**	**-174 364**	**-29 266**	**-229 521**	**-175 255**
Write downs					
January 1	-	-5 067	-25	-5 092	-
Write downs for the year	-	-6 567	-26	-6 593	-5 092
Translation difference	-	4	-	4	-
Write downs at December 31	-	-11 630	-51	-11 681	-5 092
Net book value	**181 719**	**548 910**	**54 024**	**784 653**	**689 486**
Estimated economic lifetime	20–25 y.	7–10 y.	3–10 y.		
Depreciation method	linear	linear	linear		

Note 07: INCOME TAX

	2004	2003
Income tax expenses		
Tax payable	-	-
Change in deferred taxes	3 608	56 727
Total tax expenses	**3 608**	**56 727**
Tax base estimation		
Profit/loss before tax	-51 729	-199 789
Profit/loss before tax ScanWafer	-	-17 631
Permanent differences	-4 743	-5 818
Permanent differences goodwill depreciation	55 890	20 859
Permanent difference relatet to minority interest (LLC)	-12 559	-
Net transactions in capital equity	-	-625
Loss carried forward	-63 386	-
Temporary diff. acqired by consolidation of ScanWafer	-	-12 933
Temporary differences	8 454	-25 602
Estimated tax base	**-68 073**	**-241 539**
Temporary differences		
Receivables	-13 620	-16 748
Inventory	-4 903	-98
Shares	-	8 775
Fixed assets	52 985	43 381
Provisions	-1 156	-
Government grants	-19 126	-11 167
Pension obligations	-1 741	-1 425
Loss carried forward	-420 438	-419 775
Unused allowance of dividends	-133	-133
Total temporary differences	**-408 132**	**-397 190**
28%–34% deferred tax	-116 453	-114 555
Deferred tax asset not balanced	3 248	3 916
Total	**-113 205**	**-110 639**

Loss carried forward related to Solar Vision, not recognised due to uncertainty of utilisation against future taxable profit.

CONTINUED	2004	2003
The tax amount is:	1 366	1 089
Tax costs for the year		
Tax on profit/loss for the year	12 694	
Permantent difference effect	-15 441	
Tax effect minority	4 270	
Reversed temporary difference on shares	2 457	
Temp. difference due to change in accounting principals	-197	
Temp. difference booked against equity	-175	
Total	**3 608**	

Note 08: RESTRICTED BANK DEPOSITS

Restricted bank deposits, most of which is related to withheld tax from employees amounts to NOK 7.6 million. In addition, the parent company has NOK 6.7 million restricted as collateral for financing the subsidiary ScanModule AB. Further, the parent company has placed a USD 3 000 000 cash deposit in Bank of America, booked at NOK 18 314 697, as collateral for a credit facility used by Solar Grade Silicon LLC.

Note 09: RECEIVABLES AND DEBT

	2004	2003
Receivables		
Trade receivables	**189 538**	**127 681**
Other short-term recveivables	46 262	27 605
Prepaid costs	19 339	11 707
Other current receivables	**65 601**	**39 312**
Financing receivables	**13 043**	**16 773**
Bonds & securities	-	-
Other long term receivables	37	5 071
Other long-term receivables	**37**	**5 071**
Total receivables	**268 219**	**188 837**
Debt		
Short-term liabilities to fin. Institutions (credit facilities)	119 580	91 439
Current portions of long-term loans/liabilities	101 836	88 421
Short-term liabilities, interest-bearing	**221 416**	**179 860**
Long-term liabilities, interest bearing	**575 486**	**559 118**
Total interest-bearing debt	**796 902**	**738 978**

Note 10: SHARES AND PARTICIPATIONS

	REGISTERED OFFICE	BOOK VALUE NOK 1 000	OWNERSHIP/ VOTING SHARE
Sharesholdings held by parent			
SiTech AS	Norway	2 500	11.7%
Affitech AS	Norway	70	1.7%
Edisun Power AG	Germany	516	5.0%
Total investments in shares		**3 086**	

Shares owned in associated companies

	CSG SOLAR AG	SCANWAFER GMBH
Ownership	21.0%	100.0%
Business office	Germany	Germany
Booked value at January 1, 2004	-	3 976
Acquired in 2004	8 512	-
Profit/loss from equity accounted companies	-1 600	22
Booked value Desember 31, 2004	**6 912**	**3 998**
Total net investments in associated companies		**10 910**

Write downs of financial fixed assets of NOK 6 715 thousand mainly consists of the write down of shares in Afrisol, Marocco (NOK 6 075 thousand) held by SolEnergy AS. The remaining NOK 640 thousand consists of a number of smaller book value adjustments of selected other investments.

ScanWafer GmbH is recognised in the group financial statements using the equity method due to its immaterial size and limited number of transactions.

Note 11: PLEDGES AND GUARANTEES

	2004	2003
Guarantees		
Guarantees pledged as security	6 700	6 700
Other guarantees	700	2 920
Total guarantees	**7 400**	**9 620**

	BOOK VALUE	PLEDGE
Pledges as at December 31, 2004		
Fixed assets	742 210	913 588
Accounts receivables	173 052	274 936
Inventory	171 743	262 000
Total	**1 087 005**	**1 450 524**

For one of the subsidiaries, pledged values are higher than the book value of the related assets. ScanWafer AS had NOK 389 million higher pledge value than the book value.

Note 12: CONVERTIBLE LOANS AND BOND ISSUES

On September 24, 2003, the company entered into a loan agreement with Goldman Sachs International, Mithril GmbH and Good Energies Investments B.V., total loan amounted to € 31 million. Interest rate on the convertible loan is 7.9% p.a. and interest expenses for 2004 amounts NOK 20 528 893. As per December 31, 2004, the loan was booked at NOK 255 393 499. The loan holders have rights to convert their loan in part or as a whole at any given time before the due date at € 14.283 per share, with currency rate NOK 8.26 which are equal to NOK 118 per share. The loan is due for repayment in whole at March 31, 2006. The loan agreement predetermines conversion rates at any new issues of shares and/or merger dilution effects. Good Energies Investments B.V, being REC's largest shareholder, is defined as a related party.

Note 13: PENSION

	2004	2003
Pension expenses		
Present value pension earnings for the year	13 344	11 429
Interest expenses	1 448	460
Return on pension funds	-1 229	-592
Effect of changes in estimates	289	10
Employer's tax	1 556	452
Net pension expense	**15 408**	**11 759**
Pension liabilities		
Present value funded defined benefit liabilities	29 452	24 622
Expected effect of future salary increase	14 833	721
Expected pension liabilities at year-end	**44 285**	**25 343**
Market value pension funds	24 801	14 268
Unrecognised effect of estimate deviations	-6 621	-1 499
Employer's tax	1 813	1 199
Net pension liability	**14 676**	**10 774**
Actuarial assumptions for pension liabilities		
Discount rate	5.5%	6.0%
Expected return on pension funds	6.5%	7.0%
Expected wage adjustment	3.0%	3.0%
Expected pension regulation	2.5%	2.5%
Expected pay increases	3.0%	3.0%

The pension plan relates to employees in Renewable Energy Corporation AS, ScanWafer AS and ScanCell AS for 2004. Actuarial assumptions are weighted average of pension plans in the group, and relate to persons. The other subsidiaries do not have additional pension obligations to the expensed amounts.

Note 14: STATEMENT OF CHANGES IN EQUITY

PAID-IN CAPITAL	SHARE CAPITAL	SHARE PREMIUM RESERVE	OWN SHARES	OTHER PAID-IN CAPITAL	TOTAL PAID-IN CAPITAL
Balance at January 1, 2004	26 436	372 391	-766	312 568	710 629
Equity changes	10 850	294 779	766	25 171	331 566
Balance at December 31, 2004	**37 286**	**667 170**	**0**	**337 739**	**1 042 195**

RETAINED EARNINGS	MINORITY INTEREST	OTHER EQUITY AND RETAINED EARNINGS	TOTAL RETAINED EARNINGS	TOTAL EQUITY
Balance at January 1, 2004	136 862	-190 929	-54 067	656 562
Adjustment, change in acc. principles	9 927	-16 585	-6 658	-6 658
Adjusted balance at January 1, 2004	146 789	-207 514	-60 725	649 904
Equity changes	-112 016	103 534	-8 482	323 084
Net profit/loss	14 472	-62 593	-48 121	-48 121
Balance at December 31, 2004	**49 245**	**-166 573**	**-117 328**	**924 867**

Adjustments to the opening balance resulted from changes in accounting principles in Solar Vision (South Africa), a fully owned subsidiary of SolEnergy AS. Grants received from installation activities from the local government are now recognized as revenue over the lifetime of the installation, 20 years.

Additional changes to the opening balance were a result of different treatment of minority interest in ScanWafer AS. The majority loss is consequently NOK 11 million higher in 2003.

Note 15: PROVISIONS AND CONTINGENT LIABILITIES

Provisions made for claims not yet verified were NOK 8 957 939, the amount refer to the subsidiaries ScanWafer AS, ScanCell AS and ScanModule AB.

In addition, various financial claims may be made against REC AS and its subsidiaries from litigation or as a consequence of its ordinary operations. These relate mainly to warranties, personal injury and damage to property. The risk of such claims arising has been analysed and assessed, and cannot be determined with certainty. The management is not aware of any significant liabilities at the date of this report.

Note 16: DISCONTINUED OPERATIONS

In December 2004 the Board of Directors decided to sell two wholly owned subsidiaries of the group. The subsidiaries are ScanCell AS and ScanModule AB. ScanCell AS produces solar cells based on multicrystalline wafers from ScanWafer AS, most of its production is sold in Europe. ScanModule AB produces solar modules based on solar cells from ScanCell AS, all of its production goes to Europe.

The summerised financial information from the discontinued operations are as follows:

	2004	2003
Revenues		
ScanCell AS	144 494	20 862
ScanModule AB	129 376	7 160
Total	**273 870**	**28 022**
Earnings before interest and taxes		
ScanCell AS	-8 061	-25 941
ScanModule AB	-16 964	-6 548
Total	**-25 025**	**-32 489**
Net Profit (Loss) after tax		
ScanCell AS	-5 945	-17 534
ScanModule AB	-13 775	-4 288
Total	**-19 720**	**-21 822**

	2004	2003
Assets		
ScanCell AS	118 650	93 938
ScanModule AB	116 811	29 707
Total	**235 461**	**123 645**
Liabilities		
ScanCell AS	80 593	88 936
ScanModule AB	97 085	23 568
Total	**177 678**	**112 504**
Net asset		
ScanCell AS	38 057	5 002
ScanModule AB	19 726	6 139
Total	**57 783**	**11 141**

	2004	2003
Net cash flows from operating activities		
ScanCell AS	3 240	-27 485
ScanModule AB	-45 719	-13 414
Total	**-42 479**	**-40 899**
Net cash flows from investing activities		
ScanCell AS	-17 406	-24 086
ScanModule AB	-5 149	-4 707
Total	**-22 555**	**-28 793**
Net cash flows from financing activities		
ScanCell AS	13 861	51 532
ScanModule AB	54 833	19 919
Total	**68 694**	**71 451**

Income Statement REC AS

(IN NOK)	NOTES	2004	2003
Revenues	H	**6 264 704**	7 633 223
Total operating income		**6 264 704**	**7 633 223**
Purchase of goods		**–1 468**	-2 673 539
Payroll expenses	D	**–14 682 046**	-12 730 247
Depreciation of tangible fixed assets	C	**–242 364**	-193 553
Other operating expenses		**–13 795 682**	-22 514 677
Operating profit/(loss)		**–22 456 856**	**-30 478 792**
Interest receivable from group companies		**1 860 245**	183 333
Interest income		**1 075 224**	403 929
Other financial income	E	**5 704 000**	2 413 598
Write downs financial fixed assets		**–455 000**	0
Interest expenses		**–20 528 893**	-11 820 918
Other financial expenses		**–1 152 200**	-9 666 818
Profit/(loss) before taxes		**–35 953 480**	**-48 965 668**
Tax on ordinary profit	J	**13 207 234**	13 641 042
Profit/(loss) for the year		**–22 746 246**	**-35 324 626**
Profit/(loss) for the year is distributed as follows:			
Other equity/capital	K	**–22 746 246**	-35 324 626
Total distributed		**–22 746 246**	**-35 324 626**

Balance Sheet REC AS

(IN NOK)	NOTES	31.12.2004	31.12.2003
ASSETS			
Fixed assets			
Intangible fixed assets			
Deferred tax asset	J	**42 094 025**	28 886 791
Total intangible fixed assets		**42 094 025**	**28 886 791**
Tangible fixed assets			
Fixtures and fittings, tools, office machinery and similar assets	C	**243 450**	372 215
Total tangible fixed assets		**243 450**	**372 215**
Fixed asset investments			
Investments in subsidiaries	F	**779 811 474**	568 773 706
Loans to subsidiaries	I	**178 516 925**	185 138 303
Investments in associates	G	**8 511 513**	0
Other investments	G	**3 086 063**	1 041 063
Total fixed asset investments		**969 925 975**	754 953 072
Total fixed assets		**1 012 263 450**	784 212 078
Current assets			
Accounts receivable			
Trade accounts receivable	I	**2 269 597**	6 980 629
Receivables from subsidiaries	I	**171 447**	9 017 385
Other receivables		**2 643 682**	1 144 589
Total accounts receivable		**5 084 726**	**17 142 603**
Cash and cash equivalents	B	**277 611 009**	40 494 659
Total assets		**1 294 959 185**	841 849 340

(IN NOK)	NOTES	31.12.2004	31.12.2003
EQUITY AND LIABILITIES			
Equity			
Called up share capital			
Share capital	K	**37 286 268**	26 426 185
Not registered share capital		**0**	10 000
Own shares	K	**0**	-765 970
Share premium reserve	K	**667 171 103**	372 391 087
Paid-in other equity	K	**283 056 215**	261 510 226
Total called up capital		**987 513 585**	659 571 528
Earned equity			
Other capital	K	**13 054 003**	-39 880 904
Total earned equity		**13 054 003**	**-39 880 904**
Total equity		**1 000 567 590**	619 690 624
Liabilities			
Provisions			
Pension liabilities	D	**1 160 756**	656 985
Total provisions		**1 160 756**	656 985
Other long-term liabilities			
Convertible loans	E	**255 393 499**	214 628 697
Total other long-term liabilities		**255 393 499**	214 628 697
Total long-term liabilities		**256 554 255**	215 285 682
Current liabilities			
Liabilities to financial institutions	E	**0**	1 830 296
Accounts payable	I	**3 950 891**	2 048 019
Tax payable	J	**0**	0
Social security, VAT and other taxation payable		**1 380 966**	1 212 915
Other current liabilities	I	**32 505 482**	1 781 804
Total current liabilities		**37 837 340**	6 873 034
Total liabilities		**294 391 595**	222 158 716
Total equity and liabilities		**1 294 959 185**	841 849 340

Høvik, April 28, 2005

Tore Schiøtz
Chairman of the Board

Rune Bjerke
Member of the Board

Marcel Egmond Bremminkmeijer
Member of the Board

Ole Enger
Member of the Board

Paul Kloppenborg
Member of the Board

Halvor T. Svartdal
Member of the Board

Richard Olav Aa
Member of the Board

Alf Bjørseth
President and CEO

Statement of Cash flow REC AS

(IN NOK)	NOTES	2004	2003
Cash flow from operating activities			
Profit/(loss) before tax		**–35 953 480**	-48 965 668
Taxes paid		**0**	0
Depreciation and amortization		**242 364**	193 553
Write downs financial fixed assets		**455 000**	0
Changes in accounts receivable		**4 711 032**	-5 609 002
Changes in accounts payable		**1 902 872**	-389 534
Changes in pension scheme assets/liabilities		**503 771**	257 978
Changes in other accrued income and expenditure		**12 350 274**	-4 438 025
Net cash flow from operating activities		**–15 788 167**	**-58 950 698**
Cash flow from investing activities			
Capital expenditure on financial fixed assets		**–127 300 513**	-142 909 425
Proceeds from sale of other fixed assets		**–113 600**	-211 332
Net cash flow from investing activities		**–127 414 113**	**-143 120 757**
Cash flow from financing activities			
Increase in short and long-term loans		**73 274 480**	187 571 111
Repayment of short- and long-term loans		**–1 830 296**	-44 383 351
Increase in equity		**308 874 444**	61 160 573
Net cash flow from financing activities		**380 318 628**	204 348 333
Net change in cash and cash equivalents		**237 116 348**	2 276 878
Cash and cash equivalents 01.01.	B	**40 494 659**	38 217 783
Cash and cash equivalents 31.12.	B	**277 611 009**	40 494 659

Notes to the REC AS accounts

Note A: ACCOUNTING PRINCIPLES

Basic principles – assessment and classification – other issues The financial statements, which have been presented in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles in effect as of December 31st 2004, consist of the profit and loss account, balance sheet, cash flow statement and notes to the accounts. The necessary specification has been provided in notes to the accounts, thus making the notes an integrated part of the financial statements.

The financial statements have been prepared based on the fundamental principles governing historical cost accounting, comparability, continued operations, congruence and prudence. Transactions are recorded at their value at the time of the transaction. Income is recognized at the time of delivery of services. Costs are expensed in the same period as the income to which they relate. Costs that cannot be directly related to income are expensed as incurred. The different accounting principles are further commented on below.

In cases where actual figures are not available at the time of the closing of the accounts, generally accepted accounting principles require management to make estimates and assumptions regarding the effect of these items on the profit and loss account as well as the balance sheet. Actual results could differ from these estimates.

Assets/liabilities related to current business activities and items which fall due within one year are classified as current assets/liabilities. Current assets/short-term debts are recorded at the lowest/highest of acquisition cost and fair value. The definition of fair value is the estimated future sales price reduced by expected sales costs. Other assets are classified as fixed assets. Fixed assets are entered in the accounts at historical cost, with deductions for depreciation. In the event of a decline in value which is not temporary, the fixed asset will be subject to a write-down. The same principle applies to liabilities.

Accounting principles for material items
Cost recognition/matching
Costs are expensed in the same period as the income to which they relate is recognized. Costs that cannot be directly related to income are expensed as incurred.

Other income (costs)
Material income and cost which are not related to day to day operations are classified as other operating income (costs). Items that are unusual, irregular and material are classified as extraordinary items.

Financial assets The company's investments in subsidiaries and associated companies are valued at the lowest of fair value and acquisition cost.

Accounts Receivables Trade receivables are accounted for at face value with deductions for expected loss.

Deferred tax and tax expense Deferred tax is calculated based on temporary differences between book values and values according to the tax basis for assets and liabilities at year end. For the purposes of calculating deferred tax, nominal tax rates are used. Positive and negative differences are offset to the extent they reverse within the same time-frame. Temporary differences that will constitute a future tax deduction give rise to a deferred tax asset. Change in deferred tax liability and deferred tax asset, together with taxes payable for the fiscal year adjusted for errors in previous years tax calculations constitutes taxes for the year.

Pension liability and pension costs The company has a pension plan that entitles its members to defined future benefits, called defined benefit plans. The calculation of the liability is made on a linear basis, taking into account assumptions regarding the number of years of employment, discount rate, future return on plan assets, future changes in salaries and pensions, the size of defined benefit contributions from the government and actuarial assumptions regarding mortality, voluntary retirement and so on. Plan assets are stated at fair market values.

Net pension liability comprises the gross pension liability less the fair value of plan assets. Net pension liabilities from under funded pension schemes are included in the balance sheet as long-term interest free debt, while over funded schemes are included as long-term interest free receivables, if it is likely that the over funding can be utilized.

Changes in the liability caused by changes in the pension plan, are distributed over the estimated remaining years of service. Changes in the pension liability and plan assets due to changes in estimates, are distributed over the remaining average years of service, provided the changes exceeds 10% of the gross pension liability/plan assets.

Net pension cost, which consists of gross pension cost, less estimated return on plan assets adjusted for the impact of changes in estimates and pension plans, are classified as an operating cost, and is presented in the line item payroll and related cost.

Cash flow statement The cash flow statement is compiled using the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term investments with terms not exceeding 3 months that immediately, and with no material exchange rate exposure, can be exchanged for cash.

Note B: RESTRICTED FUNDS

Bank deposit restricted to employees' tax deduction is NOK 713 220, NOK 6 700 000 is restricted as collateral for the financing of a subsidiary. The company has placed a USD 3 000 000 cash deposit in Bank of America, booked at NOK 18 314 697, as collateral for a credit limit used by Solar Grade Silicon LLC. The company has available a credit facility with a limit of NOK 10 000 000.

Note C: TANGIBLE FIXED ASSETS AND INTANGIBLE FIXED ASSETS

	LICENSE	OFFICE EQUIP.	CARS	2004 TOTAL	2003 TOTAL
Cost as of 01.01.	211 332	439 280	209 950	860 562	649 230
Additions to purchased fixed assets	0	113 600	0	113 600	211 332
Disposals	0	0	0	0	0
Cost as of 31.12.	**211 332**	**552 880**	**209 950**	**974 162**	**860 562**
Accumulated depreciation as of 31.12.	82 185	445 977	202 550	730 712	488 347
Net book value as of 31.12.	**129 147**	**106 903**	**7 400**	**243 450**	**372 215**
Depreciation for the year	**70 444**	**109 521**	**62 400**	**242 364**	**193 553**
Useful economic life, years	Up to 3	Between 3–7	Up to 3		
Depreciation plan	Linear	Linear	Linear		

Operating lease amount NOK 508 450.

Note D: SALARIES / NUMBER OF EMPLOYEES / BENEFITS / EMPLOYEE LOANS / PENSIONS

		01.01-31.12
PAYROLL AND RELATED COST	2004	2003
Payroll	10 993 968	9 822 225
Social security costs	1 991 217	1 623 878
Pension costs	1 543 907	1 151 164
Other employee related costs	152 955	132 980
Payroll and related cost	**14 682 046**	**12 730 247**

Average number of employees in 2004 was 14

CURRENT YEAR PENSION EXPENSES	2004	2003
Present value pension earnings of the year	1 472 530	1 098 440
Interest expences incurred pension cost	143 002	99 212
Expected return	-138 091	-93 834
Redemption og estimate divergence	30 757	9 588
Net Pension Expence	**1 508 198**	**1 113 406**
Administrative Expences	**35 709**	**28 568**

BALANCE (NOTE INFORMATION) PENSION LIABILITIES	31.12.04	31.12.03
Incurred pension commitment excl expected future salary increase	3 256 378	2 315 982
Expected effect of future salary increase	1 105 259	535 211
Incurred pension commitment incl expected future salary increase	4 361 637	2 851 193
Market value pension funds	2 539 928	1 862 032
Net incurred pension commitment	-1 821 709	-989 162
Unrecognised effect of estimate deviations	804 394	332 177
Accrued payroll tax	-143 441	0
Net pension liabilities	**-1 160 756**	**-656 985**

TECHNICAL ASSUMPTION	01.01.04	01.01.03
Discount rate	5.50%	6.00%
Expected return	6.50%	7.00%
Wage adjustment	3.30%	3.30%
Pension adjustment	2.50%	2.50%
Adjustment of pension benefits	2.50%	2.50%
Voluntary retirement employees<40 years old	2.00%	2.00%
Voluntary retirement employees>40 years old	0.00%	0.00%

BENEFITS	PRESIDENT & CEO	BOARD OF DIRECTORS
Salary	1 079 721	443 288
Share of pension	115 657	0
Other benefits	12 013	0

The President & CEO do not have any agreements of bonus or salary if he leaves the company.

Audit

The audit fee and other audit related services *2004	407 134
Fees regarding other services provided by the auditor	931 016

* Audit and other audit services contain:

- Audit work related to Norwegian auditing standard RS 700, to give a qualified opinion regarding the financial statements
- Audit work related to tax form signature according to RS 801
- Audit work related to confirmations according to RS 802

Note E: LIABILITIES

The company has no liabilities due more than five years after the end of the fiscal year.

	2004	2003
Loan to credit institution	0	1 830 296
Other short terms liabilities	0	0
Total	**0**	**1 830 296**

Convertible loans
On September 24th 2003 the company entered into a loan agreement with Goldman Sachs International, Mithril GMBH and Good Energies Investments B.V., total loan amounted to € 31 million. Interest rate on the convertible loan is 7.9% p.a. Interest expenses for 2004 amounts NOK 20 528 893. As per December 31st 2004 the loan was booked at NOK 255 393 499. The loan holders have rights to convert their loan in part or as a whole at any given time before the due date at € 14.283 per share, with currency rate NOK 8.26 which are equal to NOK 118 per share. The loan is due for repayment in whole at March 31st 2006. The loan agreement predetermines conversion rates at any new issues of shares and/or merger dilution effects.

Note F: SUBSIDIARIES AND ASSOCIATES

Shares in subsidiaries

THE NAME OF THE COMPANY	OWNERSHIP/ VOTING SHARE	BUSINESS OFFICE	EQUITY ACCORDING TO THE LATEST FINANCIAL STATEMENTS	PROFIT (LOSS) ACCORDING TO THE LATEST FINANCIAL STATEMENTS	BOOK VALUE
Silicon Technology AS	100.0%	Bærum	65 102 526	4 323 261	69 231 000
ScanWafer AS	100.0%	Høvik	401 744 000	34 329 000	596 363 644
ScanCell AS	100.0%	Narvik	38 056 930	-5 945 121	64 748 000
ScanModule AB	100.0%	Arvika	19 723 079	-13 772 919	38 528 048
SolEnergy AS	100.0%	Bærum	-18 460 661	-9 097 736	7 358 919
REC Ventures AS	100.0%	Meløy	25 983 797	16 095 222	3 581 863
Total					**779 811 474**

Note G: SHARES AND INTERESTS IN OTHER COMPANIES

	OWNERSHIP SHARE	ACQUISITION COST	BOOK VALUE
Assosiates			
Fixed assets			
CSG Solar AG	21.0%	8 511 513	8 511 513
Total		**8 511 513**	**8 511 513**
Other			
SiTech AS	11.7%	2 500 000	2 500 000
Edisun Power AG	5.0%	516 063	516 063
Affitech AS	1.7%	525 000	70 000
Total		**3 541 063**	**3 086 063**

Note H: RELATED PARTIES

The company render non-profit services to its subsidiaries. In 2004 the total amount is NOK 4.9 million.

Note I: BALANCES HELD WITH GROUP COMPANIES

		LOANS TO SUBSIDIARIES		RECEIVABLES FROM SUBSIDIARIES	
SUBSIDIARIES	OWNERSHIP SHARE	31.12.2004	31.12.2003	31.12.2004	31.12.2003
SolEnergy AS	100.0%	35 403 066	28 354 970	0	0
ScanModule AB	100.0%	9 011 000	3 600 000	171 447	469 225
Silicon Technology AS	100.0%	126 202 859	94 000 000	0	0
ScanCell AS	100.0%	7 900 000	29 000 000	0	8 548 160
ScanWafer AS	100.0%	0	30 183 333	0	0
Total		**178 516 925**	**185 138 303**	**171 447**	**9 017 385**

The loan to ScanModule AB is a subordinated loan and does not carry interest.

		ACCOUNTS RECEIVABLE	
SUBSIDIARIES	OWNERSHIP SHARE	31.12.2004	31.12.2003
ScanCell AS	100.0%	0	1 512 274
ScanWafer AS	100.0%	926 458	1 763 605
SolEnergy AS	100.0%	0	1 097 667
Silicon Technology AS	100.0%	0	1 040 765
Solar Vision Ltd.	100.0%	1 079 087	1 074 214
Total		**2 005 545**	**6 488 525**

		OTHER CURRENT LIABILITIES	
SUBSIDIARIES	OWNERSHIP SHARE	31.12.2004	31.12.2003
Silicon Technology AS	100.0%	0	153 421
REC Ventures AS	100.0%	25 888 300	0
SolEnergy AS	100.0%	0	19 157
Total		**25 888 300**	**172 578**

		CREDITORS	
SUBSIDIARIES	OWNERSHIP SHARE	31.12.2004	31.12.2003
Solar Grade Silicon LLC	70.0%	11 363	0
ScanWafer AS	100.0%	0	18 106
ScanCell AS	100.0%	106 028	0
Total		**117 391**	**18 106**

Note J: TAXATION

	01.01–31.12	
	2004	2003
Current tax:		
Profit/(loss) before taxes	-35 953 480	-48 965 668
Permanent differences	595 555	256 662
Financial gain(-)/loss(+) on sales of shares	0	0
Tax gain(+)/loss(-) on sales of shares	0	0
Reversal of previous years writing off	0	0
Changes in temporary differences	554 174	-11 549
Basis for current tax	-34 803 751	-48 720 555
Tax 28%	0	0
Compensation for taxes on dividends received	0	0
Tax charge for the period	**0**	**0**
The tax charge for the year can be analyses as follows:		
Tax charge for the period	0	0
Deferred tax – gross changes	13 207 234	13 641 042
Total tax expense for the year	**13 207 234**	**13 641 042**

Specification of the basis for deferred tax asset/liability

OFFSETTING DIFFERENCES:	2004	2003
Fixed assets	-188 760	-100 142
Investment in subsidiaries and associates	0	12 435 643
Receivables	38 215	0
Accruals	0	0
Pension liability	-1 160 756	-656 985
Loss carried forward	-148 891 303	-114 087 552
Unused allowance on dividend	-133 200	-133 200
Total	**-150 335 804**	**-102 542 236**
Deferred tax asset	**-42 094 025**	**-28 711 826**
Net transactions in capital equity (tax base)	**0**	**-624 876**
Deferred tax asset related to net transaction in capital equity	**0**	**-174 965**
Deferred tax asset in the balance sheet	**-42 094 025**	**-28 886 791**

There was a deferred tax liability concerning some of the companies investments in subsidiaries and associates. As a consequense of the new Norwegian tax rules, deferred tax liabilities related to shares in subsidiares and associates have been removed.

Note K: EQUITY AND SHAREHOLDER INFORMATION

EQUITY:	SHARE CAPITAL	OWN SHARES	SHARE PREMIUM RESERVE	CONTRIBUTED CAPITAL	OTHER CAPITAL	TOTAL
Equity as of 01.01.2004	**26 436 185**	**-765 970**	**372 391 087**	**261 510 226**	**-39 880 904**	**619 690 624**
Increase in share capital	10 850 083		294 780 016		75 681 153	381 311 252
Transfer of own shares		765 970		21 545 989		22 311 959
Profit/loss for the year					-22 746 246	-22 746 246
Equity as of 31.12.2004	**37 286 268**	**0**	**667 171 103**	**283 056 215**	**13 054 003**	**1 000 567 590**

Shareholders:
The principle shareholders in Renewable Energy Corporation AS as of 31.12.2004:

	NUMBER OF SHARES	OWNERSHIP	VOTING SHARE
Good Energies Investments B.V.	5 953 794	39.92%	39.92%
Elkem ASA	3 448 442	23.12%	23.12%
Hafslund Venture AS	3 235 634	21.69%	21.69%
CelMar AS	444 573	2.98%	2.98%
Rebelijo AS	369 398	2.48%	2.48%
Sumitomo Corporation	306 392	2.05%	2.05%
Mithril GmbH (client account in Deutche Bank)	187 750	1.26%	1.26%
Total owner's share exceeding 1%	13 945 983	93.51%	93.51%
Others	968 524	6.49%	6.49%
Total number shares	**14 914 507**	**100.00%**	**100.00%**

Shares and options owned by the Managing Director and members of the board:

NAME	TITLE	NUMBER OF SHARES
Alf Bjørseth (through CelMar AS)	President & CEO	444 573
Tore Schiøtz (through Granhaug Industrier AS)	Chairman of the Board	34 071
Tore Schiøtz (through Centurum AS)	Chairman of the Board	1 927
Halvor T. Svartdal (through Hektor AS)	Board member	68 000

FREE EQUITY PER 31.12.2004	31.12.2004	31.12.2003
Contributed capital	283 056 215	261 510 226
Other capital	13 054 003	-39 880 904
Deferred tax	-42 094 025	-28 886 791
= The company free equity	**254 016 193**	**192 742 531**

KPMG AS

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Enterprise NO 935 174 627 MVA

To the Annual Shareholders' Meeting of Renewable Energy Corporation AS

AUDITOR'S REPORT FOR 2004

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Renewable Energy Corporation AS as of 31 December 2004, showing a loss of TNOK 22 746 for the parent company and a loss of TNOK 48 121 for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the group accounts. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards and practices an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good accounting practice in Norway.
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and comply with the law and regulations.

Audit of the proforma financial statements

Respective management and auditors responsibilities
As described in the principle note Renewable Energy Corporation AS increased its shareholding in ScanWafer AS from 32,6 % to 71,2 % at the end of September 2003.
Renewable Energy Corporation AS has prepared proforma financial statements for 2003. These financial statements include figures as if Scanwafer AS was fully consolidated from 01.01.2003. The purpose of the proforma financial statements which consist of income statement, balance sheet, cash flow statement and disclosures, is to show the most material impacts on the accounts if the acquisition of ScanWafer AS had taken place at the beginning of 2003.

The proforma financial statements will, however, not necessarily reflect the economical position and the result of Renewable Energy Corporation AS operations or cash flows which should be realized if the acquisition in fact had been completed earlier. The proforma financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion based on the assumptions taken.

Basis of opinion
We have audited the proforma financial statements for the year 2003. We have also audited the application of the proforma adjustments as will appear from the principle note.

We conducted our audit of the proforma financial statements for 2003 and the application of the proforma adjustments in accordance with the Norwegian Auditing Standard RS 800 "The Auditor's Report on Special Purpose Audit Engagements". We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion:

- the pro forma financial statements are prepared in accordance with the assumptions described in the principle note
- the accompanying pro forma adjustments are in accordance with these assumptions and are correctly incorporated in the proforma financial statements for 2003.

Oslo, 28 April 2005
KPMG AS

Arve Grevoll
State Authorised Public Accountant (Norway)

Note: This translation of the Norwegian statutory Audit Report has been prepared for information purposes only

Group Management

Alf Bjørseth (64)
President & CEO
Doctor's degree in Analytical and Physical Chemistry. Graduate in Physical Chemistry, University of Oslo. Co-founder of ScanWafer and first CEO of ScanWafer AS

Jon Andrè Løkke (35)
Senior Vice President & CFO.
BSc (with honours) in Business Economics and Economics, Southampton University
Master of Business Administration, Glasgow University

Bjørn R. Berntsen (62)
Senior Vice President – Administration.
Master in Business, Norwegian School of Economics and Business Administration

Erik Sauar (36)
Senior Vice President & CTO.
Doctor's degree in Physical Chemistry, Norwegian University of Science and Technology. Master of Science in Chemical Engineering, Norwegian Institute of Technology
Master of Science in Anthropology, University of Trondheim

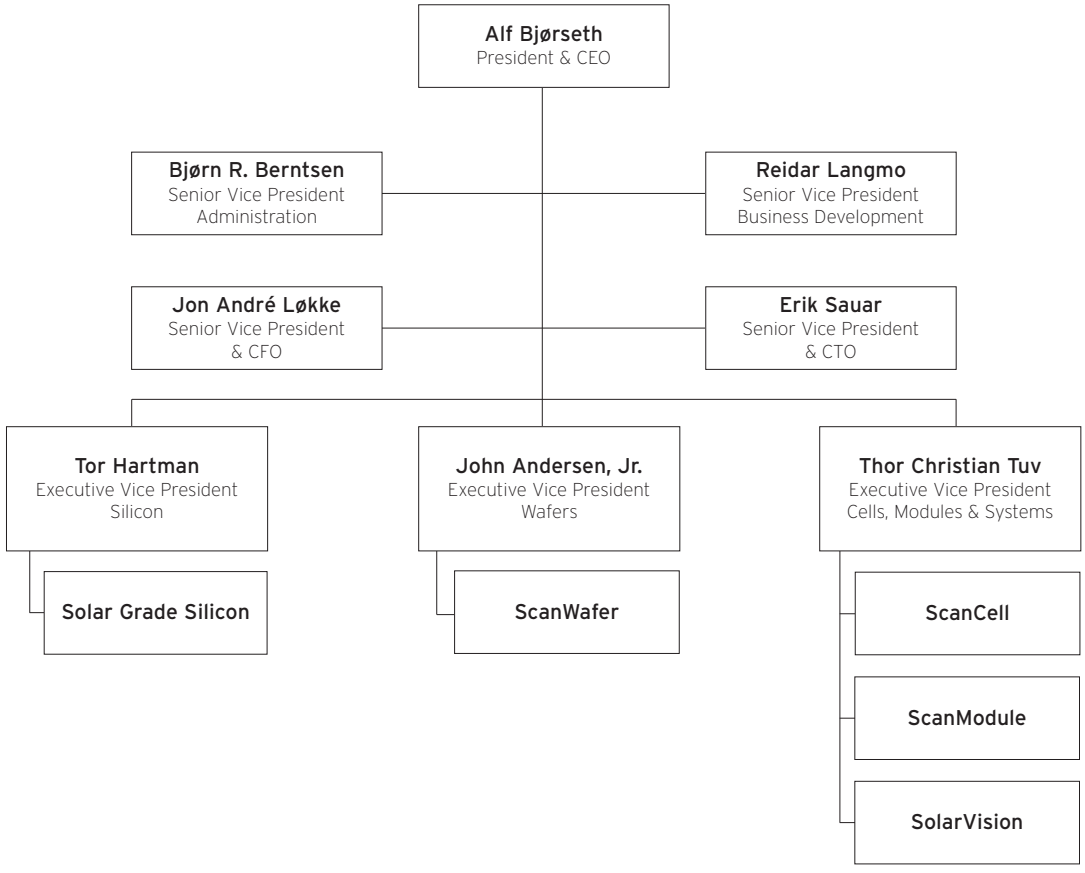
Reidar Langmo (51)
Senior Vice President – Business Development.
Master of Science, Structural and Civil Engineering, Norwegian University of Science and Technology. Co-founder of ScanWafer AS

John Andersen, Jr. (38)
Executive Vice President – Wafers.
Master of Business and Economics (Finance), Norwegian School of Management

Tor Hartmann (52)
Executive Vice President – Silicon
Master of Science in Management of Information Systems, West Virginia College of Graduate Studies
Master of Science in Chemical Engineering, Syracuse University

Thor Christian Tuv (43)
Executive Vice President – Cells, Modules & Systems.
Master of Management, Norwegian School of Management
Master of Science, Electronics, Norwegian University of Science and Technology.

Operational Organisation



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REC SUPPORTS THE RESTORATION AND CONSERVATION OF EDVARD MUNCH'S PAINTING "THE SUN"

The monumental painting "The Sun" is among the central works that made the Norwegian painter Edvard Munch (1863-1944) a world name in the visual arts. The work is exhibited in the auditorium of the Munch Museum in Oslo. To preserve it for later generations of art lovers, the painting needs to undergo significant conservation. Through an agreement with the museum, REC is contributing financially to this conservation.

Terms and expressions

CRUCIBLE A quartz vessel used for melting and crystallization of polysilicon when producing multicrystalline silicon ingots.

CRYSTALLIZATION The key process in the production of multicrystalline ingots. The crystallization starts from the bottom of the crucible and proceeds towards the top as it is gradually cooled (directional solidification). The multicrystalline qualities of the silicon result from this process.

dm^2 Square decimetres, measurement used for unification of different wafer sizes.

ELECTRONIC GRADE SILICON (EG) Silicon with a purity of between 99.9999999% to 99.999999999%. (9N to 11N purity)

FEED-IN TARIFF Subsidy scheme where investors in solar power systems receive a guaranteed, fixed price from the utilities for the electricity fed into the grid.

FLUIDISED BED REACTOR (FBR) TECHNOLOGY A process for solidification of silicon from silane gas using a chemical reactor where solid particles (silicon) are floating in an upward gas flow (silane) inside a tailor-made chamber.

GRID-CONNECTED SYSTEM Solar power system connected to the electric grid. Used in areas where other electricity systems are available.

IEA International Energy Agency.

INGOT The silicon block created when polysilicon is melted and crystallized in a furnace. The Ingot is cut into smaller blocks which in turn are sliced into wafers.

kW Kilowatt (1 000 watts).

kWh Kilowatt-hours. A unit of energy equal to that expended by one kilowatt in one hour.

MONOCRYSTALLINE SILICON Processed silicon where all the material consists of only one crystal.

MULTICRYSTALLINE SILICON Processed silicon where the material consists of several small (typically 1-20 mm) grains.

MW MEGAWATT (106 WATTS). Used as volume measure in the PV industry implying the potential peak effect produced by the produced solar cells.

OFF-GRID SYSTEM Solar power system not connected to the electric grid. Normally used in areas where grid-connected electricity is unavailable.

PHOTON INTERNATIONAL International industry publication covering the PV industry.

POLYSILICON Highly purified silicon used in the electronic and solar industry.

PHOTOVOLTAIC (PV) EFFECT The generation of electricity when radiant energy, such as sunlight, falls on the boundary between two different substances (e.g. two different semiconductors).

RENEWABLE ENERGY WORLD International industry publication covering, among other industries, the global PV industry.

SIEMENS REACTOR Conventional reactor used for deposition of silane on long silicon rods. Used by most manufacturers of silicon feedstock.

SILANE A compound gas consisting of hydrogen and silicon. An intermediary stage in the production of polysilicon.

SILICON The most abundant element next to oxygen in the earth's crust. The raw material for solar grade silicon as well as electronic grade silicon.

SILICON WAFER A thin slice of silicon used as the key component in a solar cell module. The wafers produced by ScanWafer have a thickness of 240-280 micron.

SLURRY Cutting fluid used when sawing silicon blocks into wafers. Consists of silicon carbide and polyethylene glycol.

SOLARBUZZ An international solar energy market research and consulting company.

SOLAR CELL Semiconductor device that creates electricity when exposed to sunlight. Normally made from silicon wafers.

SOLAR GRADE SILICON (SOG) Silicon with a 99.9999% to 99.999999% purity.

SOLAR ENERGY Throughout this document the term solar energy refers to the generation of electricity based on the photovoltaic effect. In other literature, solar energy may also include additional technologies for converting solar radiation into electricity or heat.

SOLAR MODULE Interconnected solar cells encapsulated and protected in transparent materials that protect against humidity, air and mechanical damage. Normally, solar modules are made with a glass front and aluminium frame.

THIN-FILM Photovoltaic technology where the conversion of solar energy takes place in a thin film of semiconductor material assembled in several layers. Conventional solar modules are made with wafers as the semiconductor material.

WIRE SAWING The process where crystallized silicon blocks are cut into thin wafers using a saw with a network of thin metal wires.

Wp Peak effect from solar cells measured in watt.

μm Micrometer (micron) 10^{-6} m.

Concept, text and design: COBRA Print: Network Produksjon Photo: Johs Bøe, Ole Walter Jacobsen, Getty Images

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