This is FESIL

The FESIL Group is a major producer of ferrosilicon (FeSi) and silicon metal (SiMetal). The Group has three melting plants, all of them in Norway: Holla Metall, Lilleby Metall and Rana Metall. Special products, including granulated and refined qualities, make up the bulk of the production. FESIL also owns FESIL-Brikettfabrikken that makes briquettes from FeSi and silicon carbide (SiC). All plants are certified as conforming to ISO 9000. A further presentation of each plant is given on page 41.

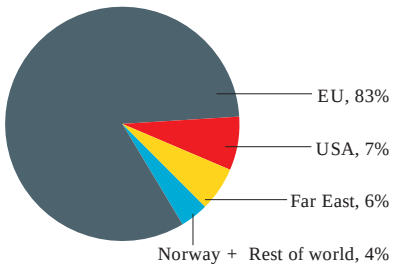
History

The history of FESIL began with Lilleby Metall in the city of Trondheim; here production of FeSi was started as early as 1927. The owner, Ila og Lilleby Smelteverker AS, was registered as a joint stock company December 5, 1936. The company's name remained unchanged till 1995 when it was changed to FESIL ASA. FESIL ASA has been listed on the Oslo Stock Exchange since June 1995. FESIL ASA has its head office in the city of Oslo.

Sales and marketing

FESIL's wholly owned sales company FESIL Sales AS does all marketing and sales of FeSi and SiMetal. The company is represented in every important market by either subsidiaries or agents. FESIL Sales AS is also the sales agent of the FeSi produced at the Norwegian plants Finnfjord Smelteverk AS and Globe Norge AS Hafslund Metall. The world's leading steel works, foundries and chemical groups are to be found among FESIL's customers.

Turnover for each market 1998



Environment

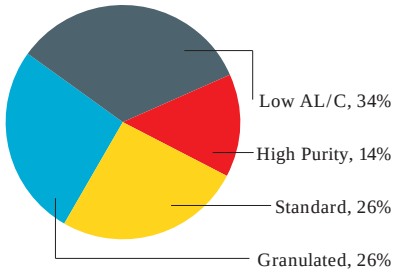
The Norwegian authorities have imposed the most restrictive environmental regulations on the country's ferroalloy industry. FESIL's plants do not release anything to the sea other than cooling water and sanitary effluents. The smoke is cleansed of dust, and the dust, microsilica, has become a valuable additive to a number of products, among them concrete. FESIL's production is solely powered by clean and renewable hydroelectric power.

Ownership

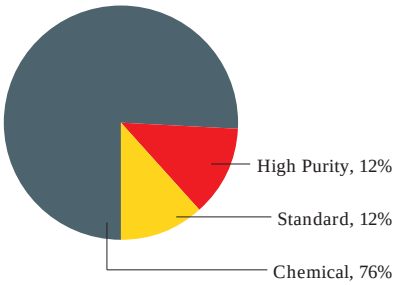
The 7.999.500 shares in FESIL ASA are listed and traded on the Oslo Stock Exchange. The largest shareholder is the American metal producer Globe Metallurgical Inc., which holds 39% of the FESIL-shares. Globe is the world's largest producer of special alloys to the foundry industry and the world's second largest producer of SiMetal.

This is FESIL

FeSi production 1998



SiMetal production 1998



Strategy

FESIL's objective is to maintain and further develop its international position as a leading producer and marketer of silicon alloys and related by-products.

A primary objective is to give the shareholders a return on invested capital that over time at least equals the return on investments carrying a comparable risk. Since the markets for ferroalloys are strongly cyclical, the return must be evaluated over a period of time.

In order to reduce exposure to cyclical fluctuations, FESIL is endeavouring to shift its production away from standard products to products that require greater experience and technological know-how. Efforts to ensure that the products are of a stable and high quality are given high priority.

FESIL is continuously working to reduce costs through, among other, cheaper procurement, rationalisation, process improvements and greater efficiency in furnace operation. The lowest possible costs are a precondition for long-term survival and profitability. Production of FeSi and SiMetal is very energy intensive and long-term power contracts at competitive prices and terms are therefore crucial. The company is therefore constantly focused on the question of power contracts.

Stable and long-term relationships with its customers form the basis of FESIL's marketing strategy. The marketing organisation is, as far as possible, integrated with the rest of FESIL's organisation. This market orientation of the Group is designed to ensure a rapid response to market information.

Main financial figures

Group Profit & Loss Statement

(NOK mill.)

	1998	1997	1996	1995	1994
Operating income	**2 061**	2 115	2 136	2 229	2 018
Operating expenses	**1 929**	2 049	1 927	1 957	1 879
Ordinary depreciation	**48**	70	69	68	68
Operating profit	**84**	(3)	140	204	72
Share of results in other companies	**9**	11	10	9	10
Net financial items	**(48)**	(35)	(42)	(63)	(55)
Profit before taxes	**45**	(27)	109	150	26
Taxes	**(11)**	(1)	(9)	(7)	(8)
Profit/loss for the year	**34**	(29)	100	144	18

Group Balance Sheet

(NOK mill.)

	1998	1997	1996	1995	1994
Current assets	**757**	736	786	832	699
Fixed assets	**440**	354	440	444	498
Total assets	**1 197**	1 090	1 226	1 276	1 197
Short-term liabilities	**454**	391	444	544	693
Long-term liabilities	**302**	294	349	384	444
Equity	**441**	405	433	347	60
Total liabilities and equity	**1 197**	1 090	1 226	1 276	1 197

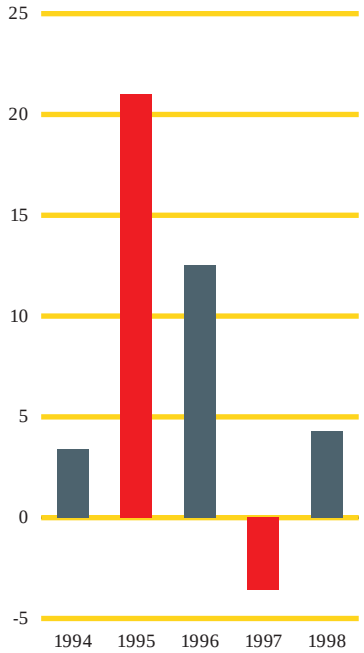
Key Figures Balance Sheet

(NOK mill.)

	1998	1997	1996	1995	1994
Equity ratio	**37%**	37%	35%	27%	5%
Interest bearing debt	**406**	387	483	522	767
Investments	**126**	47	80	16	53

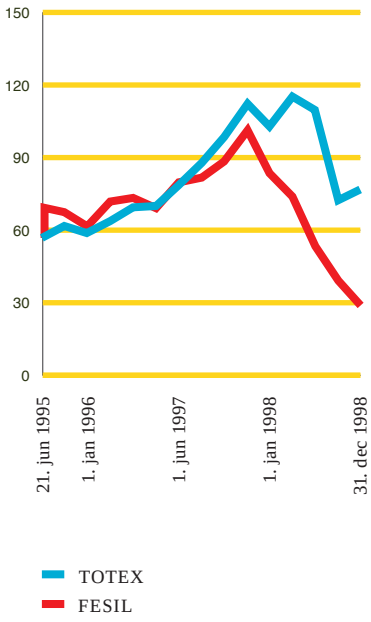
Earnings per share (after taxes)

(NOK)



Share price vs. Oslo Børs stock index

(NOK)



Tasks and objectives for 1999

Improved operating result in spite of market weakening

FESIL's operating result in 1998 amounted to NOK 84 millions vs. NOK -3 millions in 1997. The improved operating result is mainly due to the sale of Hafslund Metall in 1997. In addition to the fact that the sale of Hafslund Metall affected the 1997 operating result negatively with 64 mill, the plant contributed negatively to FESIL's operating result during the time when the plant was owned by FESIL in 1997.

The total world production of steel in 1998 was down 2,3% compared to 1997. As a result, prices on most FeSi qualities were in 1998 below the levels of 1997. The largest price decrease was seen for standard ferro silicon.

The market prices on silicon metal fell through all of 1998. A large part of the FESIL Group's sale of silicon metal is tied to yearly contracts. Because of the Asian crisis the sale of silicon metal to the chemical industry was lower than expected in the 4th quarter of 1998. This, combined with falling prices in the other market segments, resulted in reduced earnings from silicon metal in the 4th quarter of 1998.

Continued emphasis on special qualities

The last remaining FeSi-producing furnace at Holla Metall was converted to silicon metal in 1998. At the same time the FeSi production at Rana Metall was adapted to include refined FeSi qualities as well. As a result, FESIL's production capacity for SiMetal increased with 18,000 tons per year, while the production capacity for FeSi decreased with 30,000 tons per year. This means a further shift in the Group's production of FeSi from standard to specialised qualities, and only a very limited part of the future production will be standard FeSi.

Tasks and objectives for 1999

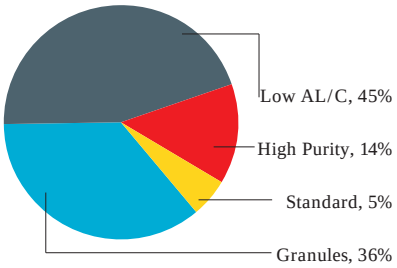
Based on the assumption that markets will continue to be weak, the most important challenge for FESIL in 1999 will be to secure a satisfactory return on capital. We will achieve this through tight cost control as well as continued work on improving the furnace operation. FESIL will also focus on reversing the negative trend in injuries and absences due to sickness.

Of a somewhat more long-term character, FESIL will in 1999 continue the work to assure a sensible power supply for the future. Another important task will be to contribute to the efforts to ensure a reasonable and fair environment taxation on FESIL's production (and that of other similar companies').

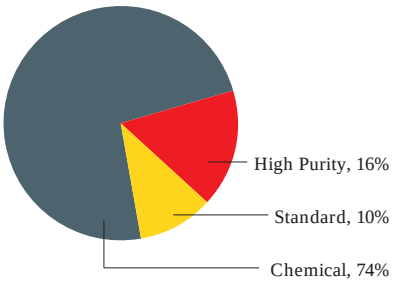
Board of Director's report

Board of Director's report

FeSi production 1998



SiMetal production 1998



The year 1998

In 1998, FESIL took another important step as part of its strategy towards specialisation and risk dispersion. One of the Group's major ferrosilicon furnaces was converted to silicon metal. By doing this, FESIL achieved a flexibility in its own production of ferrosilicon (FeSi) and silicon metal (SiMetal), so that now almost all of FESIL's own capacity is used for specialised products. At the same time, the flexibility is being kept so that standard grades may still be produced when and if that is desirable. The conversion has also reduced the Group's exposure to the FeSi market. The risk is more evenly divided between the two main products, FeSi and SiMetal.

Throughout 1998 the effects from the financial crisis in parts of Asia spread to the major markets for FESIL's products. A high supply of both FeSi and SiMetal combined with poorer market conditions, resulted in falling prices for both products.

Ferrosilicon is mainly used as a small, but important additive in the steel and foundry industry. Since the need for FeSi is closely tied to steel production, the world consumption and production of steel are important indicators for the development of the FeSi industry. Until the autumn of 1996, the world steel production was reduced. From then on and through all of 1997, the production increased. The increase in 1997 ended at 6.3%. In 1998, total production ended 2.3% lower compared to 1997. While steel production in EU and North America showed a small increase in 1998, 0.8% and 0.6% respectively, the production in Asia was down 2.4%. In Japan the reduction was much higher (10.5%). FeSi prices began to fall in 1997, even with increasing steel production, due to increases in available material. In 1998, with reduced steel production, this oversupply situation was made worse and the fall in prices accelerated. Due to this, the earnings from FESIL's FeSi-activities in 1998 were poorer than expected.

Silicon metal is used by the chemical, aluminium and electronics industry. FESIL has concentrated on supplying the chemical industry. The use of SiMetal by the chemical sector has been increasing for many years. In 1998 this trend changed, as a consequence of the slowdown that began in Asia. The demand for SiMetal actually fell. The production capacity had been increased. A surplus of SiMetal developed, resulting in a considerable fall in prices. Most of FESIL's production was, however, sold on yearly contracts at fixed prices, something that reduced the effect of the falling prices within the year. But the return on FESIL's SiMetal-activities in 1998 was not as good as expected.

FESIL made a change to its production in 1998 by converting one FeSi furnace at the plant Holla Metall to SiMetal. At the same time the production at the plant Rana Metall was changed to include refined qualities of FeSi. The net effects from these changes are that FESIL's annual capacity of FeSi has been reduced by 30,000 metric tons, while the production capacity of SiMetal has been increased by 18,000 metric tons. These changes took place during 2nd half of 1998. Due to this, FESIL's total production in 1998 has been lower than normal, which has also influenced the financial results negatively.

Result and dividend

The pre-tax result of the FESIL Group in 1998 was a profit of NOK 45 million. The corresponding figure for 1997 was a loss of NOK 27 million. Besides lower prices for ferrosilicon and silicon metal, the result in 1998 was negatively influenced by reduced production due to the changes mentioned above.

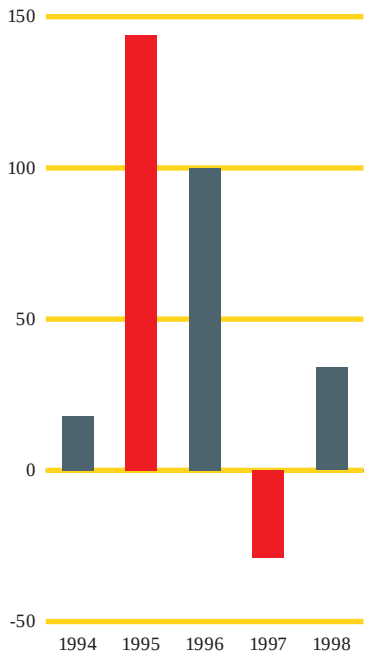
The Group's operating income fell 3% in 1998 to NOK 2,060 million (1997: NOK 2,115 million). The operating profit reached NOK 84 million in 1998 (1997: minus NOK 3 million). Included in the operating loss in 1997 was a loss of NOK 64 million arising from the sale of Hafslund Metall's operating assets and related transaction expenses. Adjusted for this loss, the operating profit in 1997 was NOK 61 million. The increased operating profit in 1998, despite lower metal prices, was mainly due to elimination of the negative operating result for Hafslund Metall included in FESIL's 1997 results. In 1998, lower costs combined with stable production at FESIL's remaining plants has also had a positive effect on the operating result.

Net financial items amounted to net costs of NOK 39 million in 1998 (1997: net costs of NOK 24 million). Net interest costs were NOK 22 million (1997: NOK 25 million). The cashflow from operating activities was NOK 102 million in 1998 (1997: NOK 133 million). The Group's taxes amounted to NOK 11 million in 1998 (1997: NOK 1 million), of which NOK 11 million (1997: NOK 3 million) was tax payable.

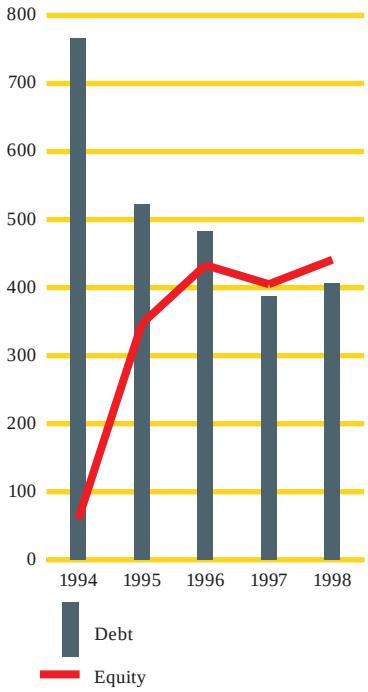
The result for the year after tax was a profit of NOK 34 million (1997: Loss of NOK 29 million). Earnings per share were NOK 4.29 (1997: minus NOK 3.58).

The prices for FESIL's products are now at a very low level. The Board believes the prices may stay at a low level also in 1999. On this basis, and also in order to maintain a strong financial position, the Board will propose to the Annual General Meeting that no dividend shall be paid for 1998 (dividend in 1997: NOK 0).

Profit after tax
(NOK mill)



Interest bearing debt vs. equity
(NOK mill.)



Capital developments, financing and investments

FESIL's financial position has been significantly strengthened over the past four years. Whilst the Group's equity capital at the end of 1994 amounted to NOK 60 million, by the end of 1998 it was NOK 441 million. The book value of FESIL's assets has over the same period remained unchanged at NOK 1,197 million. This means that the equity to assets ratio, during this period, has risen from 5% to 37%.

The Group's net interest-bearing debt amounted to NOK 406 million at the end of 1998 compared with NOK 387 million at the end of 1997. 10% of the net interest-bearing debt as of 31 December, 1998 was denominated in German marks (DEM), the rest in Norwegian kroner (NOK). 62% of the net interest-bearing debt was tied to floating interest rates or a rate fixed for less than 12 months. At the end of 1998 unused drawing rights amounted to NOK 243 million.

The Group's investments in fixed assets in 1998 totalled NOK 126 million, of which about 75% was related to the conversion of the furnace at Holla Metall and to building the refining facilities at Rana Metall.

Shareholder structure

In November 1997 the American metal producer Globe Metallurgical Inc. (Globe) bought 33.0% of the FESIL shares. In August 1998 Globe bought another 6.25%. Globe is the world's largest producer of special alloys for the foundry industry and the world's second largest producer of SiMetal. With its total share of 39.25% in FESIL, Globe is FESIL's largest shareholder. By the end of 1998 the second largest shareholder was Tennant Nordic Ltd. (England), who held 12.63% of the shares. As of 31.12.98 foreign interests held 57.7% of the company's shares.

During 1998 the price of FESIL shares fluctuated between NOK 27-80. On 31.12.98 the share price was NOK 30.00, compared with NOK 82.00 at the end of 1997.

As of 31.12.98 FESIL had 342 shareholders. The numbers of shares issued was 7,999,500, all with voting rights.

The company's share capital is NOK 79,995,000. At the end of 1998 its stock exchange value was NOK 240 million.

Environment

The ferro alloys industry in Norway, including FESIL's plants, is subject to the world's most restrictive environmental requirements. This means that the emission permits are calculated based on what is possible by normal good operations. In 1998 a furnace conversion took place at Holla Metall. When starting up new production facilities, irregular operations must be expected. Due to this, Holla had some minor excesses of its exhaust gases permits. The Norwegian environmental authorities was informed, and did not take action. Lilleby Metall has operated within its requirements in 1998, but since the plant has very close neighbours more than 50dBA noise has been measured in the nearby surroundings. The authorities carried out a thorough noise examination where 2 excesses and 6 comments were registered. In 1998 Lilleby sold more recovered energy as heated water to the city of Trondheim than ever before. In total the equivalent energy of 88GWh was sold. This is comparable to 29% of the electricity that the plant consumes. This amount of energy equals the amount needed to heat about 10,000 apartments in Trondheim. In 1998 Rana Metall operated within its requirements except for one incident in October, when the plant got the permission to operate without gas cleaning for 14 hours due to break down of the gas cleaning facilities.

In 1998 the Norwegian parliament (Storting) decided that emissions of sulphur dioxide (SO_2) from the use of coal, coke and petrol coke should be taxed from January 1, 1999. The tax is NOK 3.00 per kilo SO_2. At full operations the total emission from FESIL's three plants is about 2,500 tons of SO_2 per year. This means about NOK 7-8 million in taxes.

At the climate negotiations in Buenos Aires, delegates got closer to a global agreement to limit the emissions of climate gasses. To FESIL, the important climate gas is the fossil gas carbon dioxide (CO_2). FESIL's emission of this CO_2

represents a little more than 1% of Norway's total emissions of climate gasses. Emission of CO_2 arising from the use of trees (biological CO_2) is not taken into the climate balance. FESIL is participating in studies to find out how as much as possible of fossil CO_2 can be replaced by biological CO_2. This change will be limited by the fact that the biological carbon is much more expensive than the fossil carbon. Therefore, it is important both to have an efficient production of biological carbon and optimised operations so that the advantages of using biological carbon in terms of purity and reactivity are utilised as good as possible.

Year 2000

For a long time, FESIL has had a study going on related to possible IT problems in connection with year 2000. All equipment and programs used in operations have been considered and if necessary also checked with the suppliers for all plants. All raw material suppliers and power suppliers have been approached. All administrative equipment, both software and hardware, has been checked. Based on these studies, necessary improvements are being dealt with. These improvements do not have any major economic impact on FESIL. It is the opinion of FESIL that internal problems related to year 2000 are under satisfactory control.

Personnel and the working environment

At the end of 1998 FESIL had 442 employees (1997: 447). Of these, 24 were employed outside Norway.

Absenteeism due to illness was 7.7% of time worked in 1998 (1997: 6.4%). The trend has been unfavourable the last three years, the same as for comparable industry in Norway. The number of injuries resulting in time off work per million hours worked (H figure), was 52 in 1998 (1997: 34). The number of injuries has increased despite the fact that safety conditions have been given priority in 1998. FESIL is continuously monitoring the work on behalf of health, environment and safety (HES), and these processes are quality assured through written instructions/routines. The safety monitoring apparatus at the various plants contribute actively. Follow-ups of accidents and near-accidents is given a high priority and is undertaken according to written instructions. Improvement measures are undertaken based on systematic investigations/verifications as well as occurences. A high priority is given to follow-up of requirements and specifications from authorities.

Because of the negative trend in absenteeism due to illness and injuries, a FESIL HES conference was arranged in 1998. The goal of the conference was to find out about the reasons for the absenteeism and injuries, and to make an activity plan to reduce these. In this plan is included, among other things, increased focus on order and cleaning, reporting between plants, preparing working possibilities for employees with reduced working abilities, and training/increasing knowledge. This increased focus on health, environment and safety in 1999, is expected to have positive effects.

At the Ordinary General Meeting 07.05.98, Mr. Engebret O. Fekene and Mr. Widar Salbuvik resigned as Board Members. Mr. John F. Lalley and Mr. Knut Øversjøen were elected new board members. The Board wishes to thank the members that have left for their efforts on behalf of the company.

Details of the shares in the company held by elected officers and the management are given on page 33.

Remuneration to the Board Members in 1998 amounted to NOK 800,000.

The salary of the President/CEO for 1998 amounted to NOK 1,461,751, and his perquisites in respect of company car, insurance, etc. amounted to NOK 146,619. He is entitled to one year's salary if dismissed by the company.

Total remuneration to the company's auditor for 1998 amounted to NOK 410,000 for auditing and 405,050 for consulting services and agreed controlling actions.

Prospects

Entering into 1999 the prices for FESIL's products are at a very low level. The Board expects there will be a surplus of FeSi and SiMetal also in 1999, as long as the effects of the financial crisis in Asia continue to impact the world industrial conditions, even though production cut-backs are expected. Brazil, which is home to important producers of both FeSi and SiMetal, has recently significantly devalued its currency. This devaluation has improved its competitiveness in the short run. For these reasons the Board expects low prices throughout 1999. To FESIL this means an increased need for stable operations, efficiency in all sections and lowering costs. The Group's activity has to be adjusted to the market by cutting back production. As such an adjustment, FESIL has decided to stop the production of SiMetal at Lilleby Metall until further notice. The plant has a production capacity of 8,500 metric tons SiMetal per year. It is the opinion of the Board, that FESIL both financially as well as operationally, is well prepared for a period with low prices. In the longer run there are reasons for optimism. The need for improved infrastructure in many countries and the generally increasing welfare will increase the demand for FESIL's products.

EU dumping duties, which were imposed on many of FESIL's FeSi competitors in December 1993, are now subject for review. It is hard to predict the consequences of reduced duties, in part because available statistics indicate that the system of anti-dumping duties is being evaded to a large extent.

In total, FESIL's power supply is satisfactory in 1999 and will to a large degree remain satisfactory up to year 2004. It is expected that the political decisions that are to be made in 1999, both in respect of a future power regime and possible environmental taxes, will effect for FESIL the necessary competitive power also in the future. The Board considers it important that the Norwegian energy policy also in the future will provide that the country's most important natural resource, hydro electricty, is processed further in Norway. Further it is to be hoped that Norway does not introduce unilaterally environmental taxes that will give our competitors an edge.

Board of Director's report

From left: Arne Byrkjeflot, Berit Gatland, Hans Tormod Hansen, Knut Øversjøen, John F. Lalley, Jonathan O. Lee, Arden C. Sims, Åge Sakariassen. Roald Eggen was not present at the time the picture was taken.

Allocation of result

FESIL ASA's result for the year 1998 was NOK 11,858,000.

The Board proposes the result to be allocated as follows:

To unrestricted equity: NOK 11,858,000

The Board of Directors of FESIL ASA

Oslo, February 18, 1999

Jonathan O. Lee
Chairman

Arne Byrkjeflot

Roald Eggen

Hans Tormod Hansen

John F. Lalley

Åge Sakariassen

Arden C. Sims

Knut Øversjøen

Berit Gatland
Observer

Odd Samstad
President and CEO

Profit and Loss Account 1998

Parent Company		(Amounts in NOK 000s)		Group	
1997	**1998**		Note	**1998**	1997
863 269	**639 265**	Operating income		**2 060 635**	2 115 306
555 027	**418 138**	Raw materials		**1 475 170**	1 423 271
141 021	**122 300**	Salaries and other personnel expenses		**186 584**	207 648
110 947	**72 595**	Other operating expenses		**287 719**	325 678
63 866	**0**	Loss and other expens.,sale of Hafslund Metall		**0**	63 866
30 927	**22 738**	Ordinary depreciation		**47 525**	69 519
-1 864	**0**	Loss on receivables	2	**2 253**	-1 382
24 559	**-16 248**	Change in stocks		**-22 933**	29 713
924 483	**619 523**	Total operating expenses		**1 976 318**	2 118 313
-61 214	**19 742**	Operating result		**84 317**	-3 007
14 994	**3 694**	Share of results in other companies		**8 938**	10 871
7 410	**7 425**	Financial income	3	**12 550**	10 226
17 749	**19 003**	Financial expenses	4	**60 306**	45 443
4 655	**-7 884**	Total financial items		**-38 818**	-24 346
-56 559	**11 858**	Profit before tax		**45 499**	-27 353
0	**0**	Taxes	21	**-11 177**	-1 308
-56 559	**11 858**	Profit for the year		**34 322**	-28 661
		Which is allocated as follows:			
-56 559	**11 858**	Unrestricted Equity			
		Earnings per share (NOK)	26	**4,29**	-3,58

Balance Sheet 1998

Parent Company		(Amounts in NOK 000s)		Group	
1997	**1998**		Note	**1998**	1997
		Assets			
		Current assets			
6 588	**7 010**	Liquid assets	5	**9 296**	8 555
17 238	**6 326**	Accounts receivable	6	**290 062**	292 025
227 960	**211 391**	Group receivables	7	**0**	0
18 228	**11 432**	Other short-term receivables	8	**38 286**	49 794
102 716	**126 751**	Stocks	9	**419 279**	385 443
372 730	**362 910**	Total current assets		**756 923**	735 817
		Fixed assets			
52 163	**52 545**	Shares in subsidiaries	10	**0**	0
3 122	**3 462**	Shares in companies	11	**3 463**	3 123
42 114	**30 814**	Investments in other companies	12	**61 194**	55 945
18 666	**18 276**	Deferred tax receivables	21	**18 276**	18 666
168	**168**	Long-term receivables group companies	13	**0**	0
0	**1 105**	Pension funds	20	**2 436**	0
15 338	**21 888**	Other long-term receivables		**22 070**	15 546
145 174	**206 501**	Operating assets	15,16	**332 590**	260 854
276 745	**334 759**	Total fixed assets		**440 029**	354 134
649 475	**697 669**	Total Assets		**1 196 952**	1 089 951
		Liabilities and equity			
		Short-term liabilities			
44 111	**60 905**	Operating credits	17	**2 290**	5 097
59 419	**63 802**	Due to suppliers		**263 289**	205 680
13 667	**14 339**	VAT, tax deductions, holiday pay etc.		**23 665**	21 187
0	**0**	Taxes payable		**1 883**	446
27 700	**17 305**	Other short-term liabilities	18	**163 191**	158 130
144 897	**156 351**	Total short-term liabilities		**454 318**	390 540
		Long-term liabilities			
164 060	**189 841**	Interest-bearing long-term loans	19	**283 596**	274 748
508	**0**	Pension obligations	20	**0**	951
18 666	**18 276**	Deferred tax liabilities	21	**18 276**	18 666
183 234	**208 117**	Total long-term liabilities		**301 872**	294 365
		Equity			
79 995	**79 995**	Share capital	26	**79 995**	79 995
139 110	**139 110**	Legal reserve		**0**	0
102 239	**114 096**	Free equity		**0**	0
0	**0**	Group reserves		**360 767**	325 051
321 344	**333 201**	Total equity	22	**440 762**	405 046
649 475	**697 669**	Total Liabilities and Equity		**1 196 952**	1 089 951
209 718	**252 321**	Mortgages and securities	23	**409 691**	389 932
0	**1 172**	Guarantees	24	**12 549**	10 712

Cash Flow Statement 1998

Parent Company		(Amounts in NOK 000s)	Group	
1997	**1998**		**1998**	1997
		Cash flow from operations		
-56 559	**11 858**	Profit before tax	**45 499**	-27 353
0	**0**	Taxes paid in period	**-11 177**	-3 147
-14 744	**192**	Loss (gain) on sale of fixed assets	**146**	-14 744
74 887	**0**	Loss on sale of power contract	**0**	74 887
30 927	**22 738**	Ordinary depreciation	**48 838**	69 519
40 960	**-24 035**	Changes in stocks	**-33 836**	74 041
-6 473	**10 912**	Changes in accounts receivable	**1 962**	-13 603
1 398	**4 383**	Changes in due to suppliers	**57 609**	-12 586
10 509	**-2 926**	Changes in other accruals	**7 306**	-3 445
-223	**-121**	Effect of changes in foreign exchange rates	**-1 063**	1 385
-3 153	**-1 613**	Changes in pension premium fund in balance sheet	**-3 387**	-887
-14 994	**-3 694**	Change in result of assoc.companies (equity method)	**-8 938**	-10 871
62 535	**17 694**	Net cash flow from operations	**102 959**	133 196
		Cash flow from investments		
101 000	**85**	Income from sale of fixed assets	**552**	101 000
-74 887	**0**	Payments on sale of power contract	**0**	-74 887
-34 087	**-83 556**	Payments for fixed assets purchased	**-118 494**	-46 427
-7 093	**-6 550**	Received on long-term loans made	**-6 523**	-6 349
42 406	**13 606**	Received on other investments	**3 028**	1 500
-65 150	**16 568**	Payments on short-term loans to Group	**0**	0
-37 811	**-59 847**	Net cash flow from investments	**-121 437**	-25 163
		Cash flow from financing		
23 701	**16 794**	Net increase (reduction) overdraft facility	**-2 807**	-50 541
0	**0**	Received on taking up new short-term debt	**13 178**	7 296
0	**25 781**	Received on taking up new long-term debt	**8 848**	0
-35 830	**0**	Repayment of long-term debt	**0**	-52 827
-46	**0**	Repayment of short-term debt	**0**	0
-12 000	**0**	Payment of dividend	**0**	-12 000
-24 175	**42 575**	Net cash flow from financing	**19 219**	-108 072
549	**422**	Net cash flow for the period	**741**	-39
6039	**6 588**	Cash and cash equivalents at beginning of period	**8 555**	8 594
6 588	**7 010**	Cash and cash equivalents at end of period	**9 296**	8 555
75 889	**59 095**	Undrawn overdraft facilities	**237 313**	226 559
40 000	**933**	Undrawn other drawing rights	**5 298**	57 543

Accounting Principles

GENERAL

The annual accounts have been prepared in compliance with Norwegian Generally Accepted Accounting Principles (NGAAP). All amounts are in NOK 000s, unless otherwise stated.

PRINCIPLES OF CONSOLIDATION

Consolidated companies

The consolidated accounts include FESIL ASA and its subsidiaries in which FESIL ASA directly or indirectly owns more than 50 % of the shares/parts, or which through a separate agreement has decisive influence on the company. The equity method of accounting is applied to investments in companies where the Group owns from 20 % to 50% of the voting capital and where the company has significant influence (associated companies).

Elimination of shares in subsidiaries

Shares in subsidiaries are eliminated using the purchase method of accounting. The differences between the cost price of the subsidiaries' shares and the book value of equity at the time of acquisition are assigned to respective items in the balance sheet. Any excess purchase price not assigned to specific items in the balance sheet is recorded as goodwill and depreciated on a straight-line basis over 5 years.

Elimination of internal transactions

All significant group transactions and inter-company accounts are eliminated. This also refers to internal profits between Group companies.

Minority interests

There are no minority interests in any of the assets of FESIL ASA or the Group.

Conversion of foreign subsidiaries' accounts

The profit and loss accounts of foreign subsidiaries are converted to Norwegian kroner at the average exchange rate for the year, while the balance sheet figures are converted at the exchange rate on the balance sheet date. Any conversion difference is recorded directly against equity.

Associated companies

Investments in shares/parts in companies where the Group directly owns between 20% and 50%, and where the Group has considerable interest, are recorded in the parent company accounts according to the purchase method, while the equity method of accounting is used for other investments. In the consolidated accounts, the part is included according to the equity method of accounting, irrespectively of the corporate form of the associated company.

In the case of investments where the equity method of accounting has been applied, the company's share of profit, after deducting amortization of additional values and goodwill, is reported on a separate line in the profit and loss account. The share of the profit is added to the book value of the investment in the balance sheet. When the purchase method of accounting has been applied, the investment is recorded at historic cost. Any dividend distributed is taken to income.

GROUP COMPANIES AT 31.12.98

Company:	Affiliation	Ownership
Subsidiaries of FESIL ASA:		
ILAB Ltda (Brazil)	Subsidiary	100%
Rana Metall KS	Subsidiary	100%
Rana Metall AS	Subsidiary	100%
FESIL Komplementar AS	Subsidiary	100%
FESIL Sales AS	Subsidiary	100%
Subsidiaries of FESIL Sales AS:		
FESIL-Brikettfabrikken AS	Subsidiary	100%
FESIL Legierungshandel GmbH	Subsidiary	100%
FESIL International AS	Subsidiary	100%
FESIL Metales S.L.	Subsidiary	100%
FESIL AB	Subsidiary	100%
Gemalco Rohstoffhandel GmbH	Subsidiary	100%
Rana Metall KS associated company:		
Norsk Jern Eiendom AS	Associated	20%
FESIL ASA associated company:		
Nor-Kvarts AS	Associated	33%

Accounting Principles

FESIL Sales AS associated companies:		
FESIL Metalli S.r.l.	Associated	50%
Gemalco SAH	Associated	50%

The parent company's accounts comprise the parent company, FESIL ASA, and investments in RANA Metall KS (90%) included in accordance with the equity method of accounting.

VALUATION AND CLASSIFICATION PRINCIPLES

Operating income

Operating income is recorded when earned. Sales of goods are recorded at the time of delivery. Operating expenses are matched with the corresponding operating income. The cost of freight and insurance is included in other operating expenses.

Stocks

The stocks are valued at the lower of acquisition cost and estimated market value after deducting sales costs. The acquisition cost of goods purchased is the cost in to the company. The acquisition cost of goods being processed is production cost.

Power costs

Power costs are charged to the period in which the power is used. Long term contracts are recorded at the agreed fixed price, while spot purchase of power is recorded at the spot rate. Parts of the need for spot power are hedged by using futures contracts. The future-contracts are expensed at expiry.

Account receivable and liabilities

Current receivables and liabilities are items that fall due within one year.

Foreign exchange

Current assets and short term liabilities in foreign currencies are converted to NOK at the exchange rate on the balance sheet date. Long-term receivables and debts are converted at the exchange rate on the balance sheet date to the extent that the unrealized foreign exchange gains that arise can be offset against unrealized foreign exchange losses in long-term items in the same currency. Net unrealized gains on long-term items are not taken to income.

Assets and revenue flows in foreign currencies are hedged in part through borrowing in foreign currencies and in part through different off-balance sheet financial instruments. FESIL ASA mainly employs forward contracts in its hedging activities. The hedging of balance sheet items is recorded at the hedging-rates. Unrealised gains and losses on such contracts are included in net income when transactions are settled. The company does not utilise these derivative financial instruments for speculative purposes.

Currency conversion differences and hedging of currency are both recorded under financial items.

Fixed assets

Fixed assets are stated at cost plus revaluation, less depreciation, using the straight-line method. The scheduled depreciation is included in the profit and loss account as ordinary depreciation.

Costs connected to normal maintenance and repairs are posted as an expense when the costs incur. Costs related to major replacements and renewals that substantially increase the useful economic life of the asset are capitalized. Fixed assets that are replaced are expensed when the costs are incurred.

Year 2000

FESIL is currently examining if any problems exist for the group's computer system that is related to the turn of the year 2000. All costs related to this examination will be expensed. Any necessary investments will be considered equal to fixed assets investments.

Pensions and pension obligations

Most of the group companies have pension plans that provide the employees with a right to defined future pension benefits (a defined benefit pension plan), where the benefits are based on the number of pension earning years of service and the salary at the time of reaching pensionable age. The pension benefits are in part financed by FESIL's pension fund (secured schemes) and partly over the company's profit and loss account (unsecured schemes). Pensions are recorded in accordance with the draft Norwegian Standard for Pension Costs. Pension costs for the year are included in «Salaries and other personnel expenses". This comprise benefits earned in the period, interest cost on projected pension obligations, estimated return on pension plan assets, and conditions of the effect of changes in the estimates and terms and conditions of the pension plans, as well as the effect of difference between actual and expected return on pension plan assets. The net projected benefit obligation is the difference between the present value of the projected benefit obligations and the market value of the pension plan assets. Changes in the projected benefit obligations as a consequence of changes in estimates as well as deviations between actual and expected return on pension plan assets, are recorded in the accounts when the deviation exceeds 10% of gross pension obligations or pension plan assets for the individual scheme, whichever is the higher.

Taxes

The tax charge in the profit and loss account includes both the current tax payable and the change in deferred tax. The change in deferred tax reflects future taxes payable as a result of the activities in the year. Deferred tax is the tax liability related to the accumulated profits and losses, which falls due in future periods. Deferred tax is estimated on the net of positive and negative temporary differences for tax and accounting purposes, as well as losses to be carried forward. Consideration is given to deferred tax in connection with acquisitions and in profits according to the equity method of accounting. This is in accordance with the rules in the revised «Draft Norwegian Accounting Standard for the Treatment of Tax».

The parent company and the group both have net tax asset positions that are not shown over the profit and loss account, as a result of the «upper-limit rule» (a net deferred tax asset cannot be shown in the balance sheet according to NGAAP).

Shares and securities

Shares and securities carried in the balance sheet as fixed assets (included shares in subsidiaries) are recorded at historic cost price. If the real value is lower than historic cost, and this fall is not considered to be temporary, the item is written down.

Research and development

All costs in connection with research and development projects are expensed when the costs are incurred.

Extraordinary income and expenses

Extraordinary income and expenses are defined as items that are significant in size, of an unusual character with regard to ordinary operations, and which cannot be expected to incur regularly. Gains and losses on the sale of fixed assets and write-downs on these are recorded as ordinary income/expenses if the transaction does not satisfy all the above criteria.

Notes to the Accounts

(All amounts in NOK 000s unless otherwise specified)

1. Pro forma profit and loss accounts for 1997

The smelting plant Hafslund Metall was sold to GLOBE Norge AS with effect in our accounts on October 21, 1997. Hafslund Metall was a branch of FESIL ASA and was included in the parent company's accounts up to the transaction. FESIL's loss on the transaction, inclusive transaction expenses, was NOK 63,9 mill. The operation at Hafslund Metall was run at a loss in 1997 and charged to FESIL's operating result with NOK 23 mill.

In 1998 FESIL has changed the wear life of Rana Metall KS' plant, see note 15.

The annual effect on ordinary depreciation is NOK 14 mill.

Below is a specification of the 1997 figures revised to be comparable with the 1998 figures regarding the effect of Hafslund Metall as well as the change of wear life of Rana Metall KS' plant.

Parent Company			Group	
1997	**1998**		**1998**	1997
811 212	**639 265**	Operating income	**2 060 635**	2 063 249
-765 012	**-596 785**	Operating expenses	**-1 928 793**	-1 920 250
-20 457	**-22 738**	Ordinary depreciation	**-47 525**	-45 049
25 743	**19 742**	**Operating result**	**84 317**	97 950
27 594	**3 694**	Share of result in other companies	**8 938**	10 871
-5 746	**-11 578**	Net financial items	**-47 756**	-30 624
47 591	**11 858**	**Profit before tax**	**45 499**	78 197

2. Losses on receivables

Parent Company			Group	
1997	**1998**		**1998**	1997
14	**0**	Recorded losses	**2 451**	96
-1534	**0**	Recovered on receivables written off	**-19**	-1 534
-344	**0**	Change in loss provisions	**-179**	56
-1864	**0**	TOTAL	**2 253**	-1 382

3. Financial income

Parent Company			Group	
1997	**1998**		**1998**	1997
5 491	**7 293**	Other interest income	**11 973**	8 285
25	**0**	Foreign exchange gains	**0**	1 614
1 894	**132**	Other financial income	**577**	327
7 410	**7 425**	TOTAL	**12 550**	10 226

Notes to the Accounts

4. Financial expenses

Parent Company			Group	
1997	**1998**		**1998**	1997
17 146	**18 016**	Other interest expenses	**34 024**	33 715
0	**430**	Foreign exchange losses	**24 462**	9 877
603	**557**	Other financial expenses	**1 820**	1 851
17 749	**19 003**	TOTAL	**60 306**	45 443

5. Liquid assets

Liquid assets include restricted bank deposits of KNOK 6.953 for the Parent company and KNOK 9.226 for the Group.

6. Accounts receivables

Aggregate provisions for losses on accounts receivable are KNOK 270 for the Parent company and KNOK 2.197 for the Group. The provisions have been deducted from accounts receivable.

7. Group receivables

Parent Company		
1997	**1998**	
15 899	**15 833**	FESIL-Brikettfabrikken AS
141 685	**111 904**	FESIL Sales AS
70 343	**83 180**	Rana Metall KS
33	**475**	FESIL Legierungshandel GmbH
227 960	**211 392**	TOTAL

8. Other short-term receivables

Other short-term receivables include a claim against the County Tax Authority of KNOK 7.294 for the Parent company and KNOK 29.957 for the Group.

Notes to the Accounts

9. Stocks

Parent Company			Group	
1997	**1998**		**1998**	1997
45 685	**55 737**	Raw materials and process materials	**93 818**	86 204
57 031	**69 947**	Self-produced finished goods	**144 811**	216 397
0	**1 067**	Goods purchased for resale	**180 650**	82 842
102 716	**126 751**	TOTAL	**419 279**	385 443

10. Parent company's shares in subsidiaries

	Company's share capital	No. of shares	Part value	Book value	Interest (%)
ILAB Ltda.				1	100 %
Rana Metall AS (Gen. partner)	7 500	75 000	7 500	0	100 %
FESIL Komplementar AS (Gen. partner)	3 000	3 000	3 000	1 000	100 %
FESIL-Brikettfabrikken AS	4 300	774	774	928	18 %
FESIL Sales AS	15 000	13 500	13 500	50 616	90 %
TOTAL				52 545	

11. Shares in other companies

	Currency	Company's share capital	No. of shares	Part value	Book value	Interest (%)
Owned by Parent company:						
Tennant Metallurgical Group Ltd.	GBP	397	16 596	GBP 17	3 011	4 %
Miscellaneous					451	
Total Parent company					3 462	
Owned by Group						
Eletrosilex S.A.					1	
TOTAL					3 463	

Notes to the Accounts

12. Investments in other companies

	Nor-Kvarts AS	Rana Metall KS	Total
Owned by Parent company:			
Interest	33 %	90 %	
Book value 01.01.	120	41 994	42 114
Share of result	0	3 694	3 694
Share of result paid/Group contribution	0	-14 994	-14 994
Book value 31.12.	120	30 694	30 814

	Norsk Jern Eiendom AS [1]	Nor-Kvarts AS	FESIL Metalli S.r.l.	Gemalco SAH	SUM
Owned by Group					
Interest	20 %	33 %	50 %	50 %	
Book value 01.01.	47 902	3 168	1 172	2 709	54 951
Foreign exchange gain/loss	0	-190	75	210	95
Share of result	8 252	315	53	325	8 945
Dividend paid/equity	-3 028	0	0	0	-3 028
Equity adjustment	231	0	0	0	231
Book value 31.12.	53 357	3 293	1 300	3 244	61 194

1) The wholly-owned subsidiary Rana Metall KS, Mo, owns 20% of the shares in Norsk Jern Eiendom AS, Mo. The shares were acquired free of consideration in connection with establishment of the smelting plant in Mo. 0,18 % is purchased by Rana Metall KS in 1998 for KNOK 231.

The acquisition was subject to a number of terms with regard to the transfer/sale of the shares. These lapsed at the end of 1993. Norsk Jern Eiendom AS has since then been treated as an associated company. The equity method has been used in the Group accounts.

The book equity at the time of the acquisition was MNOK 165.0. Our share of this was MNOK 33.0.

The negative goodwill is being written back over 10 years.

13. Long-term receivables on group companies

Parent Company

1997	**1998**	
168	**168**	FESIL-Brikettfabrikken AS
168	**168**	TOTAL

14. Contingency issues

In connection with an explosion in 1988 on board a vessel carrying briquettes, the shipowner's insurance company has made a claim against FESIL-Brikettfabrikken AS (FESIL). The claim for compensation is approx. NOK 16 mill. incl. interest expense. FESIL is of the opinion that the shipowning company is liable and that the claim is unfounded. In its balance sheet at 31 December 1998, FESIL has allocated funds to cover possible expenses.

Notes to the Accounts

15. Operating assets

Parent Company	Machines vehicles etc.	Buildings & ind.plants	Houses & real estate	Plant under construction	Total
Acquisition costs 01.01.	11 873	436 968	1 475	10 343	460 659
Additions 1998	5 713	83 795	0	1 381	90 889
Disposals 1998	0	0	0	6 126	6 126
Acquisition costs 31.12.	17 586	520 763	1 475	5 598	545 422
Revaluation 01.01./31.12.	0	19 871	58 330	0	78 201
Accum. ordinary depreciation 01.01.	5 596	388 742	47	0	394 385
Ordinary depreciation	2 703	20 020	15	0	22 738
Accum. ordinary depreciation 31.12.	8 299	408 762	62	0	417 123
Book value 31.12.	9 287	131 873	59 743	5 598	206 501
Depreciation rates	8-25%	3-20%	0-10%	0%	

Group	Machines vehicles etc.	Buildings & ind.plants	Houses & real estate	Plant under construction	Total
Acquisition costs 01.01.	56 121	763 733	2 185	10 343	832 382
Recalculation differences	462	528	0	0	990
Additions 1998	9 934	113 151	0	2 534	125 619
Disposals 1998	751	0	0	6 126	6 877
Acquisition costs 31.12.	65 766	877 412	2 185	6 751	952 114
Revaluation 01.01./31.12.	0	19 871	58 330	0	78 201
Accum. ordinary depreciation 01.01.	36 950	615 729	47	0	652 726
Recalculation differences	181	160	0	0	341
Ordinary depreciation	8 784	36 463	15	0	45 262
Disposals	604	0	0	0	604
Accum. ordinary depreciation 31.12.	45 311	652 352	62	0	697 725
Book value 31.12.	20 455	244 931	60 453	6 751	332 590
Depreciation rates	8-25%	3-20%	0-10%	0%	

Last part of goodwill in connection with the purchase of the interest in FESIL Sales AS has been charged to the profit and loss account for 1998 with KNOK 2.263 under ordinary depreciation.

Revaluation of industrial plant is depreciated and amounted to KNOK 1.391 in 1998, and the book value of the aggregate revaluations at 31 December 1998 were KNOK 65.272.

The depreciation period of RANA Metall KS's plant has been changed from 10 to 15 years. The effect on the depreciation cost for 1998 is MNOK 14.

Notes to the Accounts

INVESTMENTS IN AND SALE OF LONG-TERM OPERATING ASSETS THE LAST FIVE YEARS

PARENT COMPANY		Machines vehicles etc.	Buildings & ind.plants	Houses & real estate	Goodwill	Plant under construction	Total
1994:	Investments	6 229	14 117	0	0	0	20 346
	Sales	80	0	0	0	0	80
1995:	Investments	2 959	8 038	0	0	850	11 847
	Sales	0	15 000	0	0	0	15 000
1996:	Investments	6 563	35 048	70	0	4 673	46 354
	Sales	0	0	219	0	0	219
1997:	Investments	8 835	15 570	0	0	10 297	34 702
	Sales	50 000	50 000	0	0	0	100 000
1998:	Investments	5 713	83 795	0	0	1 381	90 889
	Sales	0	758	0	0	6 126	6 884
Total 5 years:	Investments	30 299	156 568	70	0	17 201	204 138
	Sales	50 080	65 758	219	0	6 126	122 183

GROUP		Machines vehicles etc.	Buildings & ind.plants	Houses & real estate	Goodwill	Plant under construction	Total
1994:	Investments	17 143	24 209	0	11 301	0	52 653
	Sales	137	0	0	0	0	137
1995:	Investments	5 258	8 401	0	0	2 006	15 665
	Sales	177	15 000	0	0	0	15 177
1996:	Investments	16 514	57 906	70	0	5 695	80 185
	Sales	135	144	219	0	0	498
1997:	Investments	16 237	20 508	0	0	10 297	47 042
	Sales	50 000	50 000	0	0	0	100 000
1998:	Investments	9 934	113 151	0	0	2 534	125 619
	Sales	402	758	0	0	6 126	7 286
Total 5 years:	Investments	65 086	224 175	70	11 301	20 532	321 164
	Sales	50 851	65 902	219	0	6 126	123 098

Notes to the Accounts

16. Leasing of operating assets

At December 31, 1998 the Parent company had 15 current leasing contracts with a remaining duration from 1 to 2 years at the end of 1998. Current leasing contracts are considered as financial leasing. The Group had 26 leasing contracts with a remaining duration from 1 to 2 years at the end of 1998.

The contracts cover the following objects:

Parent Company			Group	
1997	**1998**		**1998**	1997
2	**2**	Office machines	**3**	2
4	**3**	Computer equipment	**8**	4
5	**6**	Vehicles	**11**	13
4	**4**	Production equipment	**4**	4
1 998	**1 593**	Annual leasing cost	**2 367**	2 303

17. Operating credits

The Parent company has a multi-currency drawing facility of MNOK 120 on its overdraft. The subsidiary company Rana Metall KS has a corresponding drawing facility of MNOK 20 on its overdraft, and FESIL Sales AS and its subsidiaries have available a multi-currency drawing facility MNOK100 on their overdraft. In addition the Group has other drawing rights per 31.12.98 of NOK 225 mill. (parent company NOK 100 mill.) of which NOK 5 mill. (parent company NOK 1 mill.) was undrawn.

18. Other short-term liabilities

Parent Company			Group	
1997	**1998**		**1998**	1997
1 547	**1 575**	Interest due	**3 174**	2 880
15 136	**11 442**	Accruals etc	**25 777**	24 391
0	**0**	Currency loan	**120 635**	107 457
11 017	**4 288**	Other short-term liabilities	**13 605**	23 402
27 700	**17 305**	TOTAL	**163 191**	158 130

Notes to the Accounts

19. Long-term loans and foreign exchange

The instalment and interest structure of the loan portfolio:

Parent Company			Group	
1997	**1998**		**1998**	1997
164 060	**180 774**	Balance NOK loans at 31.12.	**274 525**	274 584
0	**9 067**	Balance foreign currency loans at 31.12.	**9 067**	164
164 060	**189 841**	Total loans	**283 592**	274 748
-14 806	**-40 707**	First year's instalment on long-term debt	**-58 544**	-32 120

Debt covenants

There are debt covenants tied to the group's interest bearing long term debt. As per Dec. 31, 1998 all covenants were fulfilled with satisfactory margin.

Group foreign exchange matters

Outstanding contracts (forward/options) at 31.12.98 (in mill. of the currency)

Currency	Buy	Sell
USD	0	20
DEM	0	123
GBP	0	6
FRF	0	10
ESP	0	200
ITL	0	1000

Except for the USD-contracts, all contracts will expire during 1999. For the USD-contracts, some of these will expire in 1999, others in 2000.

Notes to the Accounts

20. Pension expenses and pension obligations

Parent Company			Group	
1997	**1998**		**1998**	1997
		The year's pension expenses		
2 095	**2 906**	Present value of the year's pension earnings	**4 120**	3 062
3 287	**4 407**	Interest charge on accrued pension liabilities	**5 887**	4 338
-4 168	**-4 042**	Expected return on pension funds	**-5 563**	-5 748
2 214	**701**	Net redemption etc.	**1 925**	2 304
3 428	**3 972**	Net Pension expenses	**6 369**	3 956
-5 669	**-1 028**	Funds secured schemes not previously taken into account	**-3 008**	-3 065
-2 241	**2 944**	Booked pension expenses	**3 361**	891
		Pension liabilities 31.12.		
51 993	**64 650**	Estimated accrued pension liabilities, secured schemes	**89 205**	68 896
-57 381	**-62 709**	Estimated value of pension fund, secured schemes	**-86 055**	-75 822
194	**-9 524**	Non booked variance of basis of calculation	**-15 305**	-9
-5 194	**-7 583**	Net pension liability secured schemes	**-12 155**	-6 935
5 702	**18 727**	Capitalised value of unsecured schemes incl. employment tax	**25 563**	7 886
0	**-11 616**	Non booked liabilities by change of schemes	**-15 194**	0
0	**-633**	Non booked liabilities forecasted gain/(loss)	**-650**	0
5 702	**6 478**	Net pension liability unsecured schemes incl. employment tax	**9 719**	7 886
508	**-1 105**	Net pension liability secured/unsecured schemes incl. employment tax	**-2 436**	951

Information on members	**Secured schemes**	**Unsecured schemes**
Parent company:		
No. of working members	305	305
No. of pensioners	119	24
Group:		
No. of working members	418	421
No. of pensioners	138	26

Actuarial assumptions:		
Yield on pension funds	7%	7%
Discount rate	6%	6%
Annual wage growth	3,50%	3,50%
Expected growth of National Insurance basis	3%	3%
Annual pension growth	2,50%	2,50%
Expected retirement at age 62 under AFP scheme.		25%

Notes to the Accounts

21. Taxes

The tax charge consists of tax payable and the changes in deferred tax. The following is a specification of the difference between the accounting result before taxes and the year's tax base.

	1998	1997
Result before tax for the Parent company	**11 858**	-56 559
Permanent differences	**510**	471
Share of taxable income Rana Metall KS	**-9 424**	6 837
Change in temporary differences (ex. Rana Metall KS)	**-8 816**	-1 210
Tax base for the year Parent company	**-5 872**	-50 461

The deferred tax obligations/deferred tax receivables are calculated on the basis of the temporary differences which existed at the end of the financial year. The temporary differences represent the difference between accounting and tax values.

The following is a specification of the temporary differences and tax loss carried forward, as well as a calculation of the deferred tax obligations/deferred tax assets at the end of the financial year. The temporary differences are all totally related to Norway. A tax rate of 28% is used.

In accordance with the accounting standard for the treatment of tax, the temporary positive and negative differences which are reversed or which can be reversed in the same period are set off. Deferred tax in the balance sheet is calculated on the basis of temporary differences after the set-off. The right to carry forward losses expires in 2002 - 2008.

The deferred tax liability relates to revaluation of operating assets. Parts of the revaluation refers to plants and land which are not depreciated and which are not to be sold. Nevertheless, it has been decided to enter the full liability in the balance sheet. The deferred tax receivable which is entered in the balance sheet, will be utilised against future earnings.

Parent Company				Group		
1997	**1998**	Change	**Positive temporary differences (basis for deferred tax)**	**1998**	1997	Change
9 471	**14 314**	-4 843	Inventories	**18 695**	13 384	-5 311
0	**1 153**	-1 153	Net pension fund	**2 436**	0	-2 436
13 100	**10 432**	2 668	Other items	**10 480**	13 190	2 710
24 513	**30 006**	-5 493	Operating assets (excl. revaluation)	**22 303**	8 517	-13 786
66 663	**65 272**	1 391	Revaluation of operating assets	**65 272**	66 663	1 391
0	**0**	0	Associated companies	**61 194**	61 581	387
113 747	**121 177**	-7 430	Total positive temporary differences	**180 380**	163 335	-17 045
47 084	**55 905**		Of which set off	**115 108**	96 672	
66 663	**65 272**		Of which basis for balance sheet entry	**65 272**	66 663	
113 747	**121 177**		Total	**180 380**	163 335	

Parent Company				Group		
1997	**1998**	Change	**Negative temporary differences (basis for deferred tax asset)**	**1998**	1997	Change
12 258	**12 258**	0	Receivables	**13 960**	14 432	-472
13 297	**2 433**	-10 864	Shares in limited partnerships (KS)	**0**	0	0
80 409	**80 027**	-382	Shares	**99 790**	99 790	0
509	**0**	-509	Net pension obligations	**0**	953	-953
585	**90**	-495	Provisions	**3 635**	2 686	949
107 058	**94 808**	-12 250	Total negative temporary differences	**117 385**	117 861	-476
71 219	**77 091**	5 872	Loss carried forward	**83 429**	82 323	1 106
178 277	**171 899**	-6 378	Total	**200 814**	200 184	630
47 084	**55 905**		Of which set off	**115 108**	96 672	
66 663	**65 272**		Of which basis for balance sheet entry	**65 272**	66 663	
64 530	**50 722**		Basis for deferred tax asset not in balance	**20 434**	36 849	
18 666	**18 276**		Deferred tax liab.in the balance sheet	**18 276**	18 666	
18 666	**18 276**		Deferred tax asset in the balance sheet	**18 276**	18 666	

The negative temporary differences which are not set off or recorded in the balance sheet represent a deferred tax asset which can be realised in part or in whole with positive earnings in the years to come.

The tax charge for the year is related to the ordinary profit and is calculated as follows:

	Parent Company	**Group**
Tax payable other countries	0	11 177
Change in deferred tax - Norway	0	0
Change in deferred tax other countries	0	0
Tax charge	0	11 177

22. Changes in equity

Parent Company			Group	
1997	**1998**		**1998**	1997
377 903	**321 344**	Equity 01.01	**405 046**	433 160
-56 559	**11 858**	Profit for the year	**34 322**	-28 661
0	**0**	Foreign currency conversion differences	**1 394**	547
321 344	**333 201**	Equity 31.12.	**440 762**	405 046

Notes to the Accounts

23. Mortgages and securities

Parent Company			Group	
1997	**1998**		**1998**	1997
209 718	**252 321**	Book debt secured by mortgages	**409 691**	389 932
		Book value of mortgaged assets:		
1 000	**1 000**	Shares	**0**	0
245 198	**217 718**	Receivables	**182 181**	192 297
102 716	**126 751**	Stocks	**413 151**	375 658
145 174	**206 501**	Operating assets	**324 961**	255 065
494 088	**551 970**	TOTAL	**920 293**	823 020

24. Guarantees

The Group's subsidiary FESIL Sales AS and subsidiaries has given guarantees for a total of KNOK 12.549. These are guarantees for VAT and discounted bills of exchange.

25. Business areas - Group

Operating income by geographic area (NOK million):

	Norway	**EU**	**USA**	**Far East**	**Other**	**Total**
Own products	58,1	928,0	87,0	94,0	2,6	1 169,7
Trading products	16,9	774,4	65,3	31,6	2,7	890,9
TOTAL	75,0	1 702,4	152,3	125,6	5,3	2 060,6

Operating income and operating result by business area (NOK million):

	Operating income		**Operating result**	
	1998	1997	**1998**	1997
	Total	Total	**Total**	Total
Own products	**1 169,7**	1 473,7	**62,2**	49,1
Trading products	**890,9**	641,6	**22,1**	11,7
TOTAL	**2 060,6**	2 115,3	**84,3**	60,8

26. Earnings and risk-amount per share

At December 31, 1998, there are 7,999,500 shares at NOK 10 in FESIL ASA.

No arrangement exists that lead to dilution of the earnings per share.

Earnings per share	
(NOK)	
1998	4,29
1997	-3,58
1996	12,47
1995	21,01

RISK-amount per share	
(NOK)	
per 01.01.99*	0,00
per 01.01.98	0,00
per 01.01.97	-1,50
per 01.01.96	-1,00

* RISK-amount per 01.01.99 is estimated. In 1999 the taxation authorities will determine the final RISK-amount based on FESILs tax return for 1998.

Audit Report for 1998 (Translation from Norwegian)

We have audited the financial statements for FESIL ASA for 1998, showing a profit for the year of NOK 11.858.000 for the parent company and an annual profit of NOK 34.322.000 for the group. The financial statements, consisting of the Board of Directors' report, profit and loss account, balance sheet, cash flow statement, notes and consolidated financial statements, have been presented by the company's Board of Directors and its managing director.

Our responsibility is to examine the company's financial statements, the accounts and accounting records and other related matters.

We have performed the audit in accordance with the relevant laws, regulations and generally accepted auditing standards. We have performed the audit procedures which we have considered necessary in order to confirm that the annual report and accounts do not contain material errors or misstatements. We have examined on a sample basis the evidence supporting the accounting items and assessed the accounting principles applied, the estimates made by management and the overall financial statements' content and presentation. To the extent it is required by generally accepted auditing standards we have reviewed the company's management routines and internal control.

The Board's proposed disposition of the net profit is in accordance with the requirements of The Norwegian Public limited Companies' Act.

In our opinion the financial statements are prepared in accordance with the Joint Stock Companies' Act and present fairly the financial position of the company and the group per. December 31, 1998 and the result of the operations in the accounting year in compliance with generally accepted accounting principles.

Oslo, February 18, 1999
PricewaterhouseCoopers DA

Erling Elsrud
State Authorized Public Accountant

Financial information

Shareholder structure

Production

Market

Logistics

Financial key figures

	1998	1997	1996	1995	1994	Comment
Operating margin %	4,1	-0,1	6,6	9,2	3,6	Operating result /operating income
Profit margin %	1,7	-1,4	4,7	6,4	0,9	Profit for the year / operating income
Return on assets %	8,2	0,7	12,0	17,2	7,2	Income bef. finance and taxes / avg. total assets
Return on equity %	3,0	-2,5	8,0	11,6	2,9	Profit for the year / avg. equity
Equity to assets %	36,8	37,2	35,3	27,2	5,0	Equity / total assets
Net interest bearing debt / equity	0,90	0,94	1,12	1,41	12,42	
Equity / fixed assets	1,00	1,14	0,98	0,78	0,12	
Current ratio	1,67	1,88	1,77	1,53	1,01	Current assets /short term liabilities

Sensitivities

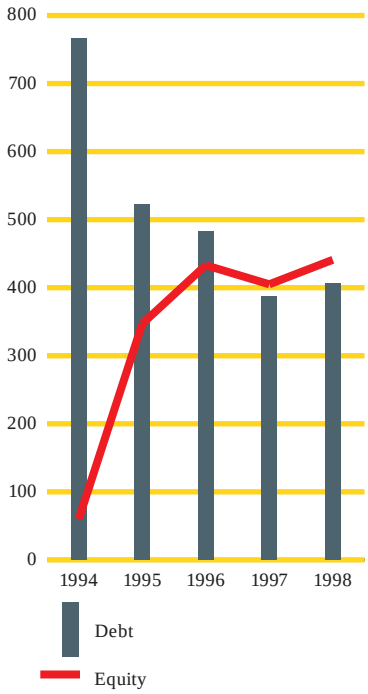
A 5 percent change in price on main products and other key factors will imply an approximate effect on the operating result in the range:

Figures in NOK mill	5% change
Sales FeSi (own productions)	23
Sales SiMet (own productions)	29
Purchase of power spot (in 1999)	0
Purchase raw materials FeSi (own productions)	10
Purchase raw materials SiMet (own productions)	15
Exchange rate Euro/NoK	40

Note: A price change such as described above, will not necessarily give an immediate effect, since the pricing is often tied up to longer-term contracts.

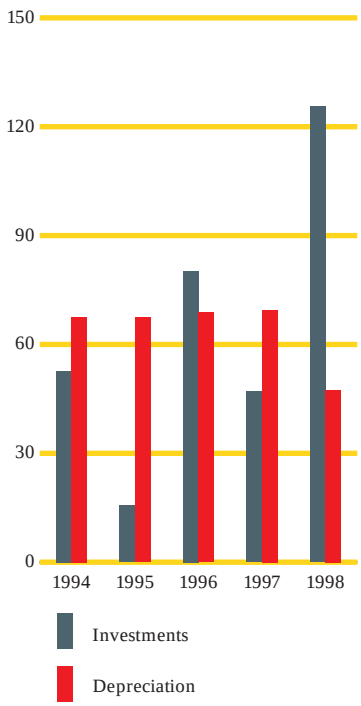
Interest bearing debt vs. equity

(NOK mill.)



Operational investments and depreciation

(NOK mill.)



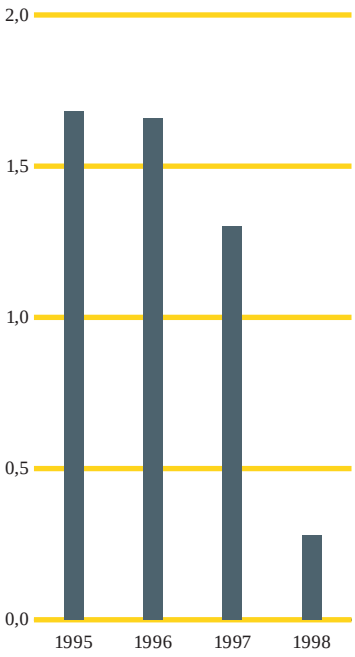
Shareholder structure

Shareholding

The shares and shareholders

The number of issued shares in the company at 31 December 1998 was 7.999.500. At the end of 1997, the share price listed at the Oslo Stock Exchange was NOK 30.00 compared to NOK 82.00 the previous year.

Turnover on share capital



Number of times the share capital has been traded.

The company's largest shareholders as of 31.12.98

(owning more than 1 %)

	Number of shares	%
Globe Metallurgical Inc. (USA)	3.140.097	39,25
Tennant Nordic Ltd. (GBR)	1.011.045	12,63
Nanok AS	435.221	5,44
Armadillo AS	435.220	5,44
Kommunal Pensjonskasse	350.000	4,37
Omega Investment Fund	315.810	3,94
Skandinaviska Enskilda Foreign Securities	245.900	3,07
Vesta Forsikring AS v/Fondsavd.	237.650	2,97
Fokus Bank ASA- Kap. egenhandelskonto	177.202	2,21
Vesta Liv AS c/o Vesta forsikring	176.300	2,20
Verdipapirfondet Skagen Vest	104.815	1,31
Intersettle 25 Pct. (CHE)	100.000	1,25
Gjensidige Aksjespar v/Gjensidige Fonds	100.000	1,25
Meieribrukets Pensjonskasse	90.150	1,12
Tennant Midgley Group Ltd.	85.300	1.06
Total largest shareholders	7.004.710	87,56

The following shares are held by Board Members, elected officers:

- Arne Byrkjeflot (Board Member) 100 (via narrative)
- Jonathan Lee (Chairman of the Board)
- Arden C. Sims (Board Member)

} 3.140.097 (via Globe Metallurgical Inc.)

- Åge Sakariassen (Board Member) 100

The following shares are held by management:

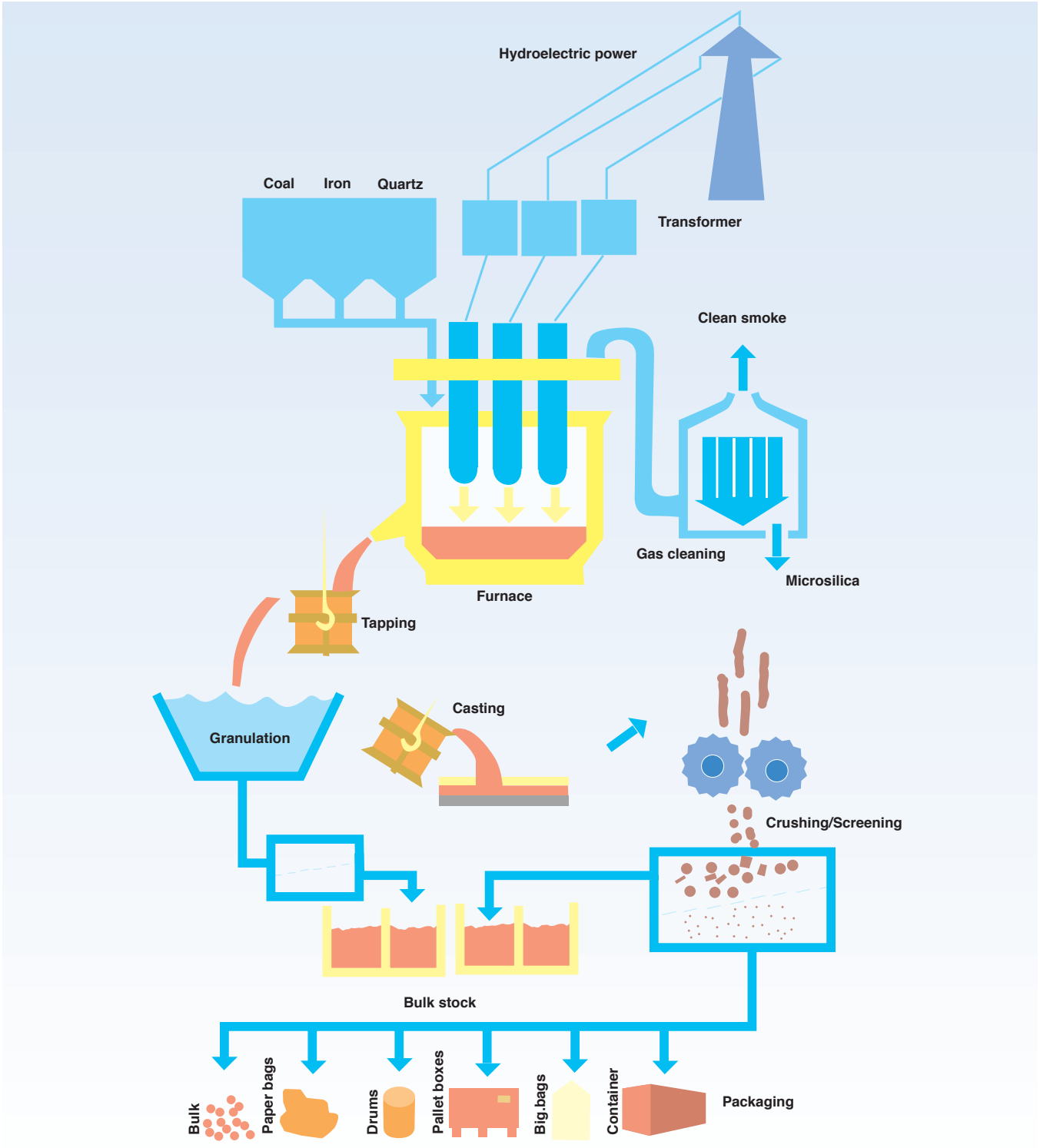
- Odd Samstad (President and CEO) 100
- Stein Anderssen (Senior Vice President and CFO) 100
- Svein Johnsen (Senior Vice President Personnel/Health and Safety) 100
- Ragnar Vaksdal (Senior Vice President Marketing) 400

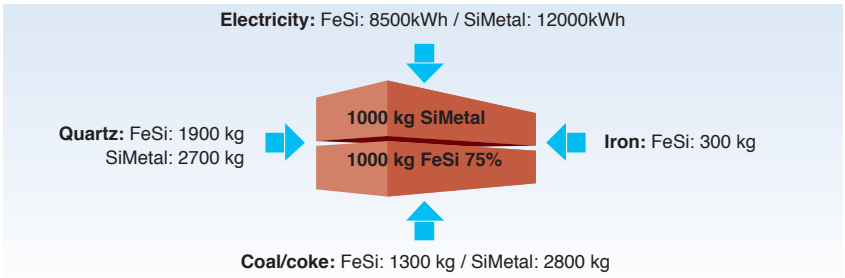
- The auditors (PricewaterhouseCoopers DA by Erling Elsrud) hold no shares.

Share-related key figures

	1998	1997	1996	1995	1994	Comment
Earnings per share	4,3	-3,6	12,5	21,0	3,4	1995: Calculated using avg. numb. of shares
Cashflow per share	12,7	16,7	21,2	16,2	17,4	1995: Calculated using avg. numb. of shares
Equity per share	55,1	50,6	54,2	50,9	11,2	1995: Calculated using avg. numb. of shares
Stock value 31.12, NoK mill.	240,0	656,0	660,0	476,0	N.A.	
P/E-ratio 31.12	7,0	N.A.	6,6	3,3	N.A.	
Stock value in % of book equity	54,4	162,0	152,3	137,0	N.A.	
RISK-amount per share (per 01.01. the following year)	0,0	0,0	-1,5	-1,0	N.A.	Per. 01.01.99: Assumed figure

Production


Hydroelectric power
Coal
Iron
Quartz
Transformer
Clean smoke
Gas cleaning
Microsilica
Furnace
Tapping
Granulation
Casting
Crushing/Screening
Bulk stock
Bulk
Paper bags
Drums
Pallet boxes
Big.bags
Container
Packaging


Electricity: FeSi: 8500kWh / SiMetal: 12000kWh
Quartz: FeSi: 1900 kg
SiMetal: 2700 kg
1000 kg SiMetal
1000 kg FeSi 75%
Iron: FeSi: 300 kg
Coal/coke: FeSi: 1300 kg / SiMetal: 2800 kg

Production

Production

FESIL is among the world's largest producers of silicon alloys – and technologically in the forefront. To an outsider the production process may seem simple, but at FESIL's quality levels the know-how and equipment required is on par with any other "high-tech" operation.

Basically, Norwegian hydroelectric power is used to refine the raw materials – quartz, iron and coal/coke/charcoal – into metallurgical products with precise and constant chemical and physical properties. The end product is the result of generations of development and search for quality.

Today, all plants in the FESIL system have obtained accredited ISO 9001 certification. This also applies to FESIL's global sales and logistics systems.

It has been a natural choice for FESIL to make the most out of its technological expertise by switching ever more of its production over to specialised products and qualities. At FESIL's own plants, production of standard grade material will be limited to a minimum.

The FESIL plants were among the first in the world to collect the previously polluting microsilica from the furnace gases and turn it into a commercial product.

Lilleby Metall was the first plant of its kind to develop a heat recovery system that provides industries and institutions in the neighbourhood with hot water.

Reducing energy consumption to a minimum and protecting the environment against undesirable emissions are now, more than ever, central goals for the FESIL organisation.

Logistics

Market/Logistics

FESIL is a major supplier to the international markets for ferrosilicon and silicon metal. There are three principal market regions: EU, USA and Japan. FESIL participates in all three regions, but its main effort is in the EU-market. More than 70% of its FeSi output ends up here, and 90% of its SiMetal. FESIL has major shares of the markets in the EU area.

FESIL has six sales outlets in the EU and one in Japan. Most of the sales, including the group's trading, are made through these companies. Other markets are covered through agents, or on a direct basis.

In addition to selling the production of FESIL's four plants, the same sales organisation is selling FeSi on behalf of two other Norwegian plants:

Finnfjord Smelteverk AS and Globe Norge AS - Hafslund Metall.

An important element in FESIL's sales policy is to reduce the customers' risk in and around the product as much as possible. Considerable efforts have therefore been invested in developing a reliable scheduled transport and storage system. This includes 10 storage facilities throughout Europe and 5 in USA. «Just-in-time» deliveries are an integrated part of the «FESIL» brand.

We expect the same kind of accuracy from our suppliers of container transport to overseas destinations.

Organisation structure

Management

Products

President and CEO

Being a player in the global alloy market, FESIL has fully felt the turbulence of 1998. Already at the beginning of the year most participants were aware that the market for ferrosilicon would be one of supply surplus with prices under pressure.

The development of the market for silicon metal was, however, still positive, and the expectations reflected in the annual contracts confirmed that the customers were preparing for a considerable growth.

But then came the crisis in Asia… As the year went by, an expected growth of 15% in Asia was gradually replaced by a *recession* of the same magnitude. Such a dramatic development had direct repercussions also on us as a supplier of raw materials. Towards the end of the year a clear surplus of silicon metal developed, resulting in a considerable fall in prices.

It is on this background that FESIL in 1998 has carried out the most intensive investment programme in the company's history. Investments in line with a continued strategic direction towards *concentration* and *specialisation*. Holla Metall has now become one of the world's biggest SiMetal plants, and the Rana Metall ferrosilicon plant is producing almost exclusively special qualities.

Even though the investments provide a good basis for meeting the increasingly tough competition in the international market for silicon alloys, the toughest challenges are still ahead of us. It is primarily a question of *competitiveness*.

It is a question of long term access to electric energy at internationally competitive prices. It is a question of avoiding environmental taxes that are exclusive for Norway. It is a question of our own productivity.

As to the topic of electric power, 1998 represents in many ways a positive development. There is no longer full agreement among the power producers that the price for electricity will have no limit but the sky.

The periodic scarcity of load-capacity has made even the most industry-hostile professors in economics understand that the last kilowatt-hour produced of necessity will cost more than the first one. When we see this in relation to all the locked positions on this subject, we look forward with some optimism to the Energy Paper that is to be presented to the Norwegian Parliament before Easter 1999.

Even though the Kyoto-balloon is today somewhat deflated, we must expect discussions about environment gases and emission limitations also in the future. Both FESIL and other alloy producers take these questions seriously and wish to contribute with solutions.

A paradox is, however, that many of the customers do not bother about environmental dumping by their alloy suppliers as long as the price is low enough and the customer's own environmental image is not being touched.

In 1998 the Norwegian Parliament voted an environmental tax for sulphur. First of all, such a tax will hardly have any environmental effect. Secondly it adds to the costs of the Norwegian process industry, but not that of our competitors abroad. This is unfortunately not a good signal for the future discussions around these questions.

Admitting that our influence is limited in the questions of power supply and environmental taxes, *increased productivity* then becomes the competitive element that *we* rank highest among our own parameters.

The result for 1998 shows that FESIL is not sufficiently profitable in the periods of market slumps. The prospects for 1999 indicate little or no change in this situation. We have therefore initiated a number of in-depth activities, aimed at cost reduction. First of all production costs are to be reduced further. In these tasks we enjoy the benefit of co-operating with our main shareholder, *Globe Metallurgical Inc*.

Our strategy remains firm:

We shall concentrate and specialise

We shall continue to be a leader within our field.

Odd Samstad
President and CEO

Organisation

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The plants

Rana Metall

This is FESIL's most modern plant, which came on stream in 1989. Rana Metall employs 98 people and operates through two reduction furnaces with a total capacity of 80,000 tons/year of FeSi 75. This is one of the best yields per capita in this industry anywhere in the world.

The plant is equipped with a casting station for granulating ferro silicon in running water, having a capacity of 50,000 tons/year. During 1998, further investments have been made in Rana Metall, enabling semi-refining of up to 50,000 tons/year.

Holla Metall

Established 1964. The plant's 176 employees are now able to produce 45,000 tons/year of Silicon Metal. In 1998, furnace 4 was converted from FeSi production into a capacity of 20,000 tons/year of SiMetal. Holla Metall is now a pure Silicon Metal plant. The plant has developed a unique granulation process, enabling production of 15,000 tons/year SiMetal granules.

Lilleby Metall

Established in 1927, Lilleby Metall produces some of the world's purest FeSi qualities (17,000 tons/year), having an important share of the international market for High Purity Ferro Silicon. Additionally, the 100 employees also produce 8,500 tons/year of SiMetal and 400 tons/year of Nitrides (Si3N4 and FeSiN). With its pioneering development in turning the spill heat of the furnaces into valuable hot water for the community, the plant has won prestigious prizes for environmental protection.

FESIL-Brikettfabrikken

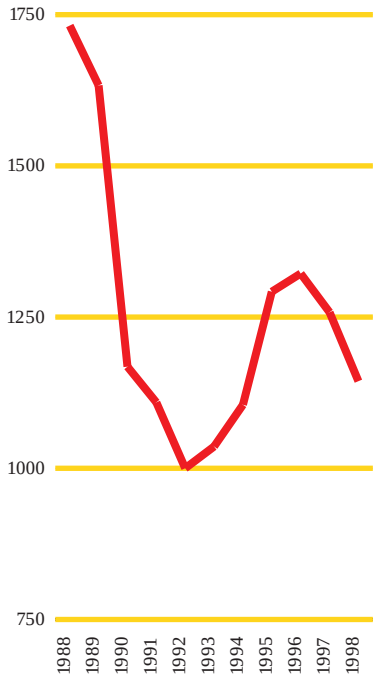
Established in 1958, the briquetting plant is transforming secondary material from the group's smelting plants into ferro alloy briquettes for use in iron foundries. The high quality of the FESIL briquettes is ensured through proven routines and equipment that monitor incoming raw materials and the various steps of the production process.

With only 12 employees, the plant produce 25,000 tons/year of a wide range of sizes and qualities in the principal product categories, FeSi briquettes and SiC briquettes.

FESIL is among the world's principal producers of FeSi

It is said that: «Steel is the most used and the most useful of all materials». Steel is used in all countries and in practically all parts of the world. Probably no other material is used for so many purposes. Measured in value, the world consumption of steel is far beyond that of competing materials, such as plastics, aluminium, etc.

European spot price FeSi 75%
(DEM)



Steel is produced in almost every country of the world. The steel industry is for various reasons often regarded as strategic by governments; e.g. as necessary for national defence, for industrialisation and for the development of infrastructure.

The world crude steel production decreased by 2.3% in 1998 as compared to 1997. The main reason for this decrease is the severe economic crisis in the Asian region. Asia, which accounts for nearly 38% of the total world production, had a decrease of 2.4% compared to 1997. The reduction in Japan was 10.5%, which is equivalent to 11 million tons.

In spite of the problems in Japan and South East Asia, the production in China increased by 5.7% to 114 million tons. China is now the world's largest steel producing country.

In Europe there was a strong growth in the steel production during the beginning of 1998, but there was also a strong reduction at the end of the year. In total, steel production in the EU increased with 0.8% from 1997.

North America also experienced a stable and high level of production during the first half of the year, but the result at year end was a growth of only 0.8%.

The production of stainless steel has also been somewhat reduced during the year. Production of this type of steel was down 0.3% on a global basis. The increase of 3% in Western Europe was not enough to make up for the 7.9% reduction in USA and the 11.6% in Japan. Granulated ferrosilicon is popular with stainless steel makers due to better recovery of chromium and silicon during the steel production.

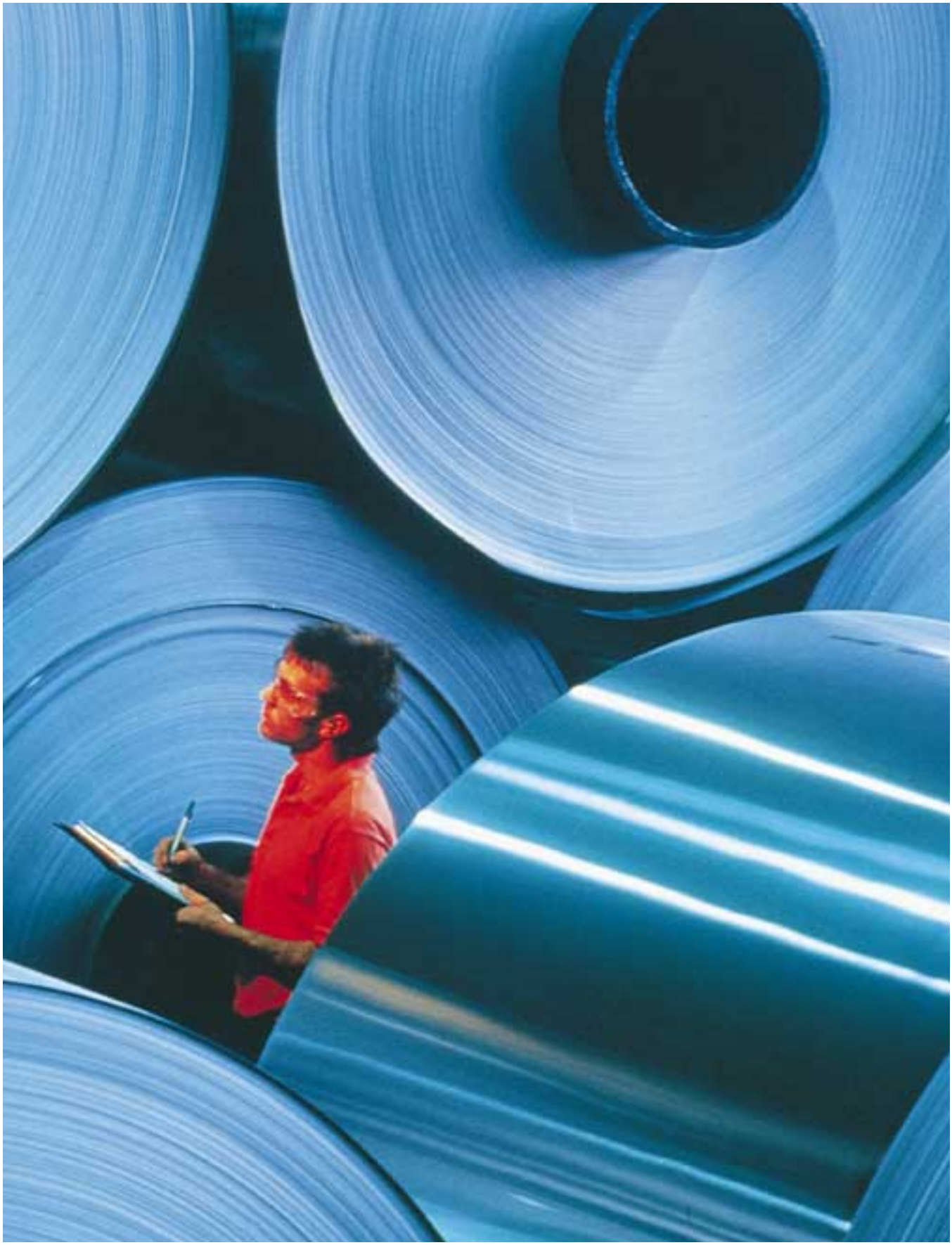
The development of other alloy steels, however, have been more positive during the last year. On a world basis there has been a production increase of 5.1% of these special grades.

This development has been appreciated by FESIL, and FESIL's product range has during the last year changed to nearly 100 % special qualities of ferrosilicon. Furthermore, for special steel products, more ferrosilicon is required per unit of steel produced.

Ferrosilicon

Use of ferrosilicon is more or less directly proportional to production of steel, and the demand for ferrosilicon in FESIL's main markets has therefore been high in 1998.

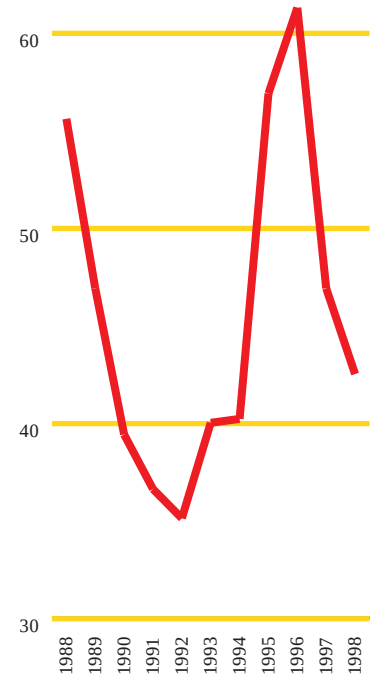
Because of the increased proportion of special steels, the demand for especially the low aluminium grade ferrosilicon and granules has been good.
In spite of good demand, there has been a reduction not only in ferrosilicon prices, but also in prices of other ferroalloys. Standard ferrosilicon is more sensitive to price fluctuations than special grades, and FESIL's goal has therefore been 100% specialisation. This goal has now been reached. The product range consists of high purity, semi-high purity and granulated ferrosilicon.



FeSi

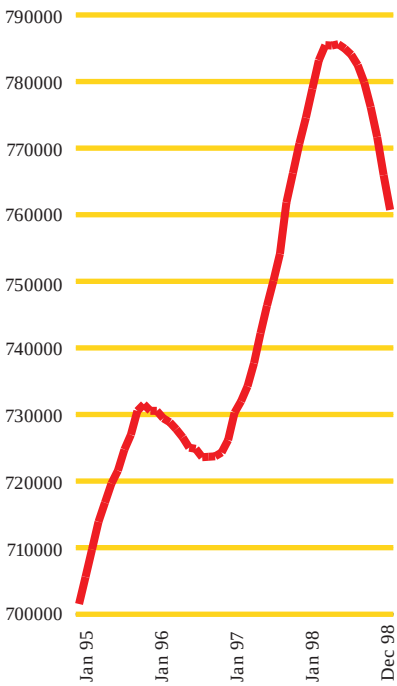
US import price FeSi 75%

(C/lb)



World crude steel production

1000 tonnes (Accumulated last 12 months)



The development of spot prices for ferrosilicon in USA and Europe is shown in graphs.

One reason for the continuing reduction in prices is certainly the strong competition among a growing number of traders in the market, both in Europe and in USA. There are also reasons to believe that considerable quantities of the traded ferrosilicon is finding its way from countries located further east and entering into Europe through transit countries.

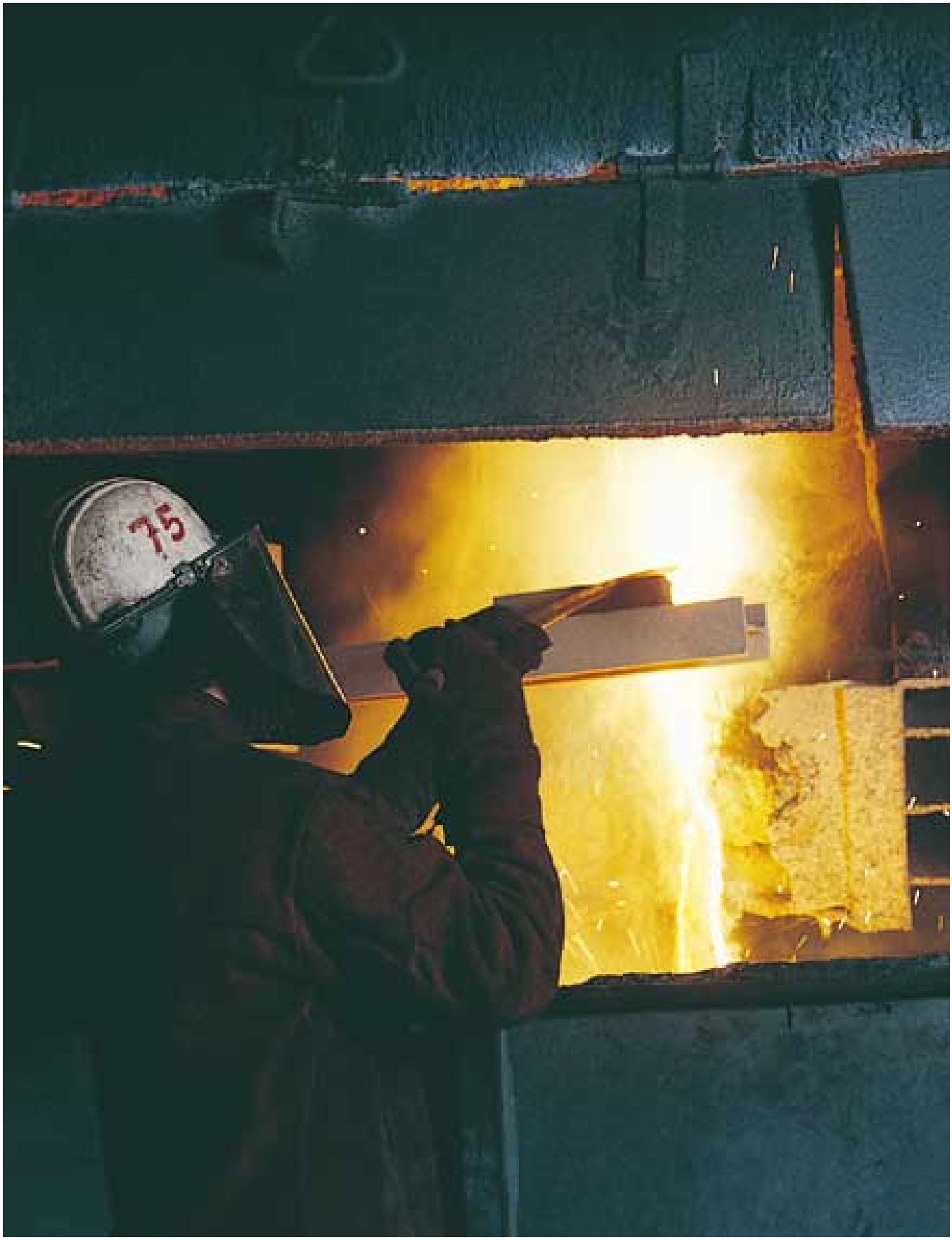
The last year has shown falling prices for steel products, which of course had a strong influence also on ferroalloy prices.

Asia has until last year been the fastest growing market for steel production. Most of the standard ferrosilicon is still supplied from China, but a large part is also coming from the CIS countries. Prices on standard ferrosilicon from these countries during 1998 has been on a level that makes the Asian market of limited interest for western ferrosilicon producers. FESIL's strength in the Asian market is high purity ferrosilicon and other special grades that are used for production of grainoriented silicon steel, tyre cord steel, etc.

At the end of 1998, the EU antidumping duties on Brazilian and CIS producers of ferrosilicon have been in force for five years and are now subject to review. The uncertainties about antidumping duties in EU as well as the problematic situation in the Asian economies make short-term predictions of the market for steel and ferroalloys complicated and uncertain. Still, several observers from the steel industry predict an improvement of the total situation from mid-year 99.

Also on a long-term basis, the lack of infrastructure in several countries, increasing demand for automobiles and other consumer goods will ensure that the trend of steel production, and consequently ferroalloy consumption, will continue to increase.

FeSi



SiMetal

for the chemical, aluminium and electronics industries

In October 1998 our Holla plant successfully converted its 4th furnace to silicon metal, turning the plant into a silicon metal plant only. With our last conversion, FESIL's production capacity has now increased to about 55,000 tons per year, putting us on the list among the world's four leading producers of SiMetal.

Silicon metal

Since we started making silicon metal, FESIL has focused on the chemical industry as its principal customer. The basis for FESIL's long-term engagement in this field is a belief in stronger growth and more stable prices for this industry. As we are already a major supplier to important chemical industries, we expect our new capacity to make us an even more interesting and important partner.

FESIL has always focused on customised production and has made an effort to become a high quality supplier. This has ensured that our customers will get an optimal product that fits their own specifications. About 90% of FESIL's production of silicon metal are now specialised. The production of chemical quality silicon metal accounts for approximately 75 %. The remainder is mainly refined material with a small tonnage of standard material, mostly supplied to the aluminium industry.

A constant growth in the demand for customised qualities and supplies requires a close co-operation between producer and customer. This makes the selection of a supplier more dependent on quality and flexibility and less on price. FESIL will continue to work hard to satisfy our customers' requirements, always trying to be the partner they choose.

Market

There was a considerable growth in production of silicon metal in Europe during 1998. Together with increased import from Brazil, this resulted in a heavy oversupply and a negative impact on the price. The quantity produced in the western world was estimated to be just over 700,000 tons, whereof the Europeans accounted for about 300,000 tons. The Norwegian production was about 140,000 tons.

Due to the situation in Asia, the predicted growth of 3-4% in the market in 1998 did not materialise. Figures indicate that consumption remained at about the same level as in 1997.

After a year with no growth in demand, all analysis indicate that in 1999 we will again see a growth in the market of 3-4%. Most of the growth is expected to come in the chemical sector.

At present, about 40% of the total silicon metal production goes to the chemical industry, but we still believe that this percentage is expected to increase to approximately 50% by 2005.

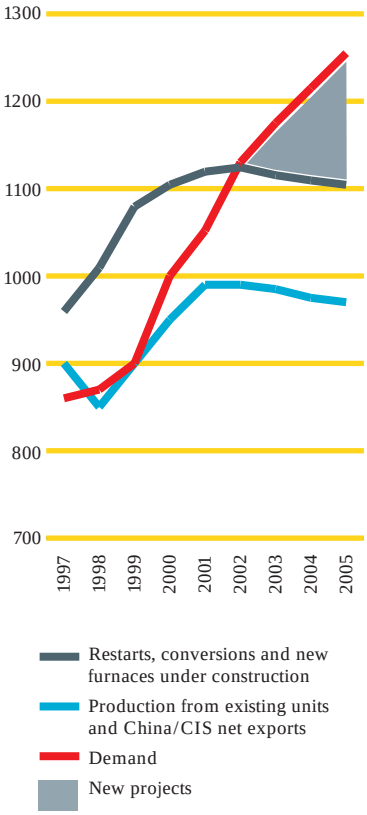
Analysis of the market indicate that 60% of the silicon metal production will still be supplied to the aluminium industry. Here the metal is used as an alloying element in many qualities that are supplied to the automotive industry.

SiMetal

Western world silicon supply demand comparison

1997-2005

1000 tons



The main use of silicon in the chemical industry is for production of silicones. The ability of silicones to withstand degradation and chemical influence, and their very stable thermal properties, make them useful in an increasing number of products. Principal uses are silicone oils, silicone rubber, lubricants, sealers, cosmetics and textiles. Looking at the still rapid population growth with a general increase in living standards, the demand for all these products will clearly increase.

The main use of silicon metal is still in the aluminium industry. By adding different percentages of SiMetal one improves the casting properties and increases the hardness as well as strength. Resistance to wear and corrosion will also be improved. The additions are normally between 0.5 - 2,0 % for the primary aluminium alloys which is mainly used for sheets, profiles, wires etc. For the foundry alloys the additions of silicon will be in the 10 - 20 % range. These alloys are mainly used in the automotive industry where we have seen a substantial increase during the last years.

During 1998, the market saw a reduction in demand of silicon metal from the chemical industry. Larger quantities were consequently offered into other markets, resulting in lower prices. Due to our many long-term contracts and good relationship with the chemical industry these withdrawals only affected FESIL to a limited extent. In this market we can therefore look back on a positive development.

Based on our new capacity for silicon metal that came on stream at the Holla plant at the end of 1998, we will be able to increase our supplies to the chemical industry without losing our market share with the aluminium industry.

Anti-dumping duties

The markets in both Europe and the United States are still affected by the anti-dumping duties. Since the duties on Brazilian metal were lifted at the beginning of 1998, we have experienced an increase in the tonnages offered into the European market.

Future

The silicon metal market is expected to revert to a yearly growth of about 3-4% for 1999. As there has already been an increase in production capacity this year, there will be no need for further conversions in 1999. We believe that we will still see an oversupply in the market, which will give very low spot prices during 1999. Contract prices have also been influenced by the oversupply situation, and this has led to a considerable price reduction to the chemical industry. We believe that the recent devaluation of the Real will make the Brazilians our toughest competitors in the future. High production capacity among European producers will also effect the situation in a negative way.

As a specialist in silicon metal, FESIL is one of the world's leading producers of chemical SiMetal. We have worked with determination to achieve this position, convinced that know-how will be the decisive competitive parameter.

Together with our principal shareholder, Globe Metallurgical, we are now the world's second largest producers of silicon metal and a leading supplier to the chemical industry. We look forward to further developing this position in the years to come, and we are convinced that this co-operation will be to the benefit of all our customers as well as ourselves.

Looking at the silicon market as a whole, we are very pleased to say that we have managed to retain our market share in 1998, almost maintaining our profitability. On the other hand with the present oversupply situation in the market we feel very concerned about the possible consequences.

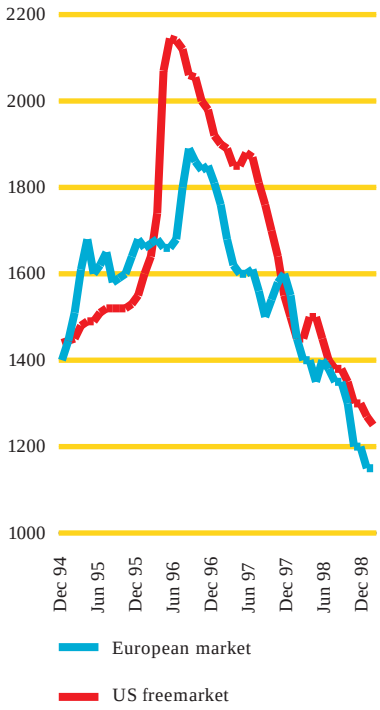
In the long term we feel sure that FESIL's strong engagement in silicon metal is still the right decision.

SiMetal

Silicon metal spot prices

Dec '94 – Jan '99

USD/ton



From pollution to quality products

Microsilica

Microsilica is a by-product from the production of ferro-silicon and silicon metal. Microsilica is a grey powder that consists of very small spherical particles of a size usually found in cigarette smoke. Microsilica is handled like cement and is supplied as a powder in bags, in big bags, or in bulk as loose powder. Microsilica is also supplied as slurry, which is a mixture of 50% microsilica and 50% water.

From pollution to quality products

During 1998 FESIL produced and sold approximately 60,600 tonnes microsilica. This was sold in 1.734 lots and delivered in 990 truck or container loads and 76 shiploads. FESIL Sales AS has an agreement with Globe Norge AS for the sale of all microsilica from Hafslund Metall. In order to meet the demand, some quantities have been bought from Finnfjord Smelteverk A/S.

Ferro silicon and silicon metal have been produced since the beginning of this century. Until the 1970's the furnace gases were not cleansed, and the discharge of microsilica polluted the environment.

The FESIL plant, Lilleby Metall in Trondheim, was in 1976 among the first in the world to install filters for cleansing of the furnace gases. Today, all plants in Europe and North America have such filters. In China, however, which is a big producer of ferro silicon, only a few of the plants have installed filters, and pollution is still heavy.

In the beginning, microsilica was considered a waste product. But through modern cleansing technology and processing, microsilica has gradually been turned into a valuable raw material for high performance concrete, fibre cement sheets and refractory.

75% of FESIL's output of microsilica is exported to Europe, the Middle East and the Far East. Our microsilica is used in bridges and tunnels in Norway, high rise buildings in the Philippines, tunnels in Japan and cement sheets in Italy.

The future prospects for the uses of microsilica seem good. The Process Code from the Roads Authorities in Norway guarantees a minimum consumption. There is a tendency in the concrete market throughout the world to use more and more high performance concrete in for example high rise buildings, bridges and tunnels. Only a small increase in the market will have a very positive effect on our sales of microsilica.

Microsilica makes it possible to produce better concrete, which in turn means increased life span and higher value for our bridges and quays over the next hundred years. Hopefully, the rest of the world will follow suit.

Management

Odd Samstad
President and CEO

Svein Johnsen
Senior Vice President
Personnel/Health and Safety

Tormod Haug
Senior Vice President
Procurement and Logistics

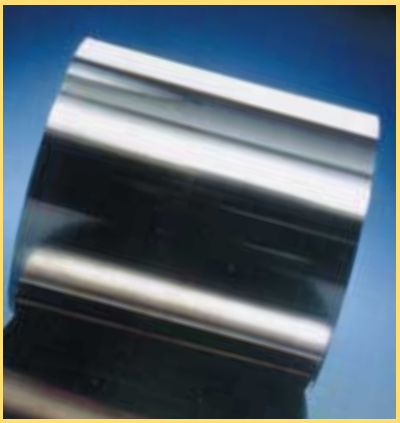
Ragnar Vaksdal
Senior Vice President
Sales and Marketing

Stein Anderssen
Senior Vice President and CFO

ANNUAL REPORT 1998

FESIL

Contents



The ordinary General Meeting will be held on May 6, 1999.

The board will not propose any dividend payment for 1998.

Publication of results for
January-March: May 7, 99
January-June: Aug. 19, 99
January-September: Nov. 4, 99

Design: Trondheim Reklamebyrå / Print: Skipnes / Photo: Glenn Røkeberg, Image Bank, Intra Media, Sverre Sæther

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«There's more to the picture than meets the eye» **Neil Young**

Fesil

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