

THIRD QUARTER 2008

October 21,  
2008



AN INTEGRATED SOLAR ENERGY COMPANY

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WE ARE DELIVERING ON OUR  
COMMITMENT TO ADDING CAPAC-  
ITY WHILE MAINTAINING PROFITABLE  
GROWTH ACROSS THE VALUE CHAIN  
- EXECUTING A STRATEGY THAT  
WILL TAKE THE GROUP AND THE  
INDUSTRY TO THE NEXT LEVEL.

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The challenge is solar viability. Every day, we are in pursuit of the technologies, processes, products and production levels that enhance solar competitiveness. This means cutting-edge technology backed by intensive R&D to pioneer advances. It means combining those advances with state-of-the-art facilities, committed employees, profitable growth and continual focus on lowering production costs.

## HIGHLIGHTS

- Revenue growth of 30 percent
  - NOK 1,919 million versus NOK 1,480 million in the third quarter 2007
- EBITDA growth of 11 percent
  - NOK 711 million versus NOK 643 million in the third quarter 2007
  - EBITDA margin of 37 percent versus 43 percent in the third quarter 2007
  - Expansion cost of NOK 122 million versus NOK 66 million in the third quarter 2007
- EBIT growth of 9 percent
  - NOK 537 million versus NOK 495 million in the third quarter 2007
- Pre-tax profit of NOK 1,761 million including a NOK 1,207 million gain on embedded derivatives
- Signed NOK 8.5 billion worth of long-term wafer and silane gas contracts
- Signed a NOK 2.9 billion long-term contract for so-called "powder and fines" in October
- As per October end, long-term external contract portfolio worth more than NOK 60 billion in REC Silicon and REC Wafer through 2015
- Selected Bécancour, Canada for potential greenfield investments in polysilicon and silane gas capacity
- All expansion projects running as planned and financing is secured

## FINANCIAL REVIEW

### KEY FINANCIALS – REC GROUP

(NOK IN MILLION)	Q3 2008	Q3 2007*	SEP 30 2008	SEP 30 2007*	DEC 31 2007	Q2 2008
Revenues	1 919	1 480	5 811	4 768	6 642	2 121
EBITDA	711	643	2 342	2 324	3 172	889
EBITDA – margin	37 %	43 %	40 %	49 %	48 %	42 %
EBIT	537	495	1 833	1 911	2 588	716
EBIT – margin	28 %	33 %	32 %	40 %	39 %	34 %
Net financial items	1 224	-438	965	-549	-610	-8
Profit/loss before tax	1 761	57	2 797	1 362	1 977	708
Earnings per share, basic and diluted, in NOK	2.52	0.05	3.95	1.86	2.70	1.00
Expansion costs	122	66	297	98	153	93
Adjusted EBITDA	834	709	2 639	2 422	3 325	982
Adjusted EBITDA – margin	43 %	48 %	45 %	51 %	50 %	46 %

\*Financial items are adjusted for previous quarters of 2007, see "financial items" below. This also affected profit before tax and earnings per share.

## REVENUES AND EBITDA

Revenue amounted to NOK 1,919 million in the third quarter, which was 30 percent above the third quarter 2007. Currency developments had a negative translation effect on revenues of NOK 35 million compared to the third quarter last year.

In the first nine months of 2008, revenue amounted to NOK 5,811 million, which was an increase of 22 percent from the same period in 2007. Currency developments had a negative translation effect on revenues of NOK 209 million, and revenue growth in the first nine months was 26 percent on a constant currency basis.

EBITDA was NOK 711 million in the third quarter, which was an increase of 11 percent from the third quarter 2007. REC Silicon and REC Solar continued to show growth in production in the third quarter. As previously communicated, EBITDA was negatively affected by scheduled shut downs and expansions cost. In addition, unit costs increased due to lower than expected capacity utilization and somewhat lower production yield. The third quarter EBITDA-margin thus declined to 37 percent compared to 43 percent in the third quarter last year.

Adjusted for expansion costs the EBITDA-margin was 43 percent, compared to 48 percent in the corresponding quarter in 2007.

Currency developments had a negative translation effect on EBITDA of NOK 32 million compared to the third quarter

2007. On a constant currency basis, and adjusted for expansion costs, EBITDA increased by 22 percent compared to the third quarter last year.

Revenue, EBITDA and EBITDA-margin declined from the previous quarter, primarily due to the month-long shutdown in REC Wafer.

In the first nine months of 2008, EBITDA increased by 1 percent from the same period in 2007, to NOK 2,342 million, whereas the EBITDA-margin declined by nine percentage-points to 40 percent. Adjusted for expansion costs of NOK 297 million in the first nine months, the EBITDA-margin was 45 percent, compared to an adjusted margin of 51 percent in the first nine months last year.

Currency developments had a negative translation effect on EBITDA of NOK 148 million compared to the first nine months in 2007. On a constant currency basis, and adjusted for expansion costs, the EBITDA increased by 15 percent compared to the first nine months in 2007.

## DEPRECIATION, AMORTIZATION AND IMPAIRMENT

Depreciation, amortization and impairment amounted to NOK 174 million in the third quarter 2008, an increase of 17 percent from the third quarter last year and marginally higher than in the previous quarter.

Depreciation, amortization and impairment amounted to NOK 510 million in the

first nine months of 2008, compared to NOK 413 million in the same period last year. This reflects that depreciation has started on the expansion projects which have been completed over the past year. Depreciation on Herøya III will start in the fourth quarter.

Depreciation and amortization commence when assets are ready for the intended use, normally at the start of commercial production. Assets are depreciated or amortized over the expected useful life, which is reviewed at least annually.

## EBIT

At NOK 537 million, the third quarter EBIT was nine percent above the same period last year but lower than in the previous quarter. The EBIT-margin declined to 28 percent, from 33 percent in the third quarter last year and 34 percent in the second quarter 2008.

For the first nine months in 2008, EBIT amounted to NOK 1,833 million, compared to NOK 1,911 million in the same period last year, while the EBIT-margin declined to 32 percent from 40 percent in the first nine months of 2007. The EBIT-margin decline is explained above.

## FINANCIAL ITEMS

REC reported net financial items of NOK 1,224 million in the third quarter, including a positive effect of NOK 1,207 million on embedded derivatives. In the same quarter last year, net financial items were a negative NOK 438 million, including a loss on embedded derivatives of NOK 394 million.

## FINANCIAL ITEMS - REC GROUP

(NOK IN MILLION)	Q3 2008	Q3 2007*	SEP 30 2008	SEP 30 2007 *	DEC 31 2007	Q2 2008
Share of loss of associates	-1	-7	-5	-19	-45	-1
Financial income	16	63	142	228	315	61
Financial expenses	-61	-47	-159	-127	-185	-52
Capitalized borrowing cost	47	38	133	79	121	40
Net financial expenses	-14	-9	-26	-48	-64	-12
Net currency gains - losses	291	-249	177	-329	-346	-27
Embedded derivatives	1 207	-394	926	-587	-642	-55
Net gains/losses other derivatives	-274	158	-249	206	172	27
Net gains/losses derivatives	932	-236	677	-381	-470	-28
Net financial items	1224	-438	965	-549	-610	-8

\* Embedded derivatives in financial items have been adjusted compared to the reports published for first three quarters of 2007. See the fourth quarter report for 2007 for more details.

As described in the consolidated financial statements for 2007, REC in 2007 entered into three USD-denominated contracts for wafer deliveries with customers for whom USD is not the functional currency. In June and at the end of September 2008, REC Wafer entered into two additional contracts. Estimated total future sales under the contracts amount to approximately USD 2.6 billion at September 30, 2008.

For accounting purposes, REC treats these sales contracts as if they were denominated in NOK. Embedded forward purchases of USD as economic hedge of future purchases of polysilicon in USD are separately accounted for at estimated fair values, with changes in fair values being recognized under financial items. Hedge accounting has thus not been applied.

Estimated net positive values on the embedded derivatives in the balance sheet at September 30 was approximately NOK 370 million. Net unrealized gains will be reversed during the remainder of the contract periods, either as reversals of the financial gains on the embedded derivatives or lower EBITDA.

The weakening of NOK versus USD and SGD in the third quarter is the main explanation for a net currency gain of NOK 291 million in the third quarter. Currency gains on internal USD loans to REC Silicon exceeded currency losses on external USD and internal SGD liabilities. In the third quarter last year, the REC Group recognized net currency losses of NOK 249 million.

Other derivatives had negative effect of NOK 274 million in the third quarter, which mainly relate to economic hedging transactions for the net USD positions which contributed to the net currency gain explained above. In the same quarter last year other derivatives had a positive effect of NOK 158 million.

Financial income continued declining in the quarter, as the cash position has been reduced as a result of investments in expansion projects, including Singapore. Net financial expenses were more or less in line with both the third quarter last year and the previous quarter, as increasing interest expenses have been offset by higher capitalization of borrowing costs related to the high amount of construction in progress.

Results from associated companies reflect the REC Solar's 20 percent ownership in Mainstream Energy.

For the first nine months, net financial items amounted to NOK 965 million, which was an improvement of more than NOK 1.5 billion from the first nine months last year. The change is primarily due to currency effects on embedded derivatives.

#### **PROFIT BEFORE TAX**

Profit before tax was NOK 1,761 million in the third quarter 2008, compared to NOK 57 million in the third quarter last year and NOK 708 million in the previous quarter.

The profit development reflects a slight deterioration of operating earnings but also significant positive effects on net financials from currency changes affecting embedded derivatives.

In the first nine months of 2008, profit before tax was NOK 2,797 million, compared to NOK 1,362 million in the first nine months of 2007.

#### **INCOME TAX**

The combined effective income tax rate for the first nine months of 2008 has been estimated to 30 percent, based on an estimated effective annual tax rate of 28 percent in the Scandinavian operations and 35 percent in the US operations. The estimated combined effective tax rate for the first six months was 32 percent. Income tax on gains on embedded derivatives is calculated by 28 percent, reducing the estimated combined effective tax rate.

The actual effective tax rates for 2008 may deviate from the estimated tax rates. For the year 2007 the combined effective tax rate was 33 percent.

#### **PROFIT AFTER TAX**

Profit after tax was NOK 1,246 million in the third quarter 2008, compared to NOK 25 million in the same period last year and NOK 496 million in the previous quarter. EPS for the quarter was NOK 2.52, compared to NOK 0.05 in the third quarter last year and NOK 1.00 in the second quarter 2008.

In the first nine months of 2008, profit after tax amounted to NOK 1,953 million, compared to NOK 919 million in the first nine months of 2007. EPS increased to

NOK 3.95, from NOK 1.86 in the first nine months last year.

## **OPERATIONAL REVIEW**

### **MARKET DEVELOPMENT**

As described both in the Annual Report for 2007 and the first half-year report for 2008, the development of the photovoltaic solar end-user market is still dependent on incentive structures and subsidies. Policies regarding such support arrangements have been redefined in the three main markets; Germany, Spain and USA during the year. In Germany, the Bundestag agreed to a new Renewable Energies Sources Act (EEG) in June, indicating annual declines in feed-in tariffs of 8-10 percent from 2009 from a level of 0.33-0.43 EUR/kWh.

In Spain, the cabinet in late September approved of a cap for solar installations of 500 MW for 2009, which was higher than originally indicated, and also introduced a cap of 460 MW for 2010. Feed-in tariffs will be reduced to 0.32-0.34 EUR/kWh, which was also higher levels than originally indicated.

In the US market, President Bush in early October signed a bill containing approximately USD 18 billion in energy tax credits, as part of a larger tax package and the Economic Stabilization Act. Solar-investments tax credits were originally due for expiry this year and the new bill supports an extension for eight years. The production tax-break for solar-energy power plants in production will be extended for two years.

In addition to the changes in the policy regimes, the main focus in the market place is on the financial turmoil and the extreme tightening of the credit situation over the past weeks and months. Interest rates and credit spreads are both important factors in the evaluation of solar project investments, and limited credit availability may impact demand for new systems. On the other hand, an investment in a solar system based on a feed-in-tariff is associated with a high level of predictability and security. This could improve the relative access to financing for solar.

To preserve the rate of return on solar system investments in a situation with

continued high interest rates, the project developers will seek to reduce other project costs, which in turn might add to a downward pressure on prices.

In line with the industry practice, REC Solar is currently in the process of negotiating prices and volumes for 2009 and expect to have concluded many of these discussions by the end of 2008. It is thus premature to forecast changes in average price levels for cells and modules in 2009. As described below, the large contract portfolios in REC Silicon and REC Wafer are based on pre-determined volumes and prices.

In the longer-term, most industry analyst still believe in annual growth levels of approximately 40 percent for a prolonged period, supported by national legislation and incentives and international environmental treaties. However, the long-term industry growth pattern will ultimately depend on the industry's ability to offer energy at competitive terms, and the striving for cost efficiency remains at the core of REC's vision, mission, investment plans and operations.

#### **CONTRACT UPDATE**

REC in September signed a long-term agreement for supply of multicrystalline silicon wafers to Neo Solar Power in Taiwan. The agreement covers deliveries of wafers worth approximately USD 450 million (~NOK 2.6 billion based on USD/NOK exchange rate at September 30, 2008) from the second half 2009 through 2015. Prices are pre-determined for a gradual reduction, where level of reduction depends on the customer's ability to utilize gradually thinner wafers.

During the first nine months, REC has signed long-term wafer contracts worth in excess of NOK 12 billion, for deliveries from 2009-2015.

As communicated in the report for the first half year 2008, REC Silicon in July signed a number of long-term contracts for the supply of silane gas with distributors in the merchant market. These agreements cover deliveries worth close to USD 1 billion (~NOK 5.8 billion) through 2014. Deliveries have already commenced at prices which during the second half of 2008 will increase approximately 15 percent above the average monosilane gas price in the first half of 2008.

On October 20, 2008, REC Silicon entered into a long-term take-or-pay agreement with a PV-company based in Asia for the supply of fine particulate silicon from the FBR-process, so-called "powder and fines". These by-product volumes are additional to the already communicated prime material volumes (i.e. FBR and Siemens prime). Starting in 2009, this seven-year contract runs through 2015. The contract value is in excess of USD 500 million (~NOK 2.9 billion), with clauses covering annual price adjustments in the case of cost escalations. According to the agreement, REC Silicon will receive a prepayment fee of USD 65 million (~NOK 380 million) before the end of 2008.

All new long-term sales contracts that REC has signed since the summer of 2006 have been structured as take-or-pay contracts with pre-determined prices and volumes for the entire contract period, including the security of a bank guarantee for a significant amount of the contract value.

The long-term contract portfolio with external customers in REC Silicon and REC Wafer has a total remaining value of more than NOK 60 billion (calculated based on exchange rates as per September 30, 2008), although it should be noted that the exact value will depend on the future development of various exchange rates and also might be influenced by variations in product mix.

More than NOK 2 billion of the contract portfolio is for delivery in the fourth quarter of 2008, and close to NOK 11 billion in 2009 and between NOK 12-13 billion in 2010. The remaining NOK 36 billion relates to the period 2011-2015. Up to 15 percent of the long-term contract portfolio with external customers is currently secured by bank guarantees or pre-payments. As bank guarantees are maintained at their nominal values throughout the respective contract periods, contract security increases as time passes and volumes are delivered.

Contracts entered into by REC Solar have not been included in the long-term contract portfolio, as contracts in this segment typically allow for annual or more frequent price negotiations and may be discontinued if the parties do not agree on final terms. As described in the above chapter, REC Solar is currently in the process of negotiating prices and volumes for 2009.

#### **EXTERNAL CUSTOMER BASE**

REC's long-term contract portfolio is established through contracts entered into with leading industry players. REC Silicon's customer base include producers like (in alphabetical order) Air Liquide, Air Products and Chemicals, EverQ, Praxair, Shin-Etsu Handotai and Sumco Techxiv. The top-5 customers are expected to account for approximately 80 percent of external 2009 revenue in REC Silicon.

REC Wafer's customer base include leading solar cell and module manufacturers like (in alphabetical order) BP Solar, China Sunergy, Gintech, Mitsubishi, Motech, Moser Baer, Photovoltch, Q-Cells, Sharp, Solland, Suniva and SunTech. The top-5 customers are expected to account for approximately 65 percent of external 2009 revenue in REC Wafer.

REC Solar's customer base includes more than 20 leading systems integrators, installers and distributors of PV systems in main markets like Germany, Spain, Italy and USA. The customer base has been significantly expanded as a result of increased geographical presence throughout 2008.

Overall, REC believes its customer base is financially solid, and the company has to date experienced very limited counterparty risk in the course of its commercial activities.

#### **EXPANSION PROJECTS UNDER EXECUTION**

REC has a series of expansion projects under construction in all three business segments.

The investment program is expected to secure strong growth over the next few years. Between 2008 and 2011, the compounded annual growth rate in production from REC Silicon is expected to be close to 40 percent, whereas production growth is expected to reach almost 60 percent in REC Wafer and more than 70 percent in REC Solar.

**REC Silicon's** two main approved expansion projects include a plant for production of silane gas and granulated polysilicon in Moses Lake, Washington ("Plant III"), and a new silane gas plant in Moses Lake ("Plant IV"). In addition, the company is planning certain debottlenecking activities to enhance the output of its Butte, Montana plant.

The new plant for production of granular polysilicon in Moses Lake is due to start up late in the fourth quarter of 2008. Actual plant start-up will commence after all plant systems have been fully inspected, tested and signed off according to U.S. Federal regulations and REC Silicon's own process safety management policies. The main focus will now be the finalization of commissioning activities throughout the plant to ensure that all sub-systems are operating correctly and start-up is currently progressing according to plan.

In late September, REC decided to change the scope of Plant IV, and to increase the silane gas volumes for commercial sales at the expense of the planned polysilicon capacity. The decision was mainly driven by favorable market conditions for silane gas and revisions of REC's internal need for silicon based on the final scope of the Singapore Phase I expansion. While securing all polysilicon commitments, these additional silane volumes will enable REC Silicon to increase the external supply of silane gas by approximately 2,300 MT and thus double its allocation to the merchant market.

REC earlier this year communicated that Plant IV was likely to see similar costs escalations as Plant III, and including the scope revisions the investment budget has increased by an estimated USD 200 million. This includes additional silane loading bays and more intermediate storage tanks for liquid silane gas, as well as general utilities. Compliance with new and stricter environmental regulations necessitates an additional USD 50 million investment, and a project reserve of USD 30 million has also been included in the revised investment plan.

Total Plant IV investments are now expected to be approximately USD 750 million, including the project reserve. Due to the additional silane gas volumes and other improvements, the estimated net present value of Plant IV has increased despite the higher investment level.

In August of this year REC announced that it had chosen Bécancour, Quebec, Canada as the site for the next phase of silicon materials expansions. REC plans for a staged development, and the site could potentially hold four production units of the same size as the plant currently being completed in Moses Lake.

Production of polysilicon is very energy intensive, and energy remains an important cost factor even with REC Silicon's proprietary and energy efficient FBR technology. The Bécancour site offers, among other advantages, access to long-term stable and competitively priced electricity. The arrangement includes a 20-year power contract with the government of Quebec for electricity supply based on non-carbon based renewable energy sources, which also supports REC's commitment to limit the environmental impact of producing solar cells and panels.

It is anticipated that future production capacity additions will be based on more advanced versions of REC Silicon's proprietary and low-cost polycrystalline FBR technology.

**REC Wafer** has several expansion projects ongoing in Norway, both for new production lines and for upgrading and extension of existing lines. The two new 325 MW multicrystalline wafer plants at Herøya have progressed according to schedule and budget. The first plant has just started its nine-month production ramp-up period, with the second plant expected to follow six months later. Each of the plants carries investments estimated at NOK 1,250 million.

In June, an upgrade and expansion of existing production lines at Herøya that would bring an additional 100 MW production capacity, was announced. Based on reduced visibility due to current financial turmoil it has been decided to postpone the startup of this project, contract manufacturing will replace volume in the short term.

In Glomfjord, REC Wafer on September 30, 2008 marked the official opening of the new production capacity of 100 MW of multicrystalline wafers. The project has been completed on schedule and slightly below budget. The engineering and construction of a 275 MW monocrystalline ingot and wafering plant in Glomfjord is on schedule and within the investment budget of NOK 1,350 million. The new capacity is expected to be phased-in over several stages during the next two years. REC Wafer has already signed two major long-term contracts for monocrystalline wafers with customers in Asia and the USA, with deliveries commencing in 2009.

**REC Solar** is currently ramping up production at a new 180 MW cell plant in Narvik and 105 MW of new module production capacity in Glava, Sweden. The expansion projects have had some delays in production ramp-up compared with the initial target. Production capacity beyond 225 MW of solar cells and 150 MW of solar modules will come from the Singapore project.

#### **THE SINGAPORE PROJECT**

REC's decision to invest NOK 13 billion in a manufacturing complex for production of wafers, cells and modules in Singapore was described in detail in the half year report 2008. Including volumes from Singapore, REC targets a production of approximately 2.4 GW of wafers, 775 MW of cells, and 740 MW of modules in 2012.

The project has made fast progress since the investment decision was made, both at the site in Singapore and with the production equipment contractors.

Construction work is progressing according to schedule and approximately 1,000 people are currently working at the site.

Safety is a key focus area and a thorough job has been done to implement REC safety policy across the project through the EPCM contractors. A project emergency preparedness plan has also been developed and implemented.

The project continues to make good progress across all areas and is on schedule to meet the project milestones and foundation work has started as well as erection of the buildings. 36 percent of EPCM procurement is at the end of September committed within the budget. The main production equipment contracts have been signed within budget frames, mainly with European contractors.

#### **CAPITAL EXPENDITURE AND FUNDING**

REC has significant future capital expenditure. Already approved investments are expected to entail payment for capital expenditure of approximately NOK 10 billion in 2008, of which more than NOK 6 billion was paid at September 30. Already approved investments are expected to require payments of more than NOK 11 billion in 2009, before declining sharply to NOK 2-3 billion in 2010.

The capital expenditures are planned to be funded through already committed credit

facilities, cash reserves, and own cash flow for which revenues to a large degree is covered by contracts fixed in terms of both volumes and price.

The REC Group estimates that its capital expenditure program will increase the gearing ratio (net debt/EBITDA) to a peak in the second half of 2009 or early 2010. At that point in time the net debt is expected to be less than 2.5 times EBITDA on a rolling 4 quarter basis, and the equity ratio is expected to be continuously above 50 percent.

On September 30, 2008, the syndication was completed for the fully underwritten credit facilities for the Singapore investment announced in June. The approximately NOK 10 billion multicurrency facilities (adjusted to which currency is drawn) has been put in place to fund the Phase I expansion in Singapore. Despite the volatile conditions, the transaction received a good response from the market and a total of 20 banks participated in the transaction.

Financing has therefore been secured for all approved expansions.

## SEGMENT INFORMATION

### REC SILICON

*REC Silicon produces polysilicon and silane gas for the photovoltaic industry and the electronics industry at its two facilities in Moses Lake, Washington and Butte, Montana. REC Silicon employs approximately 700 people. Plant III, under construction in Moses Lake, is expected to*

*start production at the end of 2008. Including the Plant IV expansion project under construction, REC Silicon's polysilicon production capacity is expected to almost triple from 2008 to 2011.*

REC Silicon reported record revenue of NOK 730 million in the third quarter 2008, which was an increase of 22 percent from the same period last year, and an increase of 16 percent from the previous quarter.

Measured in USD, revenue increased by 32 percent from the corresponding quarter last year and increased by 10 percent from the previous quarter.

For the first nine months of 2008, revenue totalled NOK 2,012 million, an increase of eight percent from the first nine months last year. Measured in USD, the increase was 24 percent.

Average selling prices in the third quarter were slightly higher than in the first half of 2008, due to changes in price and product mix. Renewal and extension of silane gas contracts and contracts to REC Wafer led to increased prices. Production of polysilicon was 1,528 MT in the third quarter, an increase of five percent from the previous quarter but slightly short of the third quarter production target.

For the first nine months of 2008, production of polysilicon increased four percent to 4,524 MT.

REC Silicon reiterates its full-year polysilicon production target of 6,600 MT, which includes 400 MT of granular polysilicon from the Silicon III FBR plant which is planned for

start-up late in the fourth quarter. Start-up is currently progressing according to plan. The planned production output from the new plant assumes production starts during the target start-up window.

Approximately 64 percent of the polysilicon volume in the third quarter was shipped to REC companies, including one-third of the sales to EverQ. This compares to 70 percent in the third quarter last year and 65 percent in the second quarter 2008.

Silane gas sales totalled 487 MT in the third quarter, an increase of 38 percent from the third quarter last year, and nine percent above second quarter sales.

REC Silicon EBITDA was a record NOK 392 million in the third quarter, an increase of 29 percent from NOK 304 million in the third quarter last year and up 28 percent from NOK 307 million in the previous quarter. The EBITDA margin of 54 percent compares to 51 percent in the third quarter last year and 49 percent in the previous quarter. The EBITDA-increase is explained by higher production and sales of polysilicon and silane gas, as well as higher prices.

Currency translation effects negatively affected the third quarter EBITDA by NOK 33 million compared to the third quarter 2007.

Third quarter expansion costs were NOK 42 million compared to NOK 41 million in the third quarter last year and NOK 45 million in the previous quarter.

Adjusted for expansion costs and currency translation effect, EBITDA increased 35 percent from the third quarter 2007.

## FINANCIAL HIGHLIGHTS - REC SILICON

(NOK IN MILLION)	Q3 2008	Q3 2007	SEP 30 2008	SEP 30 2007	DEC 31 2007	Q2 2008
Revenues	730	597	2 012	1 859	2 496	630
EBITDA	392	304	1 017	995	1 347	307
EBITDA – margin	54 %	51 %	51 %	54 %	54 %	49 %
Expansion costs	42	41	136	52	69	45
Adjusted EBITDA	433	345	1 154	1 047	1 416	351
Adjusted EBITDA – margin	59 %	58 %	57 %	56 %	57 %	56 %
Polysilicon production in MT*	1 528	1 514	4 524	4 352	5 780	1 452
Polysilicon sale in MT	1 589	1 408	4 651	4 269	5 698	1 474
Silane gas sale in MT	487	352	1 313	1 011	1 351	448

\*Polysilicon production in Q2 2008 includes 70 MT of granular "starter-bed" material, not for sale.

## FINANCIAL HIGHLIGHTS - REC WAFER

(NOK IN MILLION)	Q3 2008	Q3 2007	SEP 30 2008	SEP 30 2007	DEC 31 2007	Q2 2008
Revenues	942	987	3 411	3 135	4 360	1 260
EBITDA	244	359	1 255	1 314	1 813	519
EBITDA – margin	26 %	36 %	37 %	42 %	42 %	41 %
Expansion costs	47	2	85	2	9	25
Adjusted EBITDA	291	361	1 340	1 316	1 822	544
Adjusted EBITDA – margin	31 %	37 %	39 %	42 %	42 %	43 %
Wafer production in MW (at 15,0% cell efficiency)	106	106	383	336	468	140
Mono ingot production in MW (at 20,0% cell efficiency)	8	10	28	29	38	11
Total production in MW	114	116	411	365	506	151
Wafer sale in MW (at 15,0% cell efficiency)	104	106	378	334	465	139
Mono ingot sale in MW (at 20,0% cell efficiency)	8	10	28	29	38	11
Total sale in MW	112	116	407	363	503	150

EBITDA amounted to NOK 1,017 million for the first nine months of 2008, compared to NOK 995 million in the first nine months of 2007. Currency translation negatively affected the EBITDA by NOK 145 million, whereas expansion costs increased to NOK 136 million from NOK 52 million in the first nine months last year. Expansion costs are expected to reach NOK 200 million for the full year, up from NOK 69 million in 2007.

### REC WAFER

*REC Wafer produces mono- and multicrystalline ingots and wafers for the solar cell industry at two sites, in Glomfjord and at Herøya in Norway. REC Wafer employs approximately 900 people. Approved capacity expansions excluding Singapore are expected to more than triple production to more than 1.7 GW by 2010.*

REC Wafer reported revenues of NOK 942 million in the third quarter 2008, compared to NOK 987 million in the third quarter 2007 and NOK 1,260 million in the previous quarter.

Revenue amounted to NOK 3,411 million for the first nine months of 2008, which was an increase of nine percent from the same period last year.

Average wafer prices are expected to remain more or less unchanged throughout 2008, with any modest change reflecting customer and market mix.

The 25 percent revenue decline from the previous quarter was primarily explained by lower production. As previously communicated, all production was shut down for a four-week period in July, and

production was also lower than normal in the days leading up to the shutdown and in the restart period in August.

REC Wafer has also found it challenging to maintain satisfactory yields, with many new operators in training at Herøya at the same time as operational complexity has increased with the introduction of secondary material qualities in the production and the move to thinner wire. Implementing a productivity improving step will normally negatively affect yields initially and then improve in consecutive periods.

As a result, production declined to 114 MW in the third quarter 2008, down from 116 MW in the third quarter last year and 151 MW in the previous quarter. Production thus fell short of the target of 130 MW which had been set for the quarter. In the first nine months production amounted to 411 MW, which was an increase of 13 percent from 365 MW in the first nine months last year. The production shortfall in the third quarter has prompted REC Wafer to cut its full-year production target from 630 MW to 590 MW.

The lower production volumes and lower yield negatively affected the margin development from the previous quarter, and additional costs have been incurred for upgrading of alternative silicon qualities. REC Wafer also experienced an increase in average polysilicon cost, as all existing internal contracts have been replaced with a new contract carrying a higher price.

Expansion costs amounted to NOK 47 million in the third quarter, compared to NOK 25 million in the previous quarter and

only NOK 2 million in the third quarter last year. As previously communicated, REC Wafer expects expansion costs to amount to NOK 200 million for the full year.

It should also be noted that EBITDA in the third quarter included a positive effect of NOK 6 million related to embedded derivatives, which are described in more detail under financial items. In the previous quarter these contracts entailed a positive EBITDA-effect of NOK 31 million, whereas no such effects were recognized in the third quarter 2007.

As a result of lower production and revenue and the higher cost levels described above, EBITDA declined to NOK 244 million in the third quarter, from NOK 359 million in the third quarter last year and NOK 519 million in the second quarter this year. The corresponding EBITDA margin declined to 26 percent from 36 percent in the third quarter last year and 41 percent in the previous quarter.

For the first nine months, EBITDA amounted to NOK 1,255 million, which was a decline of four percent from NOK 1,314 million in the first nine months 2007. EBITDA-margin dropped by 5 percentage-points to 37 percent.

### REC SOLAR

*REC Solar produces solar cells in Narvik, Norway and solar modules in Glava, Sweden. REC Solar employs approximately 650 people. Total installed production capacity is 225 MW for solar cells and 150 MW for solar modules. Further expansion in Singapore is*

## FINANCIAL HIGHLIGHTS - REC SOLAR

(NOK IN MILLION)	Q3 2008	Q3 2007	SEP 30 2008	SEP 30 2007	DEC 31 2007	Q2 2008
Revenues	666	208	1 643	809	1 116	636
EBITDA	54	25	118	166	171	44
EBITDA – margin	8 %	12 %	7 %	21 %	15 %	7 %
Expansion costs	21	14	58	27	52	20
Adjusted EBITDA	75	39	176	193	223	64
Adjusted EBITDA – margin	11 %	19 %	11 %	24 %	20 %	10 %
Cell production in MW	38	12	84	35	47	31
Module production in MW	19	9	52	31	42	20
Contract manufacturing MW	2	0	2	0	0	0
Cell sale in MW	38	12	84	34	47	31
Module sale in MW	18	8	52	31	43	20

**expected to add 550 MW of production capacity for solar cells and 590 MW of production capacity for solar modules.**

REC Solar reported revenues of NOK 666 million in the third quarter 2008, which was more than a tripling from the third quarter last year and five percent above the previous quarter.

The higher revenue is explained by increased production, in particular of cells. External sales of cells amounted to approximately NOK 170 million in the quarter, up from close to NOK 100 million in the previous quarter.

Revenue amounted to NOK 1,643 million for the first nine months of 2008, which was more than a doubling from NOK 809 million in the same period in 2007.

Average selling prices for modules in the third quarter were approximately 10% percent below the average in 2007. The average selling prices in the third quarter was negatively impacted by increased sales to the US. The average selling price for the first nine months was in line with expectations at approximately 7% below the 2007 average. Module production was 19 MW in

the third quarter, up from 9 MW in the third quarter last year. Production was marginally below the 20 MW target which, due to a planned shut down in July, was in line with actual production in the second quarter. In addition to the module production in Glava, 2 MW of modules was produced for REC Solar under a contract manufacturing agreement. Cell production was 38 MW, up from 12 MW in the third quarter last year and from 31 MW in the second quarter. Cell production also ended slightly below the 40 MW target for the quarter.

In the first nine months of 2008, module production amounted to 52 MW and cell production to 84 MW, up 68 percent and 140 percent, respectively, from the first nine months last year.

Despite the significant increase in production, the ramp-up programs are slightly lagging REC Solar's own schedules for both solar cells and modules. The main focus in the quarter has been on resolving the ramp-up issues in the new production lines, which negatively affected the MW output in the quarter. REC Solar has seen significant progress and improvements in the operation of the new production lines, and the production run-rate at the end of the quarter was approximately

80 percent of total installed capacity for cells and 85 percent for modules. The ramp-up will continue in the fourth quarter and both the cell and the module plant are expected to run at capacity by year-end.

The lag in production so far this year will be difficult to fully compensate for in the final quarter of the year, also due to the tightening supply of wafers. REC Solar has therefore lowered its full-year targets for solar cells and modules slightly. The cell production target has been lowered from 145 MW to 135 MW, whereas the module production target has been lowered from 90 MW to 85 MW. This still corresponds with relatively large production increases to approximately 50 MW of cells and 30 MW of modules in the fourth quarter.

Due to the downgrade of production targets, REC Solar expect full-year revenue to be approximately NOK 2.6 billion, somewhat below the NOK 2.7-2.85 billion range announced in the beginning of 2008.

REC Solar will continue to explore contract manufacturing opportunities for excess volumes of cells. In 2009, part of the excess cell volume will be used for the start-up of the new module plant in Singapore.

## FINANCIAL HIGHLIGHTS - EVERQ

(NOK IN MILLION)	Q3 2008	Q3 2007	SEP 30 2008	SEP 30 2007	DEC 31 2007	Q2 2008
Revenues	150	92	451	212	371	156
EBITDA	29	11	92	20	57	38
EBITDA – margin	19 %	12 %	20 %	9 %	15 %	25 %
EverQ's total module production in MW	21	14	63	29	50	22

Note: Financial figures in the table refer to proportionate consolidation of REC's 33.3 percent ownership. Production in MW refers to 100 percent.

REC Solar improved the operating margins somewhat from the previous quarter despite continued operational challenges associated with the ramp-up. The reported EBITDA of NOK 54 million in the third quarter was more than a doubling from NOK 25 million in the third quarter last year and a 23 percent increase from NOK 44 million in the previous quarter. The EBITDA-margin was 8 percent, down from 12 percent in the same quarter last year but up from 7 percent in the second quarter this year.

The third quarter EBITDA included expansion costs of NOK 21 million, slightly up from NOK 20 million in the previous quarter. In the third quarter 2007 REC Solar recognized expansion costs of NOK 14 million.

EBITDA amounted to NOK 118 million for the first nine months of 2008, down from NOK 166 million in the first nine months in 2007. Part of the decline is explained by a NOK 31 million increase in expansion costs to NOK 58 million.

Expansion costs were previously estimated to NOK 50 million for the full year, and as all new production lines are in operations, limited expansion costs are expected for existing expansion programs in the fourth quarter.

#### EVERQ

*EverQ produces solar modules in Thalheim, Germany, based on the Evergreen string-ribbon technology, and is owned 33.3 percent each by REC, Evergreen and Q-Cells. REC proportionately consolidates EverQ's financial statements on a line-by-line basis. EverQ currently operates two plants with a total production capacity*

*of 100 MW and the company employs approximately 1,100 people.*

The revenue contribution from EverQ was NOK 150 million in the third quarter 2008, compared to NOK 92 million in the third quarter last year, and NOK 156 million in the previous quarter. The EBITDA contribution amounted to NOK 29 million, compared to NOK 11 million in the third quarter 2007 and NOK 38 million in the second quarter 2008. The EBITDA margin for the third quarter ended at 19 percent and was negatively affected by lower volumes, lower yield and higher average prices of silicon.

In the first nine months of 2008, the revenue contribution from EverQ amounted to NOK 451 million, which was more than a doubling from the first nine months in 2007. The EBITDA contribution increased more than four times to NOK 92 million, and the EBITDA margin more than doubled to 20 percent.

Total module production was 21 MW in the third quarter, which was an increase of 50 percent from the third quarter last year but slightly below the previous quarter. The production volume continues to be negatively affected by low yield, especially in EverQ2.

In the first nine months of 2008, production was 63 MW, compared to 29 MW in the first nine months of 2007. EverQ's 2008 production estimate is reduced from approximately 90 MW to approximately 85 MW. During the final quarter, the company is also expected to complete the construction of EverQ3, which is designed to almost double the company's production capacity to 180 MW.

As communicated in the interim report for the first quarter 2008, the European Commission has informed EverQ that it intends to re-examine the grounds for granting EverQ investment aid of up to EUR 30 million for the construction of EverQ1 and EverQ2. After careful review, and supported by external advice, EverQ believes that it qualifies for the investment grants in question. Consequently, no provisions have been recognized for this issue.

#### REC ASA

REC ASA is a holding company comprising parts of Group Management, corporate functions, corporate R&D, a corporate project organization, and REC Group's in-house bank.

#### REC SITE SERVICES (SINGAPORE)

Activity in REC Site Services has picked up after the decision was taken in June to proceed with the investment in the first phase of a major industrial solar complex in Singapore. The activities do not yet generate any revenue. The EBITDA loss of NOK 7 million compares to losses of NOK 2 million in the previous two quarters, reflecting the higher activity.

REC Site Services was established as an organizational structure for on-site project management services, and will also operate certain buildings and infrastructure. The activity will continue to expand significantly in the quarters and years to come.

REC ASA and REC Site Services Pte Ltd recognized expansion costs were NOK 13 million in the third quarter and NOK 17 million for the first nine months of 2008.

#### FINANCIAL HIGHLIGHTS - REC ASA

(NOK IN MILLION)	Q3 2008	Q3 2007	SEP 30 2008	SEP 30 2007	DEC 31 2007	Q2 2008
Revenues	7	7	24	19	28	6
EBITDA	-28	-41	-102	-92	-123	-46

#### ELIMINATIONS - REC GROUP

(NOK IN MILLION)	Q3 2008	Q3 2007	SEP 30 2008	SEP 30 2007	DEC 31 2007	Q2 2008
Elimination revenues	-576	-411	-1 730	-1 265	-1 729	-566
Elimination EBITDA	28	-15	-28	-78	-92	28

## ELIMINATIONS

Elimination of internal profit is dependant on internal sales and inter-company inventory changes, and should generally be expected to continue to increase as the company grows across the entire value chain. However, elimination affected EBITDA positively by NOK 28 million in the third quarter 2008, which was in line with the previous quarter.

This is a result of continued reduction of inventory levels. REC has an ambition to increase internal inventories to facilitate growth but this has been difficult given the continued strong demand and limited supply situation so far this year.

## TECHNOLOGY DEVELOPMENT AND R&D

REC incurred R&D expenses of NOK 45 million in the third quarter 2008, up from NOK 37 million in the third quarter last year but below the NOK 50 million reported in the second quarter. The apparent reduction in expenses from last quarter was due to a higher level of capitalization of R&D costs, as projects become more mature. In the first nine months of 2008, R&D expenses amounted to NOK 138 million, compared to NOK 90 million in the first nine months last year.

Building on several years of R&D by REC Silicon's predecessors (Union Carbide and Komatsu/ASiMI), REC has spent six years in bringing the fluidized bed reactor (FBR)

technology into a robust and reliable process for a low cost and energy efficient production of granular polysilicon. A milestone was passed during the third quarter this year, with the successful completion of four years of pilot trials for the first generation fluid bed reactor at Moses Lake, called FBR-A.

The pilot studies demonstrated run lengths, productivity and product quality, which met or exceed the standards defined in the investment case.

Having proven also the safety and efficiency of the FBR-A process design, the process development facility will be further modified to accommodate the pilot of the next generation of granular technology; FBR-B. This pilot is targeted for operation by the end of the first quarter 2009, and the development work will target quality improvements and capex reduction.

Within the wafer area, REC carried out very promising initial tests on new equipment used in the two new 325 MW wafer plants at Herøya. The new wafer singulation system separates produced wafers both faster and more gently, the subsequent quality control tools are more precise and split weak wafers from the normal high quality products more effectively. These improvements are key enablers to further reduce wafer thickness. The new wire saws

also show promising performance in terms of handling thinner wafers and wires. Finally, the new crystallization processes also continued to show better performance.

## BALANCE SHEET AND CASH FLOW

Changes in balance sheet items in the third quarter and first nine months 2008 were mainly affected by a continued high level of investments related to the expansion projects. Currency exchange rates changed considerably during the third quarter and the USD/NOK exchange rate in particular impacted balance sheet items compared both with the end of the previous quarter and the end of 2007.

Equity stood at NOK 14 billion at the end of the third quarter, which was an increase of NOK 1.7 billion in the third quarter and NOK 2.3 billion during the first nine months of the year. As a result of the higher total asset base, equity ratio declined to 60 percent from 66 percent at the end of the second quarter and at the end of 2007.

Net cash flow from operating activities was NOK 412 million in the third quarter 2008, compared to NOK 689 million in the third quarter 2007. The decrease primarily reflects increased working capital and financial items. For the first nine months, the net cash flow from operating activities decreased to NOK

## PROPERTY, PLANT AND EQUIPMENT

(NOK IN MILLION)	REC Silicon	REC Wafer	REC Solar	EverQ	Other	REC Group
Carrying value at January 1, 2008	4 448	1 904	878	355	50	7 635
Exchange differences	700	5	8	22	15	751
Additions*	3 413	2 108	512	165	197	6 394
Depreciation & impairment	-118	-220	-109	-33	-2	-482
Carrying value at September 30, 2008	8 442	3 796	1 289	510	260	14 297

## INTANGIBLE ASSETS

(NOK IN MILLION)	REC Silicon	REC Wafer	REC Solar	EverQ	Other	REC Group
Carrying value at January 1, 2008	382	75	29	219	352	1 056
Exchange differences	36	0	0	10	0	47
Additions*	78	12	9	2	24	125
Amortization	-14	-10	-2	-1	0	-28
Carrying value at September 30, 2008	482	77	35	231	375	1 200
Payments of PP&E and intangibles*	3 213	2 007	614	149	266	6 249

\* Net of investment grants.

1,380 from NOK 2,097 million in the same period last year. The decrease was primarily due to income taxes and financial items as well as increased working capital.

Net cash flow from investing activities was NOK -2,436 million in the third quarter, which compares to NOK -1,131 million in the same period last year. Payments for property plant and equipment and intangible assets contributed NOK -2,447 million in the third quarter. In the first nine months, net cash flow from investing activities amounted to NOK -6,639 million, compared with NOK -2,863 million in the same period last year. The split between the segments for the first nine months of 2008 of payment for property plant and equipment and intangible assets is shown in a separate table.

The difference between additions and payments for property plant and equipment and intangible assets primarily relates to changes in prepayments, accruals and payables for capital expenditure.

Net cash flow from financing activities was NOK 2,427 million, compared to NOK 35 million in the third quarter last year. During the third quarter, REC ASA drew further NOK 2.6 billion on the existing loan facilities and paid instalments of NOK 0.2 billion.

The net debt position was NOK 2.5 billion at September 30, 2008, which was an increase from NOK 0.2 billion at the end of the second quarter and a change from a net cash position of NOK 3.0 billion at the end of 2007. These figures exclude restricted bank accounts and prepayments from EverQ.

On September 30, 2008, the syndication was completed for the fully underwritten credit facilities announced in June. The approximate NOK 10 billion multicurrency credit facilities (adjusted to which currency is drawn) has been put in place to fund the Phase I expansion in Singapore.

REC's other undrawn available committed credit facilities at September 30, 2008 were NOK 1.4 billion. The REC Group is in compliance with the financial covenants under all credit facilities.

Currency developments will affect translation of profit and loss and balance sheet items of foreign entities, as well as other financial items in foreign currencies such as cash equivalents, receivables, debt and

derivatives. Currency developments will also affect the amounts in USD or EUR that can be drawn under NOK 6.3 billion of the committed credit facilities for the Singapore investments. Please refer to the consolidated annual financial statements for 2007 for further descriptions of REC's financial risk management and exchange rate sensitivity, especially notes 3 and 31. Exchange rate sensitivities have increased compared to year-end 2007 due to increased amounts of financial assets, liabilities and derivatives in currencies other than the REC entities' functional currencies. REC strives to economically hedge risks related to currencies, even though this may provide large accounting effects on the financial statements from period to period.

REC has historically no losses on receivables. However, the current financial turmoil has reduced visibility for credit risks related to counterparties, including customers and banks. REC is monitoring these risks.

At September 30, 2008, REC has no significant financial asset or liabilities except derivatives that are fair valued in the financial statements. Fair values of bank derivatives are received from the banks. Fair values on embedded derivatives are calculated using estimated forward currency bid-rates at September 30. The bid rate normally takes into consideration normal credit risk of the counterparty to a bank, but does not take into consideration credit risk on REC's counterparties to the contracts (ie the customers).

The options on shares in Mainstream Energy, as mentioned in the first half year report, are not fair valued due to the complexity of the structure. REC's preliminary view is that the put and call options cannot be separated and reliably fair valued and the net value of the options is not significant.

#### **CONTRACTUAL PURCHASE OBLIGATIONS**

Please refer to note 29 to the consolidated annual financial statements for 2007 that provided estimates on contractual purchase obligations at year-end 2007. Estimated contractual purchase obligations for goods, services and capex at September 30, 2008 amounted to NOK 13.7 billion, of which NOK 2.5 billion is estimated to be paid in the fourth quarter of 2008.

#### **TRANSACTIONS WITH CLOSELY RELATED PARTIES**

For the first nine months of 2008, the nature of related parties transactions have been as described in note 32 to the consolidated annual financial statements for 2007. At the end of June 2008, REC ASA provided additional shareholder's loan to EverQ by EUR 11.65 million, due to be repaid at year-end 2009, and at September 30 the EUR 30 million guarantee was terminated. In the third quarter, REC Solar made sales of NOK 85 million to the associated company Mainstream.

#### **ORGANIZATIONAL DEVELOPMENTS**

The REC Group continues to increase capacity across all its business segments. The total number of employees increased to approximately 2,300 people by the end of the third quarter, an increase of approximately 160 people during the quarter and an increase of approximately 500 people since the beginning of the year.

#### **OUTLOOK**

Although REC Silicon has reported record production, revenue and operating results in the first nine months and in the third quarter, the overall growth for the REC Group has been hampered by lower volumes of high quality polysilicon this year.

While the estimated risk has increased as a result of the slight production shortfall in the third quarter, REC Silicon reiterates its production target of 6,600 MT of polysilicon for the full year. REC Wafer has reduced its full-year production target by 6 percent to 590 MW to reflect lower production and yield in the third quarter and a continuing internal tight polysilicon supply.

REC Solar also lags somewhat behind the ramp-up schedules for new capacity, and tighter wafer supplies makes it difficult to make up for lost volumes. The full-year production targets have thus been lowered from 145 MW to 135 MW of cells and from 90 MW to 85 MW of modules. As a result, the full-year revenue estimate for REC Solar has also been reduced to approximately NOK 2.6 billion from the previous NOK 2.7-2.85 billion range.

The long-term market demand and outlook for solar remains strong. However, the current financial turmoil is likely to impact short/medium term availability of financing and could therefore also impact demand for solar, which are normally relatively capital intensive projects. REC is closely monitoring this situation and will take relevant actions to respond to market dynamics while maintaining long term strategic focus. Such measures could include restructuring of capital expenditure programs and optimizing liquid funds and credit facilities.

In line with industry practice, REC Solar is currently in the process of negotiating volumes and prices for its deliveries of cells and modules for 2009, and find it premature to forecast the price development for next year until these negotiations have been concluded. REC Silicon and REC Wafer are well covered by long-term contract portfolios amounting to, at the end of October, approximately NOK 60 billion (at currency exchange rates at September 30, 2008) at pre-defined volumes and prices for 2009.

Expansion programs which have been, and soon will be, completed will significantly increase capacity and production across all business segments in 2009. Based on a successful execution of projects, production of polysilicon is expected to increase to approximately 12,000 MT, whereas wafer production is expected to increase to approximately 1.1 GW next year. Production for cells and modules are also expected to increase significantly, to approximately 225 MW of cells and 150 MW of modules, respectively. This volume growth will drive strong revenue growth in 2009, but higher expansion cost will be incurred until start

of commercial production and margins will be below normal levels throughout the ramp-up period. Improved cost levels will be achieved once new production capacity is fully up and running.

## STATEMENTS

### BASIS OF PREPARATION

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

### STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements, combined with relevant information in the financial review, have been prepared in accordance with IAS 34. Refer to separate reports for the first quarter and first half year 2008 for more information. These condensed consolidated interim financial statements are unaudited. They do not include all of the information required for full annual financial statements of the Group and should be read in conjunction with the consolidated annual financial statements for 2007. The consolidated financial statements for 2007 are available upon request from the Company's registered office at Sandvika or at [www.recgroup.com](http://www.recgroup.com).

### ACCOUNTING POLICIES

The Group has used the same accounting policies and standards as in the consolidated financial statements as at December 31, 2007. The consolidated financial statements of the REC Group for 2007 were prepared in

accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Norwegian Accounting Act. There were no new standards, interpretations or amendments to published standards that have affected the consolidated financial statements for the first nine months of 2008.

### ESTIMATES AND JUDGMENTS

Preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the REC Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 to the consolidated annual financial statements for 2007.

### FORWARD LOOKING STATEMENTS

This report contains statements regarding the future in connection with REC's growth initiatives, profit figures, outlook, strategies and objectives.

In particular, the section "Outlook" contains forward-looking statements regarding the group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual profits and developments deviating substantially from what has been expressed or implied in such statements. These factors include the risk factors relating to REC's activities described in the Risk Report included in REC's Annual Report 2007, that also make references to the Report from the Board of Directors and the notes to the financial statements.

Sandvika, October 20, 2008

Board of Directors

# CONSOLIDATED INCOME STATEMENT

## REC GROUP

(NOK IN THOUSAND)	Q3 2008	Q3 2007*	SEP 30 2008	SEP 30 2007*	DEC 31 2007
Revenues	1 919 114	1 479 844	5 811 281	4 768 342	6 642 043
Cost of materials	-523 524	-312 980	-1 346 892	-932 577	-1 310 700
Changes in inventories	40 088	36 066	7 230	63 928	38 180
Employee benefit expenses	-359 445	-249 416	-1 054 001	-732 155	-1 033 432
Other operating expenses	-365 194	-310 598	-1 075 191	-843 732	-1 163 819
EBITDA	711 039	642 916	2 342 427	2 323 806	3 172 272
Depreciation	-164 115	-118 295	-469 605	-336 036	-481 997
Amortization	-7 864	-29 882	-27 599	-74 231	-91 725
Impairment	-1 616	0	-12 702	-2 654	-10 859
EBIT	537 444	494 739	1 832 521	1 910 885	2 587 691
Share of loss of associates	-1 471	-7 095	-4 871	-19 299	-45 465
Financial income	16 345	63 085	142 316	227 599	314 639
Net financial expenses	-14 169	-9 370	-26 266	-47 979	-63 563
Net currency gains/losses	290 747	-248 651	176 517	-328 780	-345 737
Net gains/losses derivatives	932 420	-236 096	676 966	-380 672	-470 218
Net financial items	1 223 872	-438 127	964 662	-549 131	-610 344
Profit/loss before tax	1 761 316	56 612	2 797 183	1 361 754	1 977 347
Income tax expense/benefit	-514 971	-31 245	-844 604	-443 237	-643 994
Profit/loss for the period	1 246 345	25 367	1 952 579	918 517	1 333 353
<b>Attributable to:</b>					
Minority interests	1	2	-3	2	-106
Equity holders of REC ASA	1 246 344	25 365	1 952 582	918 515	1 333 459
Earnings per share for profit attributable to the equity holders of REC ASA (in NOK per share)					
- basic	2.52	0.05	3.95	1.86	2.70
- diluted	2.52	0.05	3.95	1.86	2.70

\* Embedded derivatives in financial items have been adjusted compared to the reports published for first three quarters of 2007. This also affected profit before and after tax and earnings per share. See the fourth quarter report for 2007 for more details.

# CONSOLIDATED BALANCE SHEET

## REC GROUP

(NOK IN THOUSAND)	SEP 30 2008	JUN 30 2008	SEP 30 2007	DEC 31 2007
<b>ASSETS</b>				
<b>Non-current assets</b>				
Goodwill	827 749	786 239	745 944	799 456
Other intangible assets	372 324	314 276	251 256	256 359
Intangible assets	1 200 073	1 100 515	997 200	1 055 815
Land and buildings	1 348 078	1 297 716	994 140	1 330 940
Machinery and equipment	3 289 593	3 116 734	2 860 888	3 151 642
Other tangible assets	132 556	115 098	97 382	112 695
Assets under construction	9 526 811	6 677 844	2 080 671	3 039 626
Property, plant and equipment	14 297 038	11 207 392	6 033 081	7 634 903
Prepaid capex	921 698	725 181	602 600	909 654
Investments in associates	237 532	205 970	30 560	8 548
Investments in shares	10 770	10 771	1 237	1 237
Other non-current receivables	379 345	367 871	195 054	180 194
Restricted bank accounts*	203 249	312 665	368 532	340 774
Financial assets	830 896	897 277	595 383	530 754
Deferred tax assets	71 977	252 141	154 320	230 758
Total non-current assets	17 321 682	14 182 506	8 382 584	10 361 884
<b>Current assets</b>				
Inventories	999 961	796 022	594 641	655 165
Trade and other receivables	1 648 820	1 328 211	1 058 446	1 019 802
Derivatives	492 963	113 526	331 850	92 918
Restricted bank accounts*	178 809	31 246	0	20 671
Cash and cash equivalents*	2 864 010	2 360 961	6 387 503	5 794 897
Total current assets	6 184 563	4 629 966	8 372 440	7 583 453
Total assets	23 506 245	18 812 472	16 755 024	17 945 336

\*At September 30 2007 restricted bank accounts has been reclassified from current cash and cash equivalents.

(NOK IN THOUSAND)	SEP 30 2008	JUN 30 2008	SEP 30 2007	DEC 31 2007
<b>EQUITY &amp; LIABILITIES</b>				
<b>Shareholders' equity</b>				
Share capital	494 315	494 315	494 315	494 315
Share premium and other paid in capital	8 548 841	8 548 841	8 548 841	8 548 841
Paid-in capital	9 043 156	9 043 156	9 043 156	9 043 156
Other equity and retained earnings	3 084 548	2 585 657	1 447 709	1 380 097
Profit/loss for the period	1 952 582	706 238	918 515	1 333 459
Other equity and retained earnings	5 037 130	3 291 895	2 366 224	2 713 556
Minority Interests	285	286	463	346
Total shareholders' equity	14 080 571	12 335 337	11 409 843	11 757 058
<b>Non-current liabilities</b>				
Retirement benefit obligations	135 961	118 865	106 109	116 200
Deferred tax liabilities	383 034	285 679	303 291	310 320
Non-current financial liabilities, interest bearing	4 811 665	2 011 271	2 338 814	2 312 593
Non-current prepayments, interest bearing	361 195	312 569	316 959	326 554
Provisions and other non-interest bearing liabilities	120 747	100 855	191 568	116 871
Total non-current liabilities	5 812 602	2 829 239	3 256 741	3 182 538
<b>Current liabilities</b>				
Trade payables and other liabilities	1 997 964	1 781 262	863 757	1 334 985
Current tax liabilities	547 919	373 416	439 685	480 413
Derivatives	516 671	915 576	671 718	706 363
Current financial liabilities interest bearing	550 518	577 642	113 280	483 979
Total current liabilities	3 613 072	3 647 896	2 088 440	3 005 740
Total liabilities	9 425 674	6 477 135	5 345 181	6 188 278
Total equity and liabilities	23 506 245	18 812 472	16 755 024	17 945 336

# CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE REC GROUP

(NOK IN THOUSAND)	Translation differences	Tax	Pension	Cash flow hedge	Acquisition	Change in accounting principle	Profit/loss	Total
<b>SEPTEMBER 30, 2008</b>								
At January 1, 2008	-340 065	64 207	-33 174	-22 489	234 256	-49 918	1 789 517	1 642 334
Currency translation differences	462 962	-16 272	0	0	0	0	0	446 690
Cash flow hedges								
– valuation gain/losses taken to equity	0	35 847	0	-127 877	0	0	0	-92 030
– transferred to profit/loss for the period *	0	-5 548	0	19 814	0	0	0	14 266
Total income and expense recognized directly in equity	462 962	14 027	0	-108 063	0	0	0	368 926
Profit for the period	0	0	0	0	0	0	1 952 579	1 952 579
Total income and expense in the period	462 962	14 027	0	-108 063	0	0	1 952 579	2 321 505
At September 30, 2008	122 897	78 234	-33 174	-130 552	234 256	-49 918	3 742 096	3 963 839
In the period								
To REC ASA shareholders	463 020	14 027	0	-108 063	0	0	1 952 582	2 321 566
Minority interest	-58	0	0	0	0	0	-3	-61
Total change in period	462 962	14 027	0	-108 063	0	0	1 952 579	2 321 505
<b>SEPTEMBER 30, 2007</b>								
At January 1, 2007	-8 413	58 285	-24 557	-121 158	210 934	-49 918	456 164	521 337
Currency translation differences	-328 373	31 811	0	0	0	0	0	-296 562
Cash flow hedges								
– valuation gain/losses taken to equity	0	-64 903	0	231 691	0	0	0	166 788
– transferred to profit/loss for the period *	0	5 818	0	-20 781	0	0		-14 963
Total income and expense recognized directly in equity	-328 373	-27 274	0	210 910	0	0	0	-144 737
Profit for the period	0	0	0	0	0	0	918 517	918 517
Total income and expense in the period	-328 373	-27 274	0	210 910	0	0	918 517	773 780
At September 30, 2007	-336 786	31 011	-24 557	89 752	210 934	-49 918	1 374 681	1 295 117
<b>YEAR 2007</b>								
At January 1, 2007	-8 413	58 285	-24 557	-121 158	210 934	-49 918	456 164	521 337
Currency translation differences	-331 652	33 089	0	0	0	0	0	-298 563
Actuarial gain/loss on defined benefit pension schemes	0	480	-8 617	0	0	0	0	-8 137
Effect of EverQ acquisition	0	0	0	0	23 322	0	0	23 322
Cash flow hedges								0
– valuation gain/losses taken to equity	0	-30 139	0	107 569	0	0	0	77 430
– transferred to profit/loss for the period *	0	2 492	0	-8 900	0	0	0	-6 408
Total income and expense recognized directly in equity	-331 652	5 922	-8 617	98 669	23 322	0	0	-212 356
Profit for the period	0	0	0	0	0	0	1 333 353	1 333 353
Total income and expense in the period	-331 652	5 922	-8 617	98 669	23 322	0	1 333 353	1 120 997
At December 31, 2007	-340 065	64 207	-33 174	-22 489	234 256	-49 918	1 789 517	1 642 334

\* Cash flow hedge - transferred to profit/loss for the period affected the following line items in the income statement:

(NOK IN THOUSAND)	Sep 30 2008	Sep 30 2007	Year 2007
Revenues	7 005	1 233	34 987
Cost of materials	-26 819	19 548	-26 087
Total	-19 814	20 781	8 900

## EQUITY REC GROUP

(NOK IN THOUSAND)	Atributable to equity holders of REC ASA					
	Total paid in capital	Other equity	Recognized income & expense	Total	Minority interest	Total equity
<b>SEPTEMBER 30, 2008</b>						
At January 1, 2008	9 043 156	1 071 110	1 642 449	11 756 713	346	11 757 059
Equity share option plan	0	2 007	0	2 007	0	2 007
Total recognized income and expense	0	0	2 321 566	2 321 566	-61	2 321 505
At September 30, 2008	9 043 156	1 073 117	3 964 015	14 080 286	285	14 080 571
<b>SEPTEMBER 30, 2007</b>						
At January 1, 2007	9 044 070	1 071 110	521 337	10 636 517	0	10 636 517
Repayments for shares not issued	-916	0	0	-916	0	-916
Transaction with minority	0	0	0	0	461	461
Total recognized income and expense	0	0	773 778	773 778	2	773 780
At September 30, 2007	9 043 155	1 071 110	1 295 115	11 409 380	463	11 409 843
<b>YEAR 2007</b>						
At January 1, 2007	9 044 070	1 071 110	521 337	10 636 517	0	10 636 517
Repayments for shares not issued	-916	0	0	-916	0	-916
Transaction with minority	0	0	0	0	461	461
Total recognized income and expense	0	0	1 121 112	1 121 112	-115	1 120 997
At December 31, 2007	9 043 156	1 071 110	1 642 449	11 756 713	346	11 757 058

# CONSOLIDATED STATEMENT OF CASH FLOW

## REC GROUP

(NOK IN THOUSAND)	Q3 2008	Q3 2007**	SEP 30 2008	SEP 30 2007**	DEC 31 2007
<b>Cash flows from operating activities</b>					
Profit/loss before tax	1 761 316	56 612	2 797 183	1 361 754	1 977 347
Income taxes paid	-108 573	-103 849	-556 706	-165 683	-365 020
Depreciation, amortization and impairment	173 595	148 177	509 906	412 921	584 581
Associated companies	1 471	7 095	4 871	19 297	45 463
Changes in receivable and prepayments	-226 811	100 779	-500 273	-108 715	-130 187
Changes in inventories	-163 336	-95 661	-314 478	-111 764	-172 798
Changes in payables and prepaid expenses	113 614	-6 537	227 107	-118 119	115 421
Changes in derivatives	-885 105	308 121	-697 820	445 425	606 124
Currency effects not operating activities	-250 181	338 485	-134 239	412 826	369 342
Other items	-3 695	-64 661	44 501	-50 548	24 841
Net cash flows from operating activities	412 295	688 562	1 380 052	2 097 394	3 055 114
<b>Cash flows from investing activities</b>					
Net change in shares, finance receivables and restricted cash	8 658	-1 120	-389 763	-162 660	-171 458
Proceeds from sale of property, plant and equipment and intangible assets	47	-5 855	185	-722	2 360
Payments for property, plant and equipment and intangible assets	-2 447 291	-1 146 072	-6 252 009	-2 745 046	-4 301 550
Proceeds from investment grants	2 600	22 225	2 600	45 824	45 825
Cash payments on purchase of subsidiaries and joint ventures, net of cash purchased	0	0	0	0	-28 369
Net cash flows from investing activities	-2 435 986	-1 130 822	-6 638 987	-2 862 604	-4 453 192
<b>Cash flows from financing activities</b>					
Repayment of equity	0	0	0	-916	-916
Repayment of borrowings	-272 032	3 814	-493 793	-269 789	-343 400
Proceeds from borrowings	2 698 901	31 504	2 764 047	503 520	598 735
Net cash flow from financing activities	2 426 869	35 318	2 270 254	232 815	254 419
Effect on cash and cash equivalents of changes in foreign exchange rates	99 873	-257 933	57 797	-355 650	-336 991
Net increase/decrease in cash and cash equivalents	503 050	-664 875	-2 930 885	-888 045	-1 480 651
Cash and cash equivalents at beginning of the period*	2 360 960	7 052 378	5 794 897	7 275 548	7 275 548
Cash and cash equivalents at the end of the period*	2 864 010	6 387 503	2 864 010	6 387 503	5 794 897

\*Compared to the quarterly report for the third quarter 2007, restricted bank accounts have been reclassified and is no longer part of cash and cash equivalents.

\*\*Compared to the quarterly report for the third quarter 2007, prepayments from EverQ to SGS has been reclassified in the cash flow statement. This has affected reported cash flows from investing and financing activities, net decrease in cash and cash equivalents as well as cash and cash equivalents at the end of the period.

# SEGMENT INFORMATION

## THIRD QUARTER

(NOK IN MILLION)	Revenues			of which external		
	2008	2007	Growth	2008	2007	Growth
REC Silicon	730	597	22 %	424	313	36 %
REC Wafer	942	987	-5 %	681	867	-22 %
REC Solar	666	208	220 %	664	208	219 %
Other Operations	157	98	nm	150	92	nm
Eliminations	-576	-411	nm	0	0	nm
<b>Total</b>	<b>1 919</b>	<b>1 480</b>	<b>30 %</b>	<b>1 919</b>	<b>1 480</b>	<b>30 %</b>

(NOK IN MILLION)	EBITDA				EBIT			
	2008	Margin	2007	Margin	2008	Margin	2007	Margin
REC Silicon	392	54 %	304	51 %	351	48 %	262	44 %
REC Wafer	244	26 %	359	36 %	169	18 %	290	29 %
REC Solar	54	8 %	25	12 %	9	1 %	14	7 %
Other Operations	-7	nm	-31	nm	-19	nm	-56	nm
Eliminations	28	nm	-15	nm	28	nm	-15	nm
<b>Total</b>	<b>711</b>	<b>37 %</b>	<b>643</b>	<b>43 %</b>	<b>537</b>	<b>28 %</b>	<b>495</b>	<b>33 %</b>

## YEAR TO DATE SEPTEMBER 30

(NOK IN MILLION)	Revenues			of which external		
	2008	2007	Growth	2008	2007	Growth
REC Silicon	2 012	1 859	8 %	1 154	966	19 %
REC Wafer	3 411	3 135	9 %	2 568	2 782	-8 %
REC Solar	1 643	809	103 %	1 638	809	103 %
Other Operations	475	231	nm	451	212	nm
Eliminations	-1 730	-1 265	nm	0	0	nm
<b>Total</b>	<b>5 811</b>	<b>4 768</b>	<b>22 %</b>	<b>5 811</b>	<b>4 768</b>	<b>22 %</b>

(NOK IN MILLION)	EBITDA				EBIT			
	2008	Margin	2007	Margin	2008	Margin	2007	Margin
REC Silicon	1 017	51 %	995	54 %	885	44 %	865	47 %
REC Wafer	1 255	37 %	1 314	42 %	1 025	30 %	1 122	36 %
REC Solar	118	7 %	166	21 %	7	0 %	134	17 %
Other Operations	-20	nm	-72	nm	-56	nm	-131	nm
Eliminations	-28	nm	-78	nm	-28	nm	-78	nm
<b>Total</b>	<b>2 342</b>	<b>40 %</b>	<b>2 324</b>	<b>49 %</b>	<b>1 833</b>	<b>32 %</b>	<b>1 911</b>	<b>40 %</b>

# QUARTERLY INFORMATION

## REC GROUP

(NOK IN MILLION)	Q2 2007*	Q3 2007*	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Revenues	1 673	1 480	1 874	1 771	2 121	1 919
EBITDA	812	643	848	742	889	711
EBITDA – margin	49 %	43 %	45 %	42 %	42 %	37 %
EBIT	679	495	677	579	716	537
EBIT – margin	41 %	33 %	36 %	33 %	34 %	28 %
Net financial items	-8	-438	-61	-251	-8	1224
Profit/loss before tax	671	57	616	327	708	1 761
Earnings per share, basic and diluted, in NOK	0,94	0,05	0,84	0,43	1,00	2,52
Expansion costs	25	66	55	82	93	122
Adjusted EBITDA	837	709	903	824	982	834
Adjusted EBITDA – margin	50 %	48 %	48 %	47 %	46 %	43 %

\* The first three quarters of 2007 have been restated due to reclassification of embedded derivatives.

### QUARTERLY INFORMATION – REC SILICON

(NOK IN MILLION)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Revenues	627	597	637	652	630	730
EBITDA	326	304	352	319	307	392
EBITDA – margin	52 %	51 %	55 %	49 %	49 %	54 %
Expansion costs	8	41	17	50	45	42
Adjusted EBITDA	334	345	369	369	351	433
Adjusted EBITDA – margin	53 %	58 %	58 %	57 %	56 %	59 %
Polysilicon production in MT*	1 443	1 514	1 428	1 544	1 452	1 528
Polysilicon sale in MT	1 454	1 408	1 429	1 588	1 474	1 589
Silane gas sale in MT	312	352	340	378	448	487

\*Polysilicon production in Q2 2008 includes 70 MT of granular "starter-bed" material, not for sale. Quarterly distribution of polysilicon production for 2007 has been adjusted. Total 2007 production is unchanged.

## QUARTERLY INFORMATION – REC WAFER

(NOK IN MILLION)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Revenues	1 131	987	1 225	1 209	1 260	942
EBITDA	485	359	499	492	519	244
EBITDA – margin	43 %	36 %	41 %	41 %	41 %	26 %
Expansion costs	0	2	7	13	25	47
Adjusted EBITDA	485	361	506	505	544	291
Adjusted EBITDA – margin	43 %	37 %	41 %	42 %	43 %	31 %
Wafer production in MW (at 15,0% cell efficiency)	121	106	132	137	140	106
Mono ingot production in MW (at 20,0% cell efficiency)	10	10	9	9	11	8
Total production in MW	131	116	141	146	151	114
Wafer sale in MW (at 15,0% cell efficiency)	120	106	131	136	139	104
Mono ingot sale in MW (at 20,0% cell efficiency)	10	10	9	9	11	8
Total sale in MW	130	116	140	145	150	112

## QUARTERLY INFORMATION – REC SOLAR

(NOK IN MILLION)	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
Revenues	292	208	308	340	636	666
EBITDA	54	25	5	20	44	54
EBITDA – margin	19 %	12 %	2 %	6 %	7 %	8 %
Expansion costs	10	14	25	17	20	21
Adjusted EBITDA	64	39	30	37	64	75
Adjusted EBITDA – margin	22 %	19 %	10 %	11 %	10 %	11 %
Cell production in MW	12	12	12	15	31	38
Module production in MW	11	9	11	14	20	19
Contract manufacturing MW	0	0	0	0	0	2
Cell sale in MW	11	12	13	15	31	38
Module sale in MW	12	8	11	13	20	18

# FINANCIAL EFFECTS EMBEDDED DERIVATIVES

## REC GROUP

The table below shows the profit or loss effects and earnings per share of embedded derivatives.

(NOK IN THOUSAND)	Accumulated 2007				Accumulated 2008		
	MAR 31	JUN 30	SEP 30	DEC 31	MAR 31	JUN 30	SEP 30
EBITDA	0	0	0	28 177	21 612	52 689	58 495
Net financial items	-147 478	-193 007	-587 179	-642 032	-225 532	-280 880	925 988
Income tax expense/benefit	41 294	54 042	164 410	171 879	57 098	63 893	-275 655
Profit/loss for the period	-106 184	-138 965	-422 769	-441 976	-146 822	-164 297	708 828
Earnings per share	-0.21	-0.28	-0.86	-0.89	-0.30	-0.33	1.43

(NOK IN THOUSAND)	Per quarter 2007				Per quarter 2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
EBITDA	0	0	0	28 177	21 612	31 077	5 806
Net financial items	-147 478	-45 529	-394 172	-54 853	-225 532	-55 348	1 206 868
Income tax expense/benefit	41 294	12 748	110 368	7 469	57 098	6 796	-339 549
Profit/loss for the period	-106 184	-32 781	-283 804	-19 207	-146 822	-17 475	873 125
Earnings per share	-0.21	-0.07	-0.57	-0.04	-0.30	-0.04	1.77

See "financial items" for a description of embedded derivatives.

### DEFINITIONS

#### Constant currency

Some amounts in the text report have been adjusted for currency translation effects. This adjustment only eliminates the effect of translating the results for REC Silicon (US), REC ScanModule (Sweden) and EverQ (Germany) from their functional currencies to NOK. The exchange rates for the third quarter and the first nine months of 2007 have been used in both periods. This adjustment does not eliminate other effects that currency fluctuations will have on the REC Group financials.

#### Expansion costs

Expansion costs primarily costs for early recruitment and training, as well as pre-commissioning activities until start of production.

**ABOUT REC**

Renewable Energy Corporation ASA (REC) was established in 1996 and is one of the world's leading solar energy companies. Today, REC is one of the largest producers of polysilicon and wafers for photovoltaic applications, and is involved in all steps of the value chain from production of solar grade silicon and wafers, to solar cell and module production. REC has customers all over the globe, seven production plants in three different countries and operates on three different continents. REC employs more than 2,300 people. For further information on the company, please refer to [www.recgroup.com](http://www.recgroup.com).

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REC is a significant player in the international solar energy industry; well positioned both upstream and downstream in the industry value chain.

REC  
Silicon

REC  
Wafer

REC  
Solar



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