ELKEM ASA

(A public limited liability company incorporated under the laws of Norway)

Initial public offering of up to 267,402,757 Shares with an indicative price range of NOK 29 to NOK 35 per Share

Admission to listing and trading of the Company's Shares on the Oslo Stock Exchange

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This prospectus (the "**Prospectus**") has been prepared in connection with the initial public offering (the "**Offering**") of shares of Elkem ASA (the "**Company**"), a public limited liability company incorporated under the laws of Norway (together with its consolidated subsidiaries, "**Elkem**" or the "**Group**"), and the related listing (the "**Listing**") of the Company's shares, each with a nominal value of NOK 5.00 (the "**Shares**") on Oslo Børs, a stock exchange operated by Oslo Børs ASA (the "**Oslo Stock Exchange**"). The Offering comprises up to 179,310,344 new Shares to be issued by the Company to raise gross proceeds of NOK 5,200 million (the "**New Shares**") and up to 71,657,143 existing Shares (the "**Sale Shares**") offered by the Company's sole shareholder, Bluestar Elkem International Co., Ltd. S.A. (the "**Selling Shareholder**" or "**Bluestar**").

The Offering consists of: (i) a private placement to (a) investors in Norway, (b) institutional investors outside Norway and the United States of America (the "**U.S.**" or the "**United States**"), subject to applicable exemptions from applicable prospectus requirements, and (c) "qualified institutional buyers" ("**QIBs**") in the United States as defined in, and in reliance on, Rule 144A ("**Rule 144A**") or another available exemption under the U.S. Securities Act of 1933 (the "**U.S. Securities Act**") (the "**Institutional Offering**") and (ii) a retail offering to the public in Norway (the "**Retail Offering**"). All offers and sales outside the United States will be made in offshore transactions in compliance with Regulation S under the U.S. Securities Act ("**Regulation S**").

In addition, the Selling Shareholder will grant an option to the Managers (as defined below), which may be exercised on behalf of the Managers by Morgan Stanley as stabilisation manager, to purchase additional Shares (the "**Additional Shares**" and, unless the context indicates otherwise, together with the New Shares and the Sale Shares, the "**Offer Shares**") equalling up to approximately 15% of the maximum number of New Shares and Sale Shares to be sold in the Offering, exercisable, in whole or in part, within a 30-day period commencing at the time at which "if issued/if sold" trading in the Shares commences on the Oslo Stock Exchange to cover any over-allotments made in connection with the Offering on the terms and subject to the conditions described in this Prospectus (the "**Over-Allotment Option**"). If the Managers will over-allot Shares in connection with the Offering, a stock exchange notice will be made on the first day of "if issued/if sold" trading in the Shares, which will also state that stabilisation activities may occur.

The price (the "**Offer Price**") at which the Offer Shares will be sold is expected to be between NOK 29 and NOK 35 per Offer Share (the "**Indicative Price Range**"). The Offer Price may be set within, below or above the Indicative Price Range. The Offer Price will be determined following a bookbuilding process and will be set by the Company and the Selling Shareholder, in consultation with the Managers (as defined below). See Section 20 "The terms of the Offering" for further information on how the Offer Price is set. The Offer Price, and the number of Offer Shares sold in the Offering, is expected to be announced through a stock exchange notice on or before 22 March 2018 at 07:30 hours (Central European Time, "**CET**"). The offer period in the Institutional Offering (the "**Bookbuilding Period**") will commence at 09:00 hours (CET) on 12 March 2018 and close at 14:00 hours (CET) on 21 March 2018. The application period in the Retail Offering (the "**Application Period**") will commence at 09:00 hours (CET) on 12 March 2018 and close at 12:00 hours (CET) on 21 March 2018. The Bookbuilding Period and the Application Period may, at the Company's and the Selling Shareholder's sole discretion, in consultation with the Managers and for any reason, be shortened or extended beyond the set times, but will in no event be shortened to expire prior to 12:00 hours (CET) on 19 March 2018 or extended beyond 14:00 hours (CET) on 29 March 2018.

The Shares (including the Sale Shares) are, and the New Shares will be, registered in the Norwegian Central Securities Depository (the "**VPS**") in book-entry form. All Shares rank in parity with one another and carry one vote. Except where the context otherwise requires, references in this Prospectus to the Shares will be deemed to include the Offer Shares.

Investing in the Offer Shares involves a high degree of risk. Prospective investors should read the entire Prospectus and, in particular, consider Section 2 "Risk Factors" beginning on page 19 when considering an investment in the Company.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and are being offered and sold: (i) in the United States only to persons who are QIBs in reliance on Rule 144A or another available exemption from registration requirements of the Securities Act; and (ii) outside the United States in offshore transactions in compliance with Regulation S. Prospective investors are hereby notified that any seller of the Offer Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. The distribution of this Prospectus and the offer and sale of the Offer Shares may be restricted by law in certain jurisdictions. Accordingly, neither this Prospectus nor any advertisement or any other Offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with applicable laws and regulations. Persons in possession of this Prospectus are required by the Company, the Selling Shareholder and the Managers to inform themselves about and to observe any such restrictions. Any failure to comply with these regulations may constitute a violation of the securities laws of any such jurisdictions. See Section 21 "Selling and Transfer Restrictions".

Prior to the Offering, the Shares have not been publicly traded. On or about 12 March 2018, the Company expects to apply for the Shares to be admitted for trading and listing on the Oslo Stock Exchange, and completion of the Offering is subject to the approval of the listing application by the board of directors of the Oslo Stock Exchange, the satisfaction of the conditions for admission to listing set by the Oslo Stock Exchange and certain other conditions as set out in Section 20.15 "Conditions for completion of the Offering – Listing and trading of the Offer Shares". The Shares will be eligible for clearing through the facilities of the Oslo Stock Exchange.

The due date for the payment of the Offer Shares is expected to be on 23 March 2018 in the Retail Offering, and on 26 March 2018 in the Institutional Offering. Delivery of the Offer Shares is expected to take place on or about 26 March 2018 in the Retail Offering and on 26 March 2018 in the Institutional Offering through the facilities of the VPS. Trading in the Shares on the Oslo Stock Exchange on an "if issued/if sold" basis is expected to commence on or about 22 March 2018, under the ticker code "ELK". If closing of the Offering does not take place on 26 March 2018 or at all, the Offering may be withdrawn, resulting in all applications for Offer Shares being disregarded, any allocations made being deemed not to have been made and any payments made will be returned without any interest or other compensation. All dealings in the Shares prior to settlement and delivery are at the sole risk of the parties concerned.

Joint Global Coordinators and Joint Bookrunners

ABG Sundal Collier   Morgan Stanley

Joint Bookrunners

Carnegie   Citigroup   Nordea

The date of this Prospectus is 9 March 2018

IMPORTANT INFORMATION

This Prospectus has been prepared in connection with the Offering of the Offer Shares and the Listing of the Shares on the Oslo Stock Exchange.

This Prospectus has been prepared to comply with the Norwegian Securities Trading Act of 29 June 2007 no. 75 (the "**Norwegian Securities Trading Act**") and related secondary legislation, including the Commission Regulation (EC) no. 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 regarding information contained in prospectuses, as amended, and as implemented in Norway (the "**EU Prospectus Directive**"). This Prospectus has been prepared solely in the English language. The Financial Supervisory Authority of Norway (*Nw.: Finanstilsynet*) (the "**Norwegian FSA**") has reviewed and, on 9 March 2018, approved this Prospectus in accordance with Sections 7-7 and 7-8 of the Norwegian Securities Trading Act. The Norwegian FSA has not controlled or approved the accuracy or completeness of the information included in this Prospectus. The approval by the Norwegian FSA only relates to the information included in accordance with pre-defined disclosure requirements. The Norwegian FSA has not made any form of control or approval relating to corporate matters described in or referred to in this Prospectus.

For definitions of certain other terms used throughout this Prospectus, see Section 23 "Definitions and Glossary".

The Company has engaged ABG Sundal Collier ASA ("**ABGSC**") and Morgan Stanley & Co. International plc ("**Morgan Stanley**") as "**Joint Global Coordinators**" and the Joint Global Coordinators together with Carnegie AS, Citigroup Global Markets Limited and Nordea Bank AB (publ), filial i Norge as "**Joint Bookrunners**". The Joint Global Coordinators and the Joint Bookrunners are together referred to herein as the "**Managers**".

The information contained herein is current as at the date hereof and subject to change, completion and amendment without notice. In accordance with Section 7-15 of the Norwegian Securities Trading Act, significant new factors, material mistakes or inaccuracies relating to the information included in this Prospectus, which are capable of affecting the assessment by investors of the Offer Shares between the time of approval of this Prospectus by the Norwegian FSA and the Listing, will be included in a supplement to this Prospectus. Neither the publication nor distribution of this Prospectus, nor the sale of any Offer Share, shall under any circumstances imply that there has been no change in the Group's affairs or that the information herein is correct as at any date subsequent to the date of this Prospectus.

No person is authorised to give information or to make any representation concerning the Group or the Selling Shareholder or in connection with the Offering or the sale of the Offer Shares other than as contained in this Prospectus. If any such information is given or made, it must not be relied upon as having been authorised by the Company, the Selling Shareholder or the Managers or by any of the affiliates, representatives, advisors or selling agents of any of the foregoing.

The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or sale would be unlawful. Neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. In addition, the Offer Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. See Section 21 "Selling and Transfer Restrictions".

This Prospectus and the terms and conditions of the Offering as set out herein and any sale and purchase of Offer Shares hereunder shall be governed by and construed in accordance with Norwegian law. The courts of Norway, with Oslo as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Offering or this Prospectus.

In making an investment decision, prospective investors must rely on their own examination, and analysis of, and enquiry into the Group and the terms of the Offering, including the merits and risks involved. None of the Company, the Selling Shareholder or the Managers, or any of their respective representatives or advisers, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

All Sections of the Prospectus should be read in context with the information included in Section 4 "General Information".

NOTICE TO INVESTORS IN THE UNITED STATES

The Offer Shares have not been recommended by any United States federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not passed upon the merits of the Offering or confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offense under the laws of the United States.

The Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable state securities laws.

Accordingly, the Offer Shares are being offered and sold: (i) in the United States only to QIBs in reliance upon Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act; and (ii) outside the United States in offshore transactions in compliance with Regulation S. For certain restrictions on the sale and transfer of the Offer Shares, see Section 21 "Selling and Transfer Restrictions". Nordea Bank AB (publ), filial i Norge is not a SEC registered broker/dealer and will only participate in the Offering outside the U.S.

Prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Offer Shares, and are hereby notified that sellers of Offer Shares may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act. See Section 21 "Selling and Transfer Restrictions".

In the United States, this Prospectus is being furnished on a confidential basis solely for the purposes of enabling a prospective investor to consider purchasing the particular securities described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. Distribution of this Prospectus to any person other than the offeree specified by the Managers or their representatives, and those persons, if any, retained to advise such offeree with respect thereto, is unauthorised, and any disclosure of its contents, without prior written consent of the Company, is prohibited. Any reproduction or distribution of this Prospectus in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase Offer Shares or subscribe for or otherwise acquire any Shares.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

In the United Kingdom (the "**UK**"), this Prospectus is only being distributed to and is only directed at persons (i) who have professional experience in matters falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); (ii) falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc) of the Order; and/or (iii) to whom it may lawfully be communicated or caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). The Offer Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Shares will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE EEA

In any member state of the European Economic Area (the "**EEA**"), other than Norway (each, a "**Member State**"), this communication is only addressed to and is only directed at persons who are "qualified investors" within the meaning of Article 2(1)(e) of the EU Prospectus Directive. The Prospectus has been prepared on the basis that all offers of Offer Shares outside Norway will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus for offer of shares. Accordingly, any person making or intending to make any offer within the EEA of Offer Shares which is the subject of the Offering contemplated in this Prospectus within any EEA member state (other than Norway) should only do so in circumstances in which no obligation arises for the Company or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the EU Prospectus Directive, in each case, in relation to such offer. Neither the Company nor the Managers have authorised, nor do they authorise, the making of any offer of Shares in circumstances in which an obligation arises for either the Company or the Managers to publish or supplement a prospectus for such offer. Neither the Company nor the Managers have authorised, nor do they authorise, the making of any offer of Offer Shares through any financial intermediary, other than offers made by Managers which constitute the final placement of Offer Shares contemplated in this Prospectus.

Each person in a Member State other than, in the case of paragraph (a), persons receiving offers contemplated in this Prospectus in Norway, who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with the Managers and the Company that:

a) it is a "qualified investor" within the meaning of the law in that Member State implementing Article 2(1)(e) of the EU Prospectus Directive; and

b) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the EU Prospectus Directive, (i) such Offer Shares acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the EU Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where such Offer Shares have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Offer Shares to it is not treated under the EU Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to any of the Offer Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase any of the Offer Shares, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State, and the expression "**EU Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Member State), and includes any relevant implementing measure in each Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

See Section 21 "Selling and Transfer Restrictions" for certain other notices to investors.

NOTICE TO INVESTORS IN CANADA

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus.

(including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

INFORMATION TO DISTRIBUTORS

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Shares have been subject to a product approval process, which has determined that they each are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Shares may decline and investors could lose all or part of their investment; the Shares offer no guaranteed income and no capital protection; and an investment in the Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Conversely, an investment in the Shares is not compatible with investors looking for full capital protection or full repayment of the amount invested or having no risk tolerance, or investors requiring a fully guaranteed income or fully predictable return profile.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Shares.

Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Shares and determining appropriate distribution channels.

STABILISATION

In connection with the Offering and in accordance with all applicable laws and rules, Morgan Stanley (the "**Stabilisation Manager**") acting for the account of the Managers, may (but will be under no obligation to) over-allot Shares or effect stabilisation transactions with a view to supporting the market price of the Shares during the Stabilisation Period at a level higher than that which might otherwise prevail (provided that the aggregate principal amount of Shares allotted does not exceed 15 percent of the aggregate principal amount of the Offer Shares). However, stabilisation action may not necessarily occur and may cease at any time. Any stabilisation action may begin on or after the date of commencement of trading of the Shares on the Oslo Stock Exchange and, if begun, may be ended at any time, but it must end no later than 30 days after that date. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager in accordance with all applicable laws and rules and can be undertaken at the offices of the Stabilisation Manager and on the Oslo Stock Exchange. Stabilisation may result in an exchange or market price of the Shares that is higher than might otherwise prevail, and the exchange or market price may reach a level that cannot be maintained on a permanent basis.

The Stabilisation Manager will act as the central point under Art (6)5 of Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016 supplementing regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

Any stabilisation measures will be conducted in accordance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse (the "**Market Abuse Regulation**" or "**MAR**") and the Commission Delegated Regulation (EU) 2016/1052 supplementing the Market Abuse Regulation with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

ENFORCEMENT OF CIVIL LIABILITIES

Elkem ASA is a public limited liability company incorporated under the laws of Norway. As a result, the rights of holders of the Shares will be governed by Norwegian law and Elkem ASA's articles of association (the "**Articles of Association**"). The rights of shareholders under Norwegian law may differ from the rights of shareholders of companies incorporated in other jurisdictions. The members of Elkem ASA's board of directors (the "**Board Members**" and the "**Board of Directors**", respectively) and the members of the senior management of Elkem ASA (the "**Management**") are not residents of the United States. Virtually all of the Company's assets and the assets of the Board Members and members of Management are located outside the United States. As a result, it may be impossible or difficult for investors in the United States to effect service of process upon the Company, the Board Members and members of Management in the United States or to enforce against the Company or those persons judgments obtained in U.S. courts, whether predicated upon civil liability provisions of the federal securities laws or other laws of the United States.

The United States and Norway do not currently have a treaty providing for reciprocal recognition and enforcement of judgements (other than arbitral awards) in civil and commercial matters. Uncertainty exists as to whether courts in Norway will enforce judgments obtained in other jurisdictions, including the United States, against Elkem ASA or its Board Members or members of Management under the securities laws of those jurisdictions or entertain actions in Norway against the Company or the Board Members or members of Management under the securities laws of other jurisdictions. In addition, awards of punitive damages in actions brought in the United States or elsewhere may not be enforceable in Norway.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any of the Offer Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, it will during any period in which it is neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934 (the "**U.S. Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any holder or beneficial owners of Shares, or to any prospective purchaser designated by any such registered holder, upon the request of such holder, beneficial owner or prospective owner, the information required to be delivered pursuant to Rule 144A(d)(4) of the U.S. Securities Act.

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APPENDICES

1 SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A – E (A.1 – E.7) below. This summary contains all the Elements required to be included in a summary for this type of securities and the Company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

Section A – Introduction and Warnings

A.1	**Warning**	This summary should be read as introduction to the Prospectus; any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investor; where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Warning**	Not applicable. No consent is granted by the Company for the use of the Prospectus for subsequent resale or final placement of the Shares.

Section B - Issuer

B.1	**Legal and commercial name**	Elkem ASA.
B.2	**Domicile and legal form, legislation and country of incorporation**	The Company is a public limited liability company organised and existing under the laws of Norway pursuant to the Norwegian Public Limited Companies Act. The Company was incorporated in Norway on 2 January 1904, and the Company's registration number in the Norwegian Register of Business Enterprises is 911 382 008.
B.3	**Current operations, principal activities and markets**	Elkem is a market leader in the production of silicon-based advanced materials with a global portfolio and history of more than 110 years of technology driven growth. Elkem is a fully integrated producer with operations throughout the silicon value chain from quartz to silicon and downstream silicone specialities as well as speciality ferrosilicon alloys and carbon materials. Elkem operates its business in four divisions: Silicones, Silicon Materials, Foundry Products and Carbon. In addition to its operating divisions, Elkem has a technology division conducting research and development projects for all parts of the Group's value chain.[1] Elkem's research strategy builds on close cooperation between the operational divisions and the research teams. Elkem's business is operated under the EBS (as defined below), which is a concept of lean manufacturing and targets efficient operational processes throughout the manufacturing process. Elkem has a strong global footprint with thirteen production facilities in Europe, seven production facilities in Asia, six production facilities in the Americas (one of which is under construction in Paraguay) and one

[1] The technology division is from a financial reporting perspective part of the "other" segment, see Section 12.2 "Operating divisions and reporting segments".

	production facility in Africa. Elkem also operates two quartz mines in Norway and four quartz mines in Spain. Elkem's global footprint ensures competitive strengths such as economies of scale, production cost optimisation and production flexibility across the world. In addition, Elkem has an extensive network of more than twenty sales offices and agents covering Elkem's most important markets. Having production facilities on each of the main industrial continents enables Elkem to respond quickly and effectively to customer needs on a global basis. On a combined basis (as described in Section 4.2 "Presentation of financial and other information"), the Group had a total operating income of NOK 21,368.2 million and Operating EBITDA of NOK 3,153.6 million as of 31 December 2017. As of 31 December 2017 [2], the Group had 6,114 employees worldwide, of which 2,171 are employees of Xinghuo Silicones and Yongdeng Silicon Materials. Elkem's four operating divisions are: The **Silicones** division which produces siloxanes and a comprehensive range of silicones, which are a family of specialty, high performance products and materials, as well as commoditized products produced by reacting silicon with methyl chloride through various chemical reactions and formulations. The division, which is the largest within the Group, had a total combined operating income[3] of NOK 10,025.8 million (47% of the Group's total combined operating income) and combined Operating EBITDA of NOK 1,515.4 million (48% of the Group's combined Operating EBITDA) in 2017.[4] The **Silicon Materials** division manufactures and sells silicon and microsilica for a large number of applications, including for the production of silicones. Silicon is produced from quartz or quartzite, which consists of silicon and oxygen. Elkem mainly obtains quartz from its own mines, which ensures that it has control of the quality of the quartz it uses. The Silicon Materials division delivers products to customers in the chemical, solar, electronics, aluminium, construction, refractory, oil and gas industries worldwide. The division had a total combined operating income[5] of NOK 6,412.3 million (30% of the Group's total combined operating income) and combined Operating EBITDA of NOK 804.0 million (25% of the Group's combined Operating EBITDA[6]) in 2017.[7] The **Foundry Products** division provides metal treatment solutions to iron foundries and is a supplier of high quality speciality ferrosilicon to the steel industry. Foundry alloys and ferrosilicon, both of which are alloys of iron and silicon, are produced with raw materials containing iron and other materials added in the smelting furnace. The automotive, engineering, pipe and steel industries are important markets for the division. The division had a total combined operating income[8] of NOK 4,247.3 million (20% of the Group's total combined operating income) and combined

[2] See Section 14.8 "Employees" for an overview of the number of employees per operating division and geographic location per 31 December 2017 on a combined basis.

[3] Total operating income of the Silicones division including intra group revenues.

[4] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".

5 Total operating income of the Silicon Materials division including intra group revenues.

6 See section 12.7.6 "Gross operating profit (loss)/Operating EBITDA" for further details and explanation regarding the divisions' portions of the Group's Operating EBITDA.

7 The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".

[8] Total operating income of the Foundry Products division including intra group revenues.

	Operating EBITDA of NOK 707.4 million (22% of the Group's combined Operating EBITDA) in 2017.[9] The **Carbon** division produces carbon materials used in the production of silicon and ferroalloys. The Carbon division supplies third parties across the globe in addition to Elkem's own silicon and ferrosilicon plants. The main products are Søderberg electrode paste, lining materials, pre-baked electrodes and specialty carbon products for various metallurgical smelting processes and primary aluminium industries. The division had a total combined operating income[10] of NOK 1,576.7 million (7% of the Group's total combined operating income) and combined Operating EBITDA of NOK 273.7 million (9% of the Group's combined Operating EBITDA) in 2017.[11] All four of Elkem's operating divisions operate globally and have leading[12] market positions in their respective key market segments due to its strong position throughout the value chain, and as such Elkem believes it is well positioned to capture the growing market demand.
B.4a Significant recent trends	In the period since 31 December 2017, Elkem's total operating income and gross operating profit (loss)/Operating EBITDA [13] have significantly exceeded Management's expectations. Sales prices so far in 2018 have been particularly strong for Silicon Materials, Foundry Products and Silicones, as market prices for silicon and ferrosilicon have been on an upward trend from the second half of 2017 and into 2018, following a fundamentally improved supply/demand balance. For the months of January and February 2018, production volume has been in line with Management's expectations for all segments, whereas sale volumes were higher than Management's expectations in the Silicones and Foundry Product divisions and below expectations for Silicon Materials. The integration of Xinghuo Silicones and Yongdeng Silicon Materials has continued at a faster pace and with better results in January and February than previously expected. For other factors mentioned under Section 12.3 "Factors affecting the Group's results of operations", the Company has not observed any adverse material developments or trends during January and February. *Acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials* Elkem entered into two separate equity transfer agreements on 30 January 2018, with Bluestar Elkem Investment Co. Ltd. pursuant to which Bluestar Elkem Investment Co. Ltd. has agreed to transfer 100% of the shares in Xinghuo Silicones and Yongdeng Silicon Materials to the Company. Completion of these transfers are conditional only upon a completion of the Listing. *The New Loan Facilities Agreement* Elkem signed the New Loan Facilities Agreement (as defined below) with four banks, Nordea, DNB Bank ASA, Citibank and Natixis, dated as of 13 February 2018. The financing arrangement consists of a revolving credit facility (RCF) of EUR 250 million (NOK 2,461 million), a term loan facility of EUR 400 million (NOK 3,938 million), and a bridge financing term loan

[9] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%, see Section 12.2 "Operating divisions and reporting segments".
[10] Total operating income of the Carbon division including intra group revenues.
[11] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%, see Section 12.2 "Operating divisions and reporting segments".
[12] Company estimate based on the total size of the market, knowledge of own production, and estimates of the production of other players in the market place.
[13] See Section 4.2.2 "Alternative Performance Measures" for an overview of the APMs presented in this Prospectus.

	facility of EUR 500 million (NOK 4,922 million). The New Loan Facilities Agreement provides sufficient capacity for the refinancing of the Group's outstanding indebtedness, including outstanding indebtedness of Xinghuo Silicones and Yongdeng Silicon Materials. The availability of the facilities under the New Loan Facilities Agreement is conditional upon completion of the Listing. *Revenue and Operating EBITDA targets* In early January 2018, Elkem established the below revenue and Operating EBITDA targets. As of 31 December 2017, Elkem's Silicones and Silicon Materials divisions accounted for 77% of Elkem's total operating income on a combined basis including intragroup sales (i.e., including Xinghuo Silicones and Yongdeng Silicon Materials). As a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, Elkem will gain access to a significant and well invested capacity reservoir which will ensure an attractive growth option. On a combined basis, Elkem's total operating income increased by 26% from 2016 to 2017. In the medium term, Elkem's established target for revenues to reach approximately double world GDP growth and for 2018, the target is double digit revenue growth. For 2018, Elkem expects that continued focus on efficiency improvements, effect of operational improvements at Fesil Rana and achieved benefits of operational leverage from its expected growth and current market conditions are some of the factors that will lead to an improved Operating EBITDA margin and Elkem's established target is Operating EBITDA margin improvements for 2018 in the area of 1.5 – 2.0 percentage points compared to 2017 levels. In the medium term, Elkem expects Operating EBITDA margins to gradually increase through specialisation and continued focus on efficiency improvement. *Certain ratios* Elkem estimates its equity ratio, defined as Elkem's total equity divided by its total assets, will be approximately 40% after giving effect to the Listing, the Reorganisation and the refinancing as described below. This estimate is based on Elkem's balance sheet as of 31 December 2017 and assumes that Elkem's net proceeds from the Offering will be NOK 5,000 million, that the total purchase price of Xinghuo Silicones and Yongdeng Silicon Materials will be RMB 3,274 million (NOK 4,126.1 million), that the refinancing is carried out on the terms described in Section 12.11.4.2 "The refinancing", and further assumes the settlement of all intra-group receivables.
B.5 Description of the Group	Elkem is the ultimate parent company in the Group. The Group comprises in total 72 legal entities in Europe, Asia, the Americas and Africa, in addition to 3 affiliated entities. Upon completion of the IPO, Elkem will acquire Xinghuo Silicones and Yongdeng Silicon Materials, and the information provided in this Prospectus intends to describe the business of the Group on a combined basis (as defined below), i.e. including the effects of the Reorganisation as further described in Section 6 "Reorganisation".
B.6 Interests in the Company and voting rights	Shareholders owning 5% or more of the Shares have an interest in the Company's share capital which is notifiable pursuant to the Norwegian Securities Trading Act. As of the date of this Prospectus, the Company has one shareholder, being the Selling Shareholder. The Selling Shareholder will remain the majority shareholder following completion of the Offering.

		There are no differences in voting rights between the Shares. Following the completion of the Offering, the Company is not aware of any persons or entities other than the Selling Shareholder who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.
B.7	**Selected historical key financial information**	The following selected financial information has been extracted from the Group's combined financial statements as of and for the years ended 31 December 2017 and 2016 (the Combined Financial Statements as defined below), and selected financial information extracted from the Group's consolidated financial statements as of and for the years ended 31 December 2017, 2016 and 2015 (the Consolidated Financial Statements as defined below). The Combined Financial Statements as of and for the years ended 31 December 2017 and 2016 have been prepared in accordance with IFRS as adopted by the EU to the extent appropriate since IFRS does not provide explicit guidance for the preparation of combined financial information. The Consolidated Financial Statements as of and for the years ended 31 December 2017, 2016 and 2015 have been prepared in accordance with IFRS (as defined in Section 4.2.1 "Financial information"). The Combined Financial Statements and the Consolidated Financial Statements do not provide explicit information regarding the continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials. See Sections 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", 10 "Capitalisation and Indebtedness" and 12.4.3 "Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials" for a description of the effects these acquisitions will have on the equity of the Group and the accounting treatment of these acquisitions. The continuity differences booked as a reduction of consolidated equity are NOK 3,888.8. The selected financial information included in this Prospectus should be read in connection with, and is qualified in its entirety by reference to, the Combined Financial Statements and the Consolidated Financial Statements included in this Prospectus as Appendix B and Appendix C, respectively.

Selected data from the combined statement of income

	Year ended 31 December	
In NOK thousands	**2017**	**2016**
Revenues	21,132,609	16,721,639
Other operating income	235,637	199,168
Total operating income	**21,368,246**	**16,920,807**
Raw materials and energy for smelting	(10,824,536)	(8,941,764)
Employee benefit expenses	(3,144,819)	(2,817,339)
Other operating expenses	(4,245,278)	(3,625,302)
Gross operating profit (loss)	**3,153,613**	**1,536,402**
Amortisations and depreciations	(1,244,025)	(1,217,255)
Impairment losses	(16,809)	(77,767)
Other gains and losses	43,638	57,287
Operating profit (loss)	**1,936,417**	**298,667**
Income from associates and joint ventures	34,144	22,130
Finance income	30,436	36,565
Foreign exchange gains (losses)	(7,701)	49,661

Finance expenses	(474,499)	(486,696)
Profit (loss) before income tax	**1,518,797**	**(79,673)**
Tax (expenses)/income	(269,391)	(188,567)
Profit (loss) for the year	**1,249,406**	**(268,240)**

Selected data from the combined statement of financial position

	As of 31 December	
In NOK thousands	**2017**	**2016**
ASSETS		
Property, plant and equipment	11,950,419	11,410,401
Goodwill	326,323	342,645
Other intangible assets	911,022	891,989
Deferred tax assets	89,584	67,348
Investment in joint ventures	97,871	108,978
Interest in associated and other companies	111,967	100,516
Derivatives	151,574	119,161
Other non-current assets	355,874	392,808
Total non-current assets	**13,994,634**	**13,433,846**
Inventories	4,099,200	3,792,297
Accounts receivables	2,518,423	1,952,473
Derivatives	33,357	56,388
Other current assets	2,090,949	1,621,919
Restricted deposits	1,019,791	915,013
Cash and cash equivalents	1,750,930	1,319,797
Total current assets	**11,512,650**	**9,657,887**
Total assets	**25,507,284**	**23,091,733**

	As of 31 December	
In NOK thousands	**2017**	**2016**
EQUITY AND LIABILITIES		
Paid-in capital	2,918,203	3,088,203
Retained earnings	5,545,130	2,654,513
Non-controlling interest	101,557	87,553
Total equity	**8,564,890**	**5,830,269**
interest-bearing non-current liabilities	4,584,974	5,113,490
Deferred tax liabilities	104,587	114,182
Pension liabilities	444,807	425,488
Derivatives	378,955	561,131
Provisions and other non-current liabilities	426,215	506,028
Total non-current liabilities	**5,939,538**	**6,720,319**
Accounts payable	2,650,387	2,310,509
Income tax payables	138,916	99,631
Interest-bearing current liabilities	3,647,297	4,204,240
Bills payable	2,649,760	2,418,946
Derivatives	246,683	128,001
Provisions and other current liabilities	1,669,813	1,379,818
Total current liabilities	**11,002,856**	**10,541,145**
Total equity and liabilities	**25,507,284**	**23,091,733**

Selected data from the combined statement of cash flows

	Year ended 31 December	
In NOK thousands	**2017**	**2016**
Operating activities		

Operating profit (loss)	1,936,417	298,667
Changes fair value commodity contracts	(79,093)	(77,598)
Amortisation, depreciation and impairment changes	1,260,834	1,295,022
Changes in working capital	(127,825)	218,259
Changes in provisions, pension obligations and other	(137,315)	(135,379)
Interest payments received	23,629	34,442
Interest payments made	(446,136)	(408,079)
Other financial items	(1,034)	1,394
Income taxes paid	(198,456)	(201,013)
Cash flow from operating activities	**2,231,021**	**1,025,715**
Investing activities		
Investments in property, plant and equipment and intangible assets	(1,126,068)	(833,952)
Sale of property, plant and equipment	17,758	6,760
Acquisition of subsidiaries, net of cash acquired	4,063	(439,788)
Dividend received from associates and joint ventures	25,037	26,190
Acquisition of joint ventures	(19,528)	-
Loan to associate and joint ventures	(12,150)	(34,258)
Other investments/sales	7,978	3,713
Cash flow from investing activities	**(1,102,910)**	**(1,271,335)**
Financing activities		
Dividends paid to non-controlling interests	(26,121)	(40,364)
Dividends paid to owner of the parent	(143,947)	-
Payments due to increase in ownership interests in subsidiaries	-	(31,224)
New interest-bearing loans and borrowings	60,175	1,283,140
Repayment of interest-bearing loans and borrowings	(859,191)	(204,603)
Net changes in bills payable and restricted deposits	285,054	(698,138)
Repayment of short term loan from related parties	(29,698)	(149,425)
Cash flow from financing activities	**(713,728)**	**159,386**
Change in cash and cash equivalents	**414,383**	**(86,234)**
Currency exchange differences	16,750	(38,110)
Cash and cash equivalents opening balance	**1,319,797**	**1,444,141**
Cash and cash equivalents closing balance	**1,750,930**	**1,319,797**

Selected data from the combined statement of changes in equity

In NOK thousands	Share capital	Other paid-in capital	Total paid in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2016	**2,010,000**	**1,078,203**	**3,088,203**	**440,734**	**(1,133,971)**	**1,258,562**	**565,325**	**3,653,528**	**123,219**	**3,776,747**
Profit (loss) for the year	-	-	-	-	-	(304,359)	(304,359)	(304,359)	36,119	(268,240)
Other comprehensive income for the year	-	-	-	193,683	691,794	(41,013)	844,464	844,464	(4,100)	840,364
Total comprehensive income for the year	-	-	-	193,683	691,794	(345,372)	540,105	540,105	32,019	572,124
Conversion of liabilities[1]	-	-	-	-	-	1,552,986	1,552,986	1,552,986	-	1,552,986
Dividends to equity holders	-	-	-	-	-	-	-	-	(40,364)	(40,364)
Changes in the composition of the group	-	-	-	-	-	(3 903)	(3 903)	(3 903)	(27 321)	(31 224)
Balance 31 December 2016	**2,010,000**	**1,078,203**	**3,088,203**	**634,417**	**(442,177)**	**2,462,273**	**2,654,513**	**5,742,716**	**87,553**	**5,830,269**
Balance 1 January 2017	**2,010,000**	**1,078,203**	**3,088,203**	**634,417**	**(442,177)**	**2,462,273**	**2,654,513**	**5,742,716**	**87,553**	**5,830,269**
Profit (loss) for the year	-	-	-	-	-	1,210,724	1,210,724	1,210,724	38,682	1,249,406
Other comprehensive income for the year	-	-	-	116,287	(10,417)	3,402	109,272	109,272	1,443	110,715

Total comprehensive income for the year	-	-	-	116,287	(10,417)	1,214,126	1,319,996	1319,996	40,125	1,360,121
Conversion of liabilities[2]	-		-	-	-	1,570,621	1,570,621	1,570,621	-	1,570,621
Dividends to equity holders	-	(170,000)	(170,000)	-	-	-	-	(170,000)	(26,121)	(196,121)
Balance 31 December 2017	**2,010,000**	**908,203**	**2,918,203**	**750,704**	**(452,594)**	**5,247,020**	**5,545,130**	**8,463,333**	**101,557**	**8,564,890**

1 In December 2016, a shareholder loan of RMB 1,256 million (NOK 1,553 million) in Xinghuo Silicones was converted into equity.

2 In May 2017, a shareholder loan of RMB 543 million (NOK 670 million) in Yongdeng Silicon Materials and in August 2017 a shareholder loan of RMB 761 million (NOK 900 million) in Xinghuo Silicones was converted to equity.

Selected data from the consolidated statement of income

In NOK thousands	Year ended 31 December 2017	2016	2015
Revenues	16,441,894	14,045,397	14,361,403
Other operating income	215,988	180,772	179,654
Total operating income	**16,657,882**	**14,226,169**	**14,541,057**
Raw materials and energy for smelting	(8,125,907)	(6,899,039)	(6,847,021)
Employee benefit expenses	(2,857,634)	(2,559,950)	(2,438,997)
Other operating expenses	(3,575,874)	(3,149,390)	(3,048,051)
Gross operating profit (loss)	**2,098,467**	**1,617,790**	**2 206,988**
Amortisations and depreciations	(776,023)	(717,781)	(674,383)
Impairment losses	(16,809)	(11,818)	(1,813)
Other gains and losses	49,313	52,438	(221,006)
Operating profit (loss)	**1,354,948**	**940,629**	**1,309,786**
Income from associates and joint ventures	34,144	22,130	21,327
Finance income	19,219	22,617	57,492
Foreign exchange gains (losses)	(7,701)	49,661	32,533
Finance expenses	(119,376)	(88,501)	(154,067)
Profit (loss) before income tax	**1,281,234**	**946,537**	**1,267,071**
Income tax (expense) benefit	(269,390)	(188,567)	(424,663)
Profit (loss) for the year from continued operations	**1,011,844**	**757,969**	**842,408**
Profit (loss) for the year from discontinued operations	-	-	(7,097)
Profit (loss) for the year	**1,011,844**	**757,969**	**835,311**

Selected data from the consolidated statement of financial position

In NOK thousands	As of 31 December 2017	2016	2015
ASSETS			
Property, plant and equipment	6,568,934	5,909,087	5,602,208
Goodwill	326,323	342,645	244,088
Other intangible assets	719,350	693,013	643,493
Deferred tax assets	89,584	67,348	323,969
Investment in joint ventures	97,871	108,978	67,476
Interest in associated and other companies	111,967	100,516	96,046
Derivatives	151,574	119,161	40,480
Other non-current assets	324,615	370,697	217,226
Total non-current assets	**8,390,218**	**7,711,445**	**7,234,986**
Inventories	3,561,007	3,339,415	3,302,196
Accounts receivables	2,264,479	1,870,770	1,864,010
Derivatives	33,357	56,388	14,332
Other current assets	601,822	600,861	755,737
Restricted deposits	3,773	3,771	-
Cash and cash equivalents	1,493,279	1,230,668	1,305,592
Total current assets	**7,957,717**	**7,101,897**	**7,241,867**

Total assets	**16,347,935**	**14,813,342**	**14,476,853**

	As of 31 December		
In NOK thousands	**2017**	**2016**	**2015**
EQUITY AND LIABILITIES			
Paid-in capital	2,918,203	3,088,203	3,088,203
Retained earnings	5,313,102	4,283,286	2,955,626
Non-controlling interest	101,557	87,553	123,219
Total equity	**8,332,862**	**7,459,042**	**6,167,048**
Interest bearing non-current liabilities	2,681,975	2,834,859	3,051,916
Deferred tax liabilities	104,587	114,182	124,475
Pension liabilities	444,807	425,488	393,735
Derivatives	378,955	561,131	925,852
Provisions and other non-current liabilities	389,859	463,560	262,184
Total non-current liabilities	**4,000,183**	**4,399,220**	**4,758,162**
Accounts payables	1,836,888	1,527,587	1,448,578
Income tax payables	138,668	99,387	128,496
Interest-bearing current liabilities	661,189	277,970	327,981
Derivatives	246,683	128,001	615,208
Provisions and other current liabilities	1,131,462	922,135	1,031,380
Total current liabilities	**4,014,890**	**2,955,080**	**3,551,643**
Total equity and liabilities	**16,347,935**	**14,813,342**	**14,476,853**

Selected data from the consolidated statement of cash flows

In NOK thousands	Year ended 31 December 2017	2016	2015
Operating activities			
Operating profit (loss)	1,354,948	940,629	1,309,786
Changes fair value commodity contracts	(79,093)	(77,598)	96,908
Amortisation, depreciation and impairment changes	792,832	729,599	676,196
Changes in working capital[1]	(139,377)	98,410	(171,001)
Changes in provisions, pension obligations and other[2]	(116,049)	(123,900)	98,693
Interest payments received	12,412	13,919	48,986
Interest payments made	(91,693)	(77,151)	(63,333)
Other financial items	(1,034)	160	(2,007)
Income taxes paid	(198,456)	(200,104)	(174,056)
Cash flow from operating activities	**1,534,490**	**1,303,964**	**1,820,172**
Investing activities			
Investments in property, plant and equipment and intangible assets	(930,344)	(755,281)	(1,067,383)
Sale of property, plant and equipment	5,814	3,860	4,789
Dividend received	25,037	26,190	32,097
Acquisition of subsidiaries, net of cash acquired	4,063	(439,788)	(15,015)
Acquisition of joint ventures and other shares	(19,528)	-	-
Payment received on loan to associates and joint venture	-	-	1,604
Loan to associate and joint venture	(12,150)	(34,258)	(20,570)
Other investments / sales	(226)	277	911
Cash flow from investing activities	**(927,334)**	**(1,199,000)**	**(1,063,567)**
Financing activities			
Dividends paid to non-controlling interests	(26,121)	(40,364)	(15,095)
Dividends paid to owner of the parent	(143,947)	-	(1,900,000)
Payments due to increase in ownership interest in subsidiaries	-	(31,224)	
New interest-bearing loans and borrowings	60,175	110,115	3,510,249
Repayment of interest-bearing loans and borrowings	(245,005)	(204,603)	(1,787,126)
Cash flow from financing activities	**(354,898)**	**(166,076)**	**(191,972)**
Change in cash and cash equivalents	252,258	(61,112)	564,633
Currency exchange differences	10,353	(13,812)	45,966
Cash and cash equivalents opening balance	**1,230,668**	**1,305,592**	**694,993**
Cash and cash equivalents closing balance	**1,493,279**	**1,230,668**	**1,305,592**

1 Changes in working capital is equal to the line "changes in net working capital" in the Consolidated Financial Statements for the year ended 31 December 2015.

2 Changes in provisions, pension obligations and other is equal to the line "changes in other working capital" in the Consolidated Financial Statements for the year ended 31 December 2015.

Selected data from the consolidated statement of changes in equity

In NOK thousands	Share capital	Other paid-in capital	Total paid in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2015	**2,010,000**	**4,045,203**	**6,055,203**	**197,859**	**(470,467)**	**(237,401)**	**(510,009)**	**5,545,194**	**95,873**	**5,641,067**
Profit for the year	-	-	-	-	-	801,938	801,938	801,938	33,373	835,311
Other comprehensive income for the year	-	-	-	242,875	(663,504)	17,005	(403,624)	(403,624)	9,068	(394,556)
Total comprehensive income for the year	-	-	-	242,875	(663,504)	818,943	398,314	398,314	42,441	440,755
Conversion of liabilities	-	-	-	-	-	3,082,335	3,082,335	3,082,335	-	3,082,335

Dividends to equity holders	-	(2,967,00,)	(2,967,000)	-	-	-	-	(2,967,000)	(15,095)	(2,982,095)
Changes in the composition of the group	-	-	-	-	-	(15,015)	(15,015)	(15,015)	-	(15,015)
Balance 31 December 2015	**2,010,000**	**1,078,203**	**3,088,203**	**440,734**	**(1,133,971)**	**3,648,862**	**2,955,625**	**6,043,828**	**123,219**	**6,167,047**
Balance 1 January 2016	**2,010,000**	**1,078,203**	**3,088,203**	**440,734**	**(1,133,971)**	**3,648,862**	**2,955,625**	**6,043,828**	**123,219**	**6,167,047**
Profit for the year	-	-	-	-	-	721,850	721,850	721,850	36,119	757,969
Other comprehensive income for the year	-	-	-	(41,067)	691,794	(41,013)	609,714	609,714	(4,100)	605,614
Total comprehensive income for the year	-	-	-	(41,067)	691,794	680,837	1,331,564	1,331,564	32,019	1,363,583
Dividends to equity holders	-	-	-	-	-	-	-	-	(40,364)	(40,364)
Changes in the composition of the group	-	-	-	-	-	(3,903)	(3,903)	(3,903)	(27,321)	(31,224)
Balance 31 December 2016	**2,010,000**	**1,078,203**	**3,088,203**	**399,667**	**(442,177)**	**4,325,796**	**4,283,286**	**7,371,489**	**87,553**	**7,459,042**
Balance 1 January 2017	**2,010,000**	**1,078,203**	**3,088,203**	**399,667**	**(442,177)**	**4,325,796**	**4,283,286**	**7,371,489**	**87,553**	**7,459,042**
Profit for the year	-	-	-	-	-	973,162	973,162	973,162	38,682	1,011,844
Other comprehensive income for the year	-	-	-	63,669	(10,417)	3,402	56,654	56,654	1,443	58,097
Total comprehensive income for the year	-	-	-	63,669	(10,417)	976,564	1,029,816	1,029,816	40,125	1,069,941
Dividends to equity holders	-	(170,000)	(170,000)	-	-	-	-	(170,000)	(26,121)	(196,121)
Balance 31 December 2017	**2,010,000**	**908,203**	**2,918,203**	**463,336**	**(452,594)**	**5,302,360**	**5,313,102**	**8,231,305**	**101,557**	**8,332,862**

B.8	**Selected key pro forma financial information**	The transactions under the Reorganisation (as defined below) constitute a "significant gross change" on relevant indicators pursuant to the Prospectus Directive, meaning that the requirement for including pro forma financial information in the Prospectus is triggered. Elkem is, however, of the view that the equity effect of the Reorganisation is appropriately reflected in Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", Section 10 "Capitalisation and Indebtedness" and Section 12.4.3 "Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials" as derived from note 33 to the Consolidated Financial Statements for the year ended 31 December 2017, meaning that pro forma financial information would not provide potential investors with additional information of significance. Accordingly, Elkem has not included pro forma financial information in the Prospectus reflecting the Reorganisation. Other than the equity effect, there have been no other effects of the Reorganisation, including no transaction costs. For an overview of effects on results based on estimated transaction costs relating to the Listing and the Offering, see Section 12.4.4 "Effects on results from transaction costs relating to the Listing and the Offering".
B.9	**Profit forecast or estimate**	Not applicable. No profit forecasts or estimates are made.
B.10	**Audit report qualifications**	The auditor reports to the Combined Financial Statements for the years ended 31 December 2017 and 2016, and the auditor reports to the Consolidated Financial Statements for the years ended 31 December 2017, 2016 and 2015 have been issued without any qualifications.
B.11	**Insufficient working capital**	Not applicable. The Company is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements, for the period covering at least 12 months from the date of this Prospectus.

Section C - Securities

C.1	**Type and class of securities admitted to trading and identification number**	The Company has one class of Shares in issue and all Shares provide equal rights in the Company. Each of the Shares carries one vote. The Shares have been created under the Norwegian Public Limited Companies Act and are registered in book-entry form with the VPS under ISIN NO 001 0816093.
C.2	**Currency of issue**	The Shares are issued in NOK (as defined below).
C.3	**Number of shares in issue and nominal value**	As of the date of this Prospectus, the Company's share capital is NOK 2,010 million divided into 402 million Shares, each with a nominal value of NOK 5.00.
C.4	**Rights attaching to the securities**	The Company has one class of Shares in issue, and in accordance with the Norwegian Public Limited Companies Act, all Shares in that class provide equal rights in the Company. Each of the Shares carries one vote. The rights attaching to the Shares are described in Section 17.10 "The articles of association and certain aspects of Norwegian law".
C.5	**Restrictions on transfer**	The Articles of Association do not provide for any restrictions on the transfer of Shares, or a right of first refusal for the Company's shareholders. Share transfers are not subject to approval by the Board of Directors.
C.6	**Admission to trading**	The Company will on or about 12 March 2018 apply for admission to trading of its Shares on the Oslo Stock Exchange. It is expected that the board of directors of the Oslo Stock Exchange will approve the listing application of the Company on or about 15 March 2018, subject to certain conditions being met. The Company currently expects commencement of trading in the Shares on the Oslo Stock Exchange on an "if issued/if sold" basis, on or around 22 March 2018, and on an unconditional basis on or around 26 March 2018. The Company has not applied for admission to trading of the Shares on any other stock exchange or regulated market.
C.7	**Dividend policy**	Elkem will initially target a dividend pay-out ratio of 30-50% of the Group's net income for the year.

Section D - Risks

D.1	**Key risks specific to the Company or its industry**	*Risks related to the business of Elkem and the industry in which Elkem operates:* • The silicon-based advanced materials and chemical industries, including the production and sale of silicones, silicon-based materials, foundry products and carbon, has been in the past, and may be in the future, subject to economic downturns, market disruptions and fluctuations in market price and demand which could lead to volatility in the Group's revenues • The silicon-based advanced materials and chemical industries are cyclical and Elkem may be materially and adversely impacted by the general economic cycle • Any decrease in the availability, or increase in the cost, of raw materials or transportation could materially and adversely impact Elkem's business and results of operations • The business of the Group is particularly sensitive to increases in electricity costs which could materially and adversely increase operating costs

	• Elkem operates in a highly competitive industry • The costs of complying with changing environmental, health and safety laws could negatively impact Elkem's financial results • Costs of compliance with certain specific emissions-related laws, including climate change laws and regulations, could adversely affect Elkem's operations and performance • Elkem is increasingly subject to regulations directed at the chemicals industry • Elkem's operations are subject to the inherent hazards, disruptions to its business and other risks associated with silicones and metals manufacturing and the associated chemical production processes, as well as mining, which in turn could result in materially increased expenses and decreased production levels • There are risks to Elkem's global business relating to the countries in which Elkem operates that could materially and adversely impact its earnings or materially and adversely affect an investment in Elkem • Elkem may not effectively integrate with Xinghuo Silicones and Yongdeng Silicon Materials • Anti-dumping duties and laws for silicon and ferrosilicon imposed by the EU and the U.S. may expire or be further extended to the disadvantage of Elkem • The Chinese market has significant excess production capacity for silicon, ferrosilicon and siloxanes • The Group may be unable to remit funds out of China due to exchange controls implemented in late 2016 with the effect of restricting capital movements out of China • Elkem is exposed to exchange rate fluctuations • Production at Elkem's facilities may be subject to planned and unplanned production interruptions, which could have a material adverse effect on its ability to produce products for sale or maintain business operations and therefore, may materially adversely affect its business • Elkem may not be able to successfully implement its strategy • The assumptions made in preparing Elkem's financial targets and outlook included in this Prospectus may prove incorrect, incomplete or inaccurate Should any of the risks materialise, individually or together with other circumstances, they could have a material and adverse effect on the Group and/or its business, financial condition, results of operations, cash flows and/or prospects, which could cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.
D.3 Key risks specific to the securities	*Risks related to the Listing and the Shares:* • The Selling Shareholder may have significant voting power, the ability to influence matters requiring shareholder approval and may block equity transactions that could be in the interest of the Company • The price of the Shares could fluctuate significantly • Future sales, or the possibility for future sales, including by the Selling Shareholder, of substantial numbers of Shares could affect the Shares' market price

	• Future issuances of Shares or other securities could dilute the holdings of shareholders and could materially affect the price of the Shares • Pre-emptive rights to subscribe for Shares in additional issuances could be unavailable to U.S. or other shareholders • The Company's ability to pay dividends in accordance with its dividend policy or otherwise is dependent on the availability of distributable reserves and the Company may be unable or unwilling to pay any dividends in the future • Exchange rate fluctuations could adversely affect the value of the Shares and any dividends paid on the Shares for an investor whose principal currency is not NOK Should any of the risks materialise, individually or together with other circumstances, they could have a material and adverse effect on the Group and/or its business, financial condition, results of operations, cash flows and/or prospects, which could cause a decline in the value and trading price of the Shares, resulting in the loss of all or part of an investment in the Shares.

Section E - Offer

E.1	**Net proceeds and estimated expenses**	The Selling Shareholder will receive the proceeds from the sale of the Sale Shares and the Additional Shares, if any, and the Company will receive the proceeds from the sale of the New Shares in the Offering. The Offering consists of an offer of New Shares to be issued by the Company to raise gross proceeds of NOK 5,200 million. The Company will receive the net proceeds from the sale of the New Shares. The Company's total costs and expenses of, and incidental to, the Listing and the Offering are estimated to amount to approximately NOK 200 million (excluding VAT).
E.2a	**Reasons for the Offering and use of proceeds**	The Company believes the Offering and Listing will: • enable the Selling Shareholder to partially monetise its holding, optimise its capital structure and investment portfolio; • diversify the shareholder base and enable other investors to take part in Elkem's future growth and value creation; • enhance Elkem's profile with investors, business partners and customers; • further enhance the ability of Elkem to attract and retain key management and employees; and • facilitate the use of Shares as currency in M&A transactions and provide access to capital markets. The gross proceeds from the sale of the New Shares in the Offering are expected to amount to approximately NOK 5,200 million and net proceeds of approximately NOK 5,000 million, based on estimated total transaction costs of approximately NOK 200 million related to the New Shares and all other directly attributable costs in connection with the Listing and the Offering to be paid by the Company. The Company intends to use a portion of the net proceeds from the New Shares in the Offering (NOK 4,100 million) to finance the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials and to reduce parts of the Group's long term interest bearing debt (NOK 900 million).
E.3	**Terms and conditions of the**	The Offering consists of (i) an offer of New Shares to raise gross proceeds of approximately NOK 5,200 million by the issuance of up to 179,310,344

	Offering	New Shares, each with a nominal value of NOK 5.00, (ii) an offer of up to 71,657,143 Sale Shares, all of which are existing, validly issued and fully paid-up registered Shares with a nominal value of NOK 5.00, offered by the Selling Shareholder, as further specified in Section 15 "The Selling shareholder". The Stabilisation Manager may elect to over-allot up to 34,878,620 Additional Shares, equal to up to approximately 15% of the aggregate number of New Shares and Sale Shares (assuming that all the Sale Shares are sold in the Offering). The Selling Shareholder has granted Morgan Stanley, on behalf of the Managers, an Over-Allotment Option to purchase a corresponding number of Additional Shares to cover any such over-allotments. Assuming the Over-Allotment Option is exercised in full and that all the Sale Shares and New Shares are sold in the Offering, the Offering will amount to up to 267,402,757 Offer Shares. The Offering consists of: • An Institutional Offering, in which Offer Shares are being offered to (a) institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from prospectus and registration requirements, and (c) in the United States to QIBs, as defined in, and in reliance on Rule 144A of the U.S. Securities Act or another available exemption from registration under the U.S. Securities Act. The Institutional Offering is subject to a lower limit per application of NOK 2,000,000. • A Retail Offering, in which Offer Shares are being offered to the public in Norway subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 1,999,999 for each investor. Investors who intend to place an order in excess of NOK 1,999,999 must do so in the Institutional Offering. Multiple applications by one applicant in the Retail Offering will be treated as one application with respect to the maximum application limit. All offers and sales outside the United States will be made in compliance with Regulation S of the U.S. Securities Act. The Bookbuilding Period for the Institutional Offering will take place from 12 March 2018 at 09:00 hours (CET) to 21 March 2018 at 14:00 hours (CET). The Application Period for the Retail Offering will take place from 12 March 2018 at 09:00 hours (CET) to 21 March 2018 at 12:00 hours (CET). The Company and the Selling Shareholder, in consultation with the Managers, reserve the right to shorten or extend the Bookbuilding Period and Application Period at any time and at their sole discretion. The Managers expect to issue notifications of allocation of Offer Shares in the Institutional Offering on or about 21 March 2018, by issuing contract notes to the applicants by mail or otherwise. Payment by applicants in the Institutional Offering will take place against delivery of Offer Shares. Delivery and payment for Offer Shares is expected to take place on or about 26 March 2018 through the facilities of the VPS. ABGSC, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Shares in the Retail Offering on or about 22 March 2018, by issuing allocation notes to the applicants by mail or otherwise. The payment date in the Retail Offering is on or about 23 March 2018. Subject to timely payment by the applicant, delivery of the Offer Shares allocated in the Retail Offering is expected to take place on or about 26 March 2018 through the facilities of the VPS.
E.4	**Material and conflicting interests**	The Managers or their affiliates have provided from time to time, and may provide in the future, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary fees and

	commissions. The Managers do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Managers will receive a management fee in connection with the Offering, which will be based on the amount of gross proceeds received from investors, and, as such, have an interest in the Offering. In addition, the Company and/or the Selling Shareholder may pay to the Managers an additional discretionary fee in connection with the Offering. There are no conditions relating to such discretionary fee to the Managers. Nordea has entered into the New Loan Facilities Agreement (and may enter into future additional credit agreements) with the Company. The New Loan Facilities Agreement provides (and will provide) a committed credit facility to Elkem and the Company intends to use a portion of the net proceeds of the Offering to reduce parts of the Group's existing long term interest bearing debt. The individuals mentioned in Section 14.5.3 "IPO bonus scheme" will, if certain requirements are met, receive bonus payments in connection with the IPO on the terms further described in 14.5.3 "IPO bonus scheme", and as such, have an interest in the Offering. The Selling Shareholder will receive the net proceeds from the sale of the Sale Shares and from the sale of any Shares under the Over-Allotment Option, and the Company will receive the net proceeds from the sale of New Shares in the Offering. Beyond the above-mentioned, the Company is not aware of any interest, including conflicting ones, of any natural or legal persons involved in the Offering.
E.5 **Selling shareholder and lock-up agreements**	*Selling Shareholder* Pursuant to the Underwriting Agreement, the Selling Shareholder is expected to agree with the Managers that, without the prior written consent of the Joint Global Coordinators, it will not, during the period ending 365 days after the Institutional Closing Date, (i) offer, pledge, hypothecate, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, cause the Company to issue, or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any Shares or other equity interests in the capital of the Company or any securities convertible into or exercisable or exchangeable for Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or other equity interests of the Company, whether any such transaction described in (i) or (ii) above is to be settled by delivery of the Shares of the Company or such other securities or interests, in cash or otherwise, or (iii) propose any general meeting of the Company, or convene or take action to convene any general meeting for the purpose of proposing, any resolution of the Company authorizing the issue of any Shares or warrants to subscribe for Shares. The foregoing will not apply to (A) the sale of the Sale Shares under the Underwriting Agreement, (B) in the lending of any shares pursuant to the Underwriting Agreement, (C) an acceptance of a general offer for the ordinary share capital of the Company or the provision of an irrevocable undertaking to accept such an offer, *provided* that the Joint Global Coordinators shall be notified in advance in writing two Business Days prior to such acceptance or undertaking (to the extent legally permitted); (D) the transfer of Shares or any securities convertible into or exercisable for, or substantially similar to Shares by the Selling Shareholder to (x) the direct or indirect shareholders of the Selling Shareholder, (y) any subsidiary of a direct or indirect

	shareholder of the Selling Shareholder or (z) any of the subsidiaries or subsidiary undertakings of the Selling Shareholder, *provided* that, in the case of (D), as a condition to such transfer and receipt of Shares, including through dividend or other distribution, or any liquidation, dissolution, reorganization or other similar event affecting the Selling Shareholder or any of its Affiliates, each such transferee has agreed to assume the obligations of the Selling Shareholder as provided in the Underwriting Agreement and has validly executed a deed of succession; and (E) any disposal for the purposes of pledging or charging any Share to or for the benefit of a Representative that has entered into a Margin Loan (as defined below) as lender (the Margin Loan Lender as defined below) in connection with a Margin Loan; and/or (h) any disposal for the purposes of transferring any Shares pursuant to any enforcement of security over Shares granted by the Selling Shareholder to or for the benefit of a Margin Loan Lender in connection with a Margin Loan, provided that any proposed transferee of such Shares pursuant to an enforcement of security shall have agreed to be bound by the restrictions of the Underwriting Agreement for the remainder of the lock-up period in relation to such Shares transferred only as if it were the transferor by execution and delivery to the Underwriters of a deed of adherence. *The Company* Pursuant to the Underwriting Agreement, the Company is expected to agree with the Managers that, without the prior written consent of the Joint Global Coordinators, it will not, during the period ending 365 days after the Institutional Closing Date, (i) issue, hypothecate, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any Shares or other equity interest in the capital of the Company or any securities convertible into or exercisable for such Shares or other equity interests, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or other equity interests, whether any such transaction described in (i) or (ii) above is to be settled by delivery of the Shares or such other securities or interests, in cash or otherwise, or (iii) submit to its shareholders a proposal to effect any of the foregoing. The foregoing will not apply to (A) the granting of awards in options or Shares by the Company or the issuance of Shares upon exercise of options granted by the Company pursuant to employee share option schemes and (B) an offer of any Shares to employees of the Company. *Management* Pursuant to the Underwriting Agreement, should any member of Management subscribe for and be allocated Shares in the Offering, such member of Management is expected to agree with the Managers that, without the prior written consent of the Joint Global Coordinators, such member will not, during the period ending 365 days after the Institutional Closing Date, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise. Notwithstanding the above, such member of Management may without the prior written consent of the Joint Global Coordinators transfer

		any or all of the Shares which are subject to lock-up to a related party, provided such individual or entity agrees in writing to be bound by the same lock-up and executes a deed of adherence to effect the same.
E.6	**Dilution resulting from the Offering**	Following completion of the Offering (excluding any over-allotments), the immediate dilution from issuance of the New Shares for the Selling Shareholder is expected to be approximately 31% based on the assumption that the Company issues all the New Shares.
E.7	**Estimated expenses charged to investor**	Not applicable. No expenses or taxes will be charged by the Company or the Managers to the applicants in the Offering.

2 RISK FACTORS

An investment in the Offer Shares involves inherent risk. Before making an investment decision with respect to the Offer Shares, investors should carefully consider the risk factors and all information contained in this Prospectus, including the Combined Financial Statements and the Consolidated Financial Statements and related notes included in Appendix B and C, respectively. The risks and uncertainties described in this Section 2 "Risk Factors" are the material known risks and uncertainties faced by the Group as of the date hereof that the Company believes are the material risks relevant to an investment in the Offer Shares. An investment in the Offer Shares is suitable only for investors who understand the risks associated with this type of investment and who can afford to lose all or part of their investment. The absence of negative past experience associated with a given risk factor does not mean that the risks and uncertainties described herein should not be considered prior to making an investment decision in respect of the Offer Shares. If any of the following risks were to materialise, individually or together with other circumstances, they could have a material and adverse effect on the Group and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Offer Shares, resulting in the loss of all or part of an investment in the Offer Shares.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively. The information in this Section 2 "Risk Factors" is as of the date of this Prospectus.

2.1 Risks related to the business of Elkem and the industry in which Elkem operates

2.1.1 The silicon-based advanced materials and chemical industries, including the production and sale of silicones, silicon-based materials, foundry products and carbon, has been in the past, and may be in the future, subject to economic downturns, market disruptions and fluctuations in market price and demand which could lead to volatility in the Group's revenues

General economic conditions affect the silicon-based advanced materials and chemical industries, including the silicones, silicon materials, foundry alloys and carbon products segments in which Elkem operates. Downturns in economic conditions, whether in the markets in which Elkem's customers are active or end markets, can result in diminished demand for, and lower selling prices of, Elkem's products, which could have a negative impact on Elkem's revenues, operating profit and growth prospects. Elkem sells its products globally to customers who are located in multiple geographic markets, including Europe, Asia and the Americas. The acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials will lead to a significant increase in the importance of the Chinese market to Elkem. The Chinese economy is generally characterised by higher growth rates than more mature economies, but may also experience higher levels of volatility and government intervention, which may in turn have adverse consequences for Elkem's operations there.

Elkem's customers operate in a wide range of industries, including the automotive industry, the construction industry, the renewable energy industry, the oil and gas industry, the electronics industry, and the solar power and chemicals industries. Economic downturns, market disruptions, reduction in demand or otherwise uncertain economic outlooks in one or more of these markets or industries have affected Elkem in the past and could continue to do so in the future, which could in turn have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

For example, the Group's financial results for the year ended 31 December 2016 suffered from unfavourable reference standard prices for silicon and ferrosilicon. As an example, the average prices for silicon declined by 24% over the period, from EUR 2,191 / MT in 2015 to EUR 1,675 / MT in 2016, although the revenue impact was partially offset by moderately increased sales volumes in 2016. While market conditions have improved during 2017, there can be no assurance that markets will not suffer a downturn in the near- or medium- term. In addition, Elkem may not always have visibility on the nature and magnitude of the impact which economic conditions may have on its business due to the lag between changes to demand in end markets and customer orders for its products. Small changes in demand for Elkem's products can have a significant effect for the prices of Elkem's products. Any future decline could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.2 The silicon-based advanced materials and chemical industries are cyclical and Elkem may be materially and adversely impacted by the general economic cycle

Elkem's business is directly related to the production levels of its customers, whose businesses are dependent on highly cyclical markets, such as the automotive, construction, renewable energy, oil and gas, electronics, solar power and chemicals industries. In response to unfavourable market conditions, customers may request delays in contract shipment dates or other contract modifications or else default, terminate or not renew their contractual arrangements with Elkem, any occurrences of which could have an adverse impact on Elkem's revenues, results of operations, financial condition and prospects. Furthermore, many of the Group's products are internationally traded products with prices that are significantly affected by worldwide supply and demand. Consequently, the financial performance of the Group will fluctuate with the general economic cycle, a decline in which could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.3 Any decrease in the availability, or increase in the cost, of raw materials or transportation could materially and adversely impact Elkem's business and results of operations

The principal components in the production of silicones are silicon and methyl chloride. In addition, platinum is important for specialty silicone products in addition to a number of other chemicals. The principal components required for silicon and foundry alloys are quartz, coal, charcoal, wood chips, steel scrap, and other metals, such as magnesium and rare earth minerals; and the production of electrode paste and other carbon products requires anthracite, coke, pitch and coal tar. The Group has long term supply contracts for most key raw materials and also buys some of them on the spot market. The Group is dependent on certain suppliers of these products in certain of the markets in which it operates. In particular, the Group relies on a few selected sources for the specialised coal and methyl chloride that it requires, and relies on certain rare earth minerals which are only available in China and which have in the past been the subject of export restrictions.

Raw material costs represented 51% of the Group's combined revenue for the year ended 31 December 2017. To the extent there is a disruption in the supply of any of these raw materials from the Group's suppliers, or if the raw materials are not of the required quality, or are not delivered on a timely basis, the Group may not be able to obtain adequate supplies of these raw materials from alternative sources on terms as favourable as its current arrangements or at all, which may have a material adverse effect on Elkem's business, results of operations, financial condition and prospects. The inability to obtain certain raw materials may require Elkem to close certain production operations, entire production facilities or product lines.

Furthermore, if there is an increase in the costs of these raw materials as a result of disruptions in production, trade restrictions or any other reason, this will result in increased costs for Elkem. Because Elkem's customer contracts and the competitive environment of the markets in which Elkem operates do not generally permit increases in operating expenses to be passed on to customers, an increase in the cost of its raw materials would have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.4 The business of the Group is particularly sensitive to increases in electricity costs which could materially and adversely increase operating costs

Electricity is one of the Group's largest operating costs and represented 11% and 12% of the Group's operating costs, on a combined basis, in 2017 and 2016, respectively. The power consumption of the Group's electric production furnaces is dependent on which products are being produced and typically fall in the following ranges: (i) foundry alloys require between approximately 5 and 8 megawatt hours to produce one MT of product and (ii) silicon requires between approximately 11 and 12 megawatt hours to produce one MT of product. Accordingly, consistent access to low cost and reliable sources of electricity is essential to the Group's business. Because electricity constitutes such a significant percentage of costs, the Group is particularly vulnerable to fluctuations in electricity costs.

The price of energy is generally determined in the applicable jurisdiction where it is consumed and is influenced both by supply and demand dynamics and by domestic regulations. Changes in local energy policy, increased costs due to scarcity of energy supply, climate conditions and other factors can affect the price of energy supply to Elkem's facilities and adversely affect its results of operations and financial conditions. Energy prices in China, for example, are generally increasing and are expected to continue to do so. While the Group seeks to mitigate the risk of such fluctuations where appropriate by entering into long term electricity contracts to secure base volume and predictable prices, there can be no assurance that these hedges will be effective, capture all risks or continue to be available to the Group. The Group may also be unable to enforce its energy supply contracts or renew such contracts on favourable terms. For example, the Group is currently engaged in arbitration proceedings regarding the renewal of its energy supply contract in Iceland, the result of which may be less favourable pricing for the Group in the future.

Accordingly, the termination or non-renewal of any of the Group's electricity contracts or an increase in the price of electricity generally could materially adversely affect the Group's future earnings and may prevent Elkem from effectively competing in certain of its markets. Further, should the spot price for electricity trade fall below the hedging costs, these hedges may also weaken Elkem's competitiveness compared to competitors without electricity cost hedging. This in turn could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

Elkem is also exposed to changes in grid tariffs, both as a result of investments in power grids in Norway and other jurisdictions where it operates and potentially as a result of changes in the grid structure, either of which would likely cause the grid operator to raise tariffs in order to finance such investments or changes. Any such increases could in turn have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.5 Elkem operates in a highly competitive industry

The markets for silicones, silicon materials and silicon-based alloys are global, capital intensive and highly competitive. Elkem faces competition within all of the markets in which it operates, both from major international companies and from smaller regional competitors. Competition tends to be based on a range of factors, including product performance and quality, particularly as to specialized products, reliability of supply (or, at times, diversification of supplies), prices, availability and pricing of potential substitutes, innovation and technological development, both in respect of product offerings and potential substitutes, responsiveness to customer product development goals, customer service and relationships, the cost to customers of shifting to alternative suppliers and the cost of inputs and logistics, including customers' production footprints and supply chain economics.

Elkem's competitors may improve their manufacturing processes, develop superior or more innovative technology, expand their manufacturing capacity or develop, using different materials or processes, substitute products, causing an oversupply in the market or making it more difficult or less profitable for Elkem to compete successfully. In addition, there may be new market entrants that increase the level of competition the Group faces. This could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

The Group's existing and future competitors may also benefit from greater resources, more robust investment in research and development, financial strength and other strategic advantages and may, as a result, be better positioned to adapt to changes in the industry or the global economy, to maintain, improve and possibly expand their facilities, compete more aggressively on price as they seek to increase market share, and sustain that competition over a longer period of time. Competitors' pricing decisions may compel Elkem to decrease its prices, which could have an adverse effect on its results of operations, financial condition and prospects. Some of the Group's competitors may also benefit from lower raw material, energy and labour costs as well as less stringent environmental regulations.

In general, any failure by Elkem to compete on the basis of price, product performance and quality or any of the other factors discussed above, or to otherwise adapt to changes in its businesses and targeted end-market applications, could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.6 The costs of complying with changing environmental, health and safety laws could negatively impact Elkem's financial results

Elkem uses large quantities of hazardous substances, generates hazardous wastes and emits wastewater and air pollutants in its production operations, most notably in its Silicones division. Consequently, its operations are subject to extensive environmental, health and safety ("**EHS**") laws, regulations, rules and ordinances at the supranational, national and local level in multiple jurisdictions across the European, African, Asia Pacific and North and South American regions. Such EHS laws govern, among other things, the construction and operation of plants and facilities, the generation, discharge, emission, storage, handling, transportation, use, treatment and disposal of hazardous substances and waste material; land use, contamination, reclamation and remediation; and the health and safety of employees. Elkem is also required to obtain permits from governmental authorities for certain operations. EHS regulations apply to most of the Group's activities and the Group must dedicate substantial resources to complying with them. Elkem's cost of compliance with EHS regulations is part of its operating cost and, ultimately, must be covered by the prices at which the Group is able to sell its products. Competitors of Elkem who do not face EHS regulations to the same extent as Elkem may have lower operating costs and, as a consequence, their products may be priced lower than those of Elkem. In addition, the Group's suppliers are subject to EHS regulations that may impact their ability to supply the Group with the raw materials it needs, or only at a higher cost. The inability to obtain certain raw materials may require Elkem to close or reduce certain production operations, entire production facilities or product lines. Elkem's products are also used in a variety of end markets such as chemical, automotive, construction, renewable energy, oil and gas, electronics and solar power that have specific regulatory requirements such as those relating to human safety or recycling that may impact the demand for Elkem's products in those end markets.

Elkem may not have been and may not be at all times in complete compliance with EHS laws, regulations and permits, and Elkem has been held liable for environmental damage in the past. If Elkem violates or fails to comply with these laws, regulations or permits, Elkem could be subject to penalties, fines, restrictions on operations or other sanctions. Under these laws, regulations and permits, Elkem could also be held liable for any and all consequences arising out of human exposure to hazardous substances or environmental damage Elkem may cause or that relates to its operations or properties.

For example, under certain environmental laws, including under Norwegian law, Elkem could be required to remediate or be held responsible for all of the costs relating to any contamination at Elkem's or its predecessors' past or present facilities and at third party waste disposal sites. In particular, Elkem is working with the Norwegian Environmental Agency regarding the development of an action plan in respect of remediation work for the contaminated seabed adjacent to Elkem's plant in Kristiansand. Elkem may ultimately be required to pay for some or all of the remediation work, although the amount of any such costs are currently uncertain. In addition, Elkem may be held liable in other jurisdictions for natural resource, or environmental, damages in addition to remediation costs. For example, Elkem is currently being sued in Canada for allegedly contaminating the plaintiff's soil with manganese. The plaintiff is seeking to recover both remediation costs as well as environmental damages. Although the case is at an early stage, Elkem does not expect that the total costs plus damages will be material.

Elkem could also be held liable under applicable environmental laws for sending or arranging for hazardous substances to be sent to third party disposal or treatment facilities if such facilities are found to be contaminated. Under these laws Elkem could be held liable even if it did not know of, or was not responsible for, such contamination, or even if Elkem never owned or operated the contaminated disposal or treatment facility. In addition, Elkem operates quartz mines in Norway and Spain. Environmental regulations could impose costs on Elkem's mining operations, and future regulations could increase those costs or add new costs or limit Elkem's ability to produce quartz. A failure to obtain and renew permits necessary for Elkem's mining operations could negatively affect Elkem's operations.

Many EHS regulations have become more stringent over time and the trend is likely to continue, especially as regulators and government increasingly focus on human health and the safe use of chemicals and their products in commerce, as well as their potential impact on health and the environment are likely to manifest themselves in more stringent regulatory intervention. Several countries in which the Group operates have instituted EHS regulations attempting to increase the protection and security of chemical plants, which could result in higher operating costs. In addition, many EHS regulations require the Group to hold operating permits for its production facilities, which are subject to periodic renewal and, in circumstances of noncompliance, may be subject to operating restrictions, revocation or fines. The necessary permits may not be issued or continue in effect, and any issued permits may contain more stringent limitations that restrict Elkem's operations or that require further expenditures to meet additional requirements imposed by permits.

Compliance with more stringent EHS regulations will likely increase Elkem's operating costs including costs related to the transportation and storage of raw materials and finished products, as well as the costs of storage and disposal of waste. The Group's capital expenditures and costs relating to the implementation of EHS regulations will fluctuate due to factors that are out of the Group's control, such as the timing of the promulgation and enforcement of specific standards which impose requirements on the Group's operations. Capital expenditures and costs beyond those currently anticipated may therefore be required under existing or future EHS regulations. Accordingly, EHS regulations may cause the Group to incur significant unanticipated losses, costs or liabilities, which could reduce its profitability. In addition, laws and regulations may be newly imposed or amended on short notice, becoming more stringent in a short period of time. Elkem may incur substantial costs, including penalties, fines, damages, criminal or civil sanctions and remediation costs, experience interruptions in its operations, or be required to cease operations in certain locations for failure to comply with these laws or permit requirements.

Changes in EHS regulations in jurisdictions where Elkem produces and sells its products could also lead to a decrease in demand for its products. Concerns about product safety and environmental protection could influence public perception of the Group's products and operations, the viability of some or all of its products, its reputation, and the ability to attract and retain employees. Further to regulatory changes, health and safety concerns could increase the costs incurred by the Group's customers to use its products and otherwise limit the use of the Group's products, which could lead to decreased demand for these products. Such a decrease in demand would have a materially adverse effect on the Group's business and results of operation.

Given the diversification and global operations of Elkem's business, there is an elevated risk that the Group may not comply with all applicable laws, regulations or permits in all the jurisdictions in which it operates. The significant number of EHS regulations differs across jurisdictions and results in a complex regulatory environment with which the Group must continually comply.

Moreover, even if Elkem is in compliance with regulatory and permit requirements, the actions or regulatory non-compliance of other companies may lead to industry-wide investigations by regulatory authorities that could interrupt some or all of Elkem's production operations for significant periods. The costs of complying with changing EHS regulations and the liabilities including penalties, fines, damages, criminal or civil sanctions and remediation costs the Group may incur for failing to adequately comply with applicable EHS regulations could materially adversely affect the Group's business, financial condition, results of operations and prospects.

2.1.7 Costs of compliance with certain specific emissions-related laws, including climate change laws and regulations, could adversely affect Elkem's operations and performance

Some of the principal environmental risks associated with Elkem's operations are emissions into the air and releases into the soil, surface water, or groundwater. The main air emissions from Elkem's primary production processes include CO2, SO2, NOx, PAH, MeCl and dust. Elkem's operations are subject to extensive national and international environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures and greenhouse gas emissions. If Elkem violates or fails to comply with these laws and regulations, Elkem could be fined or otherwise sanctioned. Because environmental laws and regulations are becoming more stringent and new environmental laws and regulations are continuously being enacted or proposed, such as those relating to greenhouse gas emissions and climate change, the level of expenditures required for environmental matters could increase in the future. Future legislative action and regulatory initiatives could result in changes to operating permits, additional remedial actions, material changes in operations, increased capital expenditures and operating costs, increased costs of the goods Elkem sells, and decreased demand for Elkem's products that cannot be assessed with certainty at this time.

Under current European Union legislation, all industrial sites are subject to cap-and-trade programs, by which every facility with carbon emissions is required to purchase in the market emission rights for volumes of emission that exceed a certain allocated level. We expect that until 2020, the allocated level of emissions is such that the potential requirements of emissions rights purchases will have a limited impact on Elkem's business. After 2020, however, new regulations may require significant purchases of emissions rights in the market. Also, several Canadian provinces have implemented cap-and-trade programs. As such, Elkem's facility in Canada and its facilities in the European Union may be required to purchase emission credits in the future (85% of the cost which may be exempted in the European Union). The requirement to purchase emissions rights in the market could result in material increased compliance costs, additional operating restrictions for Elkem's business, and an increase in the cost of the products Elkem produces, which could have a material adverse effect on Elkem's financial position, results of operations, and liquidity.

In the United States, federal and state legislative and regulatory proposals to regulate greenhouse gas emissions are at various stages of consideration and implementation and China is considering similar proposals. Some of the proposals would require industries to meet stringent new standards that would require substantial reductions in carbon emissions. Further greenhouse gas regulation may result from the December 2015 agreement reached at the United Nations climate change conference in Paris. Pursuant to that agreement, countries are required to review and "represent a progression" in their intended nationally determined contributions, which set greenhouse gas emission reduction goals, every five years beginning in 2020. Many of the countries in which Elkem operates have signed the Paris agreement. These reductions could be costly and difficult for many industries and businesses, including Elkem, to implement.

2.1.8 Elkem is increasingly subject to regulations directed at the chemicals industry

Since 2015, Elkem has become more specialised in the production of chemicals, with a majority of its revenues attributable to silicones. As a consequence, its exposure to regulations directed at the chemicals industry has increased. Many of the chemical substances that Elkem relies on, as well as many applications for Elkem's products, are regulated by the EU's Registration, Evaluation, Authorisation, and Restriction of Chemicals Regulation (''**REACH**''). In the first two phases of the implementation of REACH in 2010 and 2013, the Group registered approximately 46 pre-registered substances. The Group estimates that it will be required to register two additional substances in 2018. Going forward, restriction and authorisation requirements pursuant to REACH could impair Elkem's business by interfering materially with the manner in which it currently conducts its operations or with the manner in which its products can be used. Pursuant to REACH, the EU Commission can establish a set of criteria for substances, such as those produced by the Group, that may lead to a ban or a selective authorisation process which is anticipated to provide authorisation only for limited periods. The risk remains that the distribution of some of the compounds the Group imports, produces and sells currently will be prohibited in the future or be subject to an extensive, time and cost intensive authorisation process that ultimately may not permit the Group to continue producing certain of its products.

One of the main raw materials for the production of Elkem's carbon products is coal tar pitch. Coal tar pitch has been included on the EU Candidate List of substances of very high concern. In addition, the production of certain silicone-based products, including personal care products, entails the production by Elkem of certain intermediate products such as the cyclosiloxanes D4 and D5. Certain pubic bodies in Europe have concluded that D4 and D5 may be regarded as unsafe, and that their use should be restricted. This means these substances may be subject to strict regulations within the EU in the future. So far, the regulatory focus has been on the presence of D4 and D5 in end use products, such as personal care products. If the focus moves to the silicone production process, however, this may result in restrictions on Elkem's use of these intermediates, which in turn could materially and adversely affect the Group's silicone production.

As a corollary to the REACH Regulation, the EU has adopted the Classification, Labelling and Packaging Regulation to harmonize the EU's system of classifying, labelling and packaging chemical substances with the United Nation's Globally Harmonized System. The regulation aims to standardise communication of hazard information of chemicals and to promote regulatory efficiency. It stipulates classification criteria, hazard symbols and labelling phrases, while taking account of elements that are part of EU legislation. Proposals for a restriction may range from implementing a training and certification scheme defining minimum conditions for the safe handling of a particular substance to an authorisation process as well as prohibiting the use of these substances.

In the United States, Elkem's products and raw materials are subject to environmental and health regulations, including the U.S. Toxic Substances Control Act (''**TSCA**''), requiring the registration and safety analysis of the substances contained in them. The U.S. Environmental Protection Agency (the ''**EPA**'') is undergoing a reassessment of the TSCA which may result in additional or more stringent regulatory testing, labelling and notification requirements.

In light of recent events in China, and in particular in light of a recent large explosion in Tianjin, China, regulations in China governing the production, use, handling and transportation of chemicals, including those produced by the Group, have been tightened, with the Chinese central government strengthening supervision and increasing liability for project owners, and safety administrators increasing safety assessments of chemical plants.

Regulations such as REACH are likely to become more stringent over time as they are designed to ensure a high level of protection for people and the environment and demand comprehensive tests for chemical products. Test procedures required by regulations such as REACH can be costly and time-intensive, and may lead to a rise in production costs. Moreover, as mentioned above, the use of chemicals in production could be restricted, which could make it impossible for Elkem to continue manufacturing certain products. In addition, the regulation or reclassification of any of Elkem's products could require it to incur increased costs to comply with notification, labelling or handling requirements. Given the complexity of the Group's global operations and the growing importance of chemical manufacturing to its business, there is an elevated risk that the Group may not always comply with REACH and similar regulations in the United States, China and other jurisdictions where the Group operates or sells its products, which could result in fines, sanctions and other penalties. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operations.

2.1.9 Elkem's operations are subject to the inherent hazards, disruptions to its business and other risks associated with silicones and metals manufacturing and the associated chemical production processes, as well as mining, which in turn could result in materially increased expenses and decreased production levels

Manufacturing generally, and high temperature and chemical production processes, in particular, are inherently dangerous and subject to fire, explosion and sudden major equipment failure. Silicone manufacturing, for example, involves high pressure chlorinated products which may cause injury or death and may lead to fatal accidents. Such manufacturing activities and chemical processes are also vulnerable to other potential hazards such as natural disasters, terrorist attacks, transportation interruptions, pipeline leaks and ruptures, storage tank leaks, chemical spills, discharges of toxic substances, property contamination and remediation and others. These hazards can present major risks to the health and safety of workers, neighbouring populations and the environment. Consequences of such incidents for Elkem could include an interruption, relocation or suspension of operations or disruption of sophisticated manufacturing equipment, decreases in the productivity and profitability of a particular production facility or the Group's business operations as a whole, and governmental enforcement, regulatory shutdowns, the imposition of government fines and penalties and claims brought by governmental entities or third parties.

In addition, Elkem uses contractors, over whom it may have less control than it has over its employees, who may perform duties on behalf of the Group in a manner that may cause harm to the health and safety of other workers, neighbouring populations and the environment. The costs associated with any of these events may be substantial and could exceed or otherwise not be covered by the Group's insurance coverage. In addition, a number of governments have instituted regulations attempting to increase the protection and security of chemical plants and the transportation of hazardous substances, which could result in higher operating costs for Elkem. Improper handling of hazardous substances by the Group, its customers or its business partners due to the Group's failure to provide, if at all, appropriate handling instructions, failure by its customers or business partners to follow handling instructions or otherwise may lead to the release of toxic or hazardous substances, which may in turn result in stricter regulation or restriction of the use of such substances.

Since 2010, Elkem has experienced several accidents resulting in serious injury or death of employees and contractors and production shutdowns. These incidents include seven fatal accidents and several fires resulting in partial production shutdowns. Given the nature of Elkem's operations there may be further accidents, injuries and fatalities in the future.

The occurrence of any of the events described above could be seriously detrimental to Elkem's reputation, impose significant costs and require substantial capital expenditures to rectify, and harm its ability to obtain or maintain its existing licenses or its key commercial, regulatory, and governmental relationships. Any of the above could in turn materially adversely affect Elkem's business, financial condition, results of operations and prospects.

In addition, Elkem mines quartz at open pit and surface mining operations in Norway and Spain. Quartz mining is inherently dangerous and subject to numerous hazards, including collisions, equipment failure, flooding, collapse, blasting operations and operating in extreme climactic conditions. Elkem's mining activities involve dynamite and heavy machinery, both of which can cause serious or fatal accidents. Certain factors beyond Elkem's control could disrupt its mining operations, adversely affect production and shipments and increase Elkem's operating costs, such as a major incident at a mine site that interrupts mining operations or unexpected maintenance problems; the inability to renew mining concessions upon their expiration; and adverse weather and natural disasters. Regulatory authorities have the authority under certain circumstances following significant health and safety incidents to order a mine to be temporarily or permanently closed.

2.1.10 There are risks to Elkem's global business relating to the countries in which Elkem operates that could materially and adversely impact its earnings or materially and adversely affect an investment in Elkem

Elkem has twenty-seven production facilities worldwide, including in Europe, North and South America, Africa and Asia. In addition, Elkem sources and sells products to customers across a wide range of countries. As a result, Elkem's operations are subject to a variety of country, regulatory and political risks, particularly in connection with its operations in emerging markets, including Brazil, Paraguay, South Africa, Malaysia, India and China. These risks include potential political and economic uncertainty, application of foreign exchange controls, price controls, corruption, nationalisation, expropriation, regulatory changes, crime and the lack of enforcement thereof, political insurrection, governmental interference, currency fluctuations, restrictions and devaluations, punitive or unpredictable taxation, anti-dumping duties and trade barriers, export duties and quotas and other restrictive government actions, hostility from local populations, restrictions on the ability to repatriate dividends from subsidiaries, natural disasters and other catastrophic events, and changes in law and government policy. Particular risks in China may include periodic government measures to slow economic growth to a more manageable level and influence industrial production, bank credit and fixed investment, as well as government control over a substantial portion of productive assets, an assertive industrial policy, and the exercise of significant control over growth through the allocation of resources and providing preferential treatment to particular industries or companies. The financial risks of operating in emerging markets also include risks related to inflation, devaluation, price volatility, currency convertibility and country default.

Furthermore, the legal systems in the emerging markets in which Elkem operates may be less predictable than those in more developed markets, as the laws of and courts in those markets may not be fully developed in the enforcement of contracts and other types of commercial disputes. The Chinese legal system in particular is subject to uncertainty, as China has in recent years introduced many new laws and regulations to provide guidance on economic and business practices in China and to regulate foreign investment. As these laws and regulations are relatively recent, their interpretation and enforcement may involve significant uncertainty. These conditions can lead to delays in enforcement proceedings and restructuring projects and generally lead to a disruption to the conduct of business in these markets. Third parties or governments could also seek to hold Elkem liable for obligations of related parties based on legal principles that differ from those which would be applied by courts in more developed markets.

Any of these factors could materially and adversely affect Elkem's results of operations and prospects by causing interruptions in its operations, by increasing the costs of operating in these countries or by limiting its ability to repatriate profits from these countries. These factors could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.11 Elkem may not effectively integrate with Xinghuo Silicones and Yongdeng Silicon Materials

Elkem has agreed to acquire Xinghuo Silicones and Yongdeng Silicon Materials as part of its plan to establish itself as a global manufacturing company of silicone-based advanced materials. Elkem may not be able to effectively integrate Xinghuo Silicones and Yongdeng Silicon Materials, or generate the anticipated synergies and commercial benefits from these acquisitions.

The main synergies the Group is seeking from the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials relate to the establishment of a fully integrated silicones value chain which will further develop Elkem's value chain, from upstream quartz mining to silicon, siloxane and downstream silicones specialities and the strengthening of Elkem's position in the Chinese market. Elkem believes that the acquisition of Xinghuo Silicones will yield a substantial increase in siloxane capacity and a strong platform for future growth in China.

Even though the integration of Xinghuo Silicones and Yongdeng Silicon Materials has been ongoing for some time, however, the Group may yet experience unforeseen difficulties. Among other things, Elkem may have trouble achieving the significant cost savings that the integration plan relies on or to establish the streamlined business processes that are necessary to drive production efficiencies. For example, Elkem may not be effective in benchmarking Xinghuo Silicones towards its more advanced silicones facilities in Europe, or in successfully transferring its important technological know-how. Elkem may also encounter difficulties successfully integrating other important aspects of the two companies, such as the financial reporting systems, enterprise resource planning systems, internal control systems, or information technology systems of Xinghuo Silicones and Yongdeng Silicon Materials Silicone Materials, which in turn may delay or cause problems with the business processes of the combined company. Any of the foregoing difficulties may have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.12 Anti-dumping duties and laws for silicon and ferrosilicon imposed by the EU and the U.S. may expire or be further extended to the disadvantage of Elkem

The EU has had anti-dumping duties on imported Chinese silicon since 1990. The level is currently at 16.3% for certain Chinese production companies and 16.8% for all other Chinese production companies. The Chinese production companies subject to a 16.3% ADD rate are Datong Jinneng Industrial Silicon Co., Pingwang Industry Garden, Datong and Shanxi. These new rates imposed by the European anti-dumping scheme were extended by the European Commission in July 2016 for a period of five years. Similarly, the U.S. has had anti-dumping duties for silicon in place since 1998. The anti-dumping duties in the U.S. are 139.5% for Chinese silicon and in the range of 61.6% to 87.1% for Russian silicon. Canada implemented anti-dumping duties on Chinese silicon on 21 October 2013 which will be effective until October 2018. The Canadian anti-dumping duties vary from 47.3% to 235.0%. In June 2015, Australia also imposed anti-dumping and countervailing duties of 18.3% to 58.3% on Chinese silicon, which will be valid for five years.

As a result of Elkem's global business model, the anti-dumping measures described above have had and likely will continue to have both positive and negative impacts on Elkem's business. Although such measures have the effect of protecting domestic silicon producers in the relevant markets, including Elkem's production companies in those markets, from lower-cost competition from China and Russia, as the case may be, such measures also impose costs on exports to those markets, if any. In addition, the expiration of any such anti-dumping duties could affect European silicon prices negatively, as the prices within the EU and the United States are especially sensitive to expiration of EU or U.S. anti-dumping duties. Any such reduction of European or U.S. sales prices of silicon could in turn have a material adverse effect on Elkem's business, results of operations, financial condition and prospects. Even if such duties are extended or increased, continuing the protection of Elkem's operations in those markets, it is likely that Elkem's exports to those markets could be disadvantaged.

On 1 March 2018, the U.S. Department of Commerce announced its affirmative final determination in its anti-dumping duty investigations of imports of silicon from Australia, Brazil and Norway. For Australian production companies, the affirmative anti-dumping rate was set at an individual basis for one production company of 51.28% and 41.73 for all other Australian production companies. For Brazilian production companies, the affirmative anti-dumping rate was set at an individual basis for certain production companies varying from 68.97% to 134.92%, and 68.97% for all other Brazilian production companies. The investigation carried out by the U.S. Department of Commerce also resulted in an affirmative anti-dumping rate of 3.22% for Elkem and all other Norwegian production companies, which was slightly down from the preliminary anti-dumping rate of 3.74%. A final determination on whether these anti-dumping rates will take effect will be decided by the ITC, which is expected to be announced in April 2018. Depending on the outcome of the final determination, Elkem's sales in the U.S. could be impacted by the higher prices for its products that could result from the affirmative anti-dumping duty.

The EU has imposed anti-dumping duties on ferrosilicon from China, Russia and certain other countries with effect from 2008. The duty was set to 31.2% for the majority of Chinese suppliers and 22.7% for the majority of Russian suppliers. The duties were initially set to expire in February 2013, but in April 2014, the EU implemented definitive anti-dumping measures in respect of ferrosilicon from China and Russia, extending the anti-dumping duties set in 2008 until 10 April 2019. Current anti-dumping duties are 15.6% for Erdos, 29% for Lanzhou Good Land and 32.1% for other Chinese suppliers. For Russia, the anti-dumping duty is 17.8% for Bratsk and 22.7% for other Russian suppliers. The United States has imposed import duties of 22.8% on imports from certain specified Venezuelan suppliers of ferrosilicon since 2014.

Even though the effect of the anti-dumping duties on ferrosilicon in the EU and the United States is currently limited, as the EU and United States ferrosilicon markets currently do not have significant imports from China and Russia or Venezuela, as the case may be, the price of ferrosilicon in the EU and the United States would most likely be lower in the absence of anti-dumping duties. Any reduction of European or US ferrosilicon sales prices could in turn have a material adverse effect on Elkem’s business, results of operations, financial condition and prospects.

2.1.13 The Chinese market has significant excess production capacity for silicon, ferrosilicon and siloxanes

In China, there is, and has been for more than a decade, idle production capacity for silicon and ferrosilicon. Such idle capacity is a result of several factors, including stricter environmental laws and regulations and government intervention designed to take excess production off the market. In addition, some Chinese production facilities are located in regions without a stable supply of electricity, as a result of which that production capacity can only be utilised periodically or at certain times of year (for example during the wet season for regions reliant on hydropower) and remains idle during the other periods.

In addition, following a rapid increase in Chinese siloxanes/methyl chlorosilane production capacity up to 2014, new regulations were implemented in China limiting the ability of new participants to enter the siloxanes market in order to prevent overcapacity and oversupply in the siloxanes market. However, even though planned global capacity increases for siloxanes were delayed, there is a risk that the siloxanes production capacity in China will continue to grow in the coming years. The oversupply could result in lower sales prices for commodity silicones, which could have a material adverse effect on Elkem’s business, results of operations, financial condition and prospects.

Any significant utilisation of such idle capacity, for example due to a change of government environmental policy or improved access to electricity in affected areas, would substantially increase the supply of silicon and ferrosilicon in the market, which could have a material adverse effect on the market price of such products and, in turn, on Elkem’s business, results of operations, financial condition and prospects.

2.1.14 The Group may be unable to remit funds out of China due to exchange controls implemented in late 2016 with the effect of restricting capital movements out of China

The Group is in the process of acquiring and integrating two Chinese companies, Xinghuo Silicones and Yongdeng Silicon Materials, and in addition has and may in the future enter into customer, supply and other agreements with Chinese companies. The Chinese government introduced new exchange controls in late 2016 requiring a complex filing procedure to move capital out of China. Accordingly, foreign companies trying to repatriate profits, pay dividends, repay loans and remit proceeds from assets, products or services sold in China may experience difficulties on their outbound transfers, which may be disruptive to those foreign companies' operations in China. The restrictions are not always clear, especially in relation to requirements and process time, and may vary based on the companies' locations in China. Furthermore, the duration and magnitude of the restrictions are currently uncertain, and have therefore created uncertainty for both Chinese outbound direct investments and foreign business operations based in China. The Group may be affected by the aforementioned restrictions, in particular to the extent it desires to refinance certain indebtedness of Xinghuo Silicones or Yongdeng Silicon Materials, and may therefore experience difficulty and uncertainty in relation to its Chinese operations which may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

2.1.15 Elkem may make acquisitions in the future that prove unsuccessful or divert the Group’s resources

In December 2016, Elkem acquired Fesil Rana Metall AS, a producer of standard and speciality ferrosilicon and microsilica, from Fesil AS and also acquired, through an asset purchase, the iron foundry business of the Indian

Company Minex Metallurgical Co. Ltd., a leading[14] provider of speciality alloys. Upon completion of the Offering, Elkem will complete the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials.

Elkem may in the future consider making additional strategic acquisitions, particularly in the silicones business, to support future growth and profitability. Successful growth through acquisitions is dependent upon the Group's ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favourable terms, obtain required licenses and authorisations and ultimately complete such acquisitions and integrate acquired entities into the Group. There can be no assurance that acquisition opportunities will be available on acceptable terms or at all or that Elkem will be able to obtain necessary financing or regulatory approvals to complete potential acquisitions. If the Group makes acquisitions, it may be unable to generate expected margins or cash flows, or realise the anticipated benefits of such acquisitions, including growth or expected synergies. Elkem's assessment of and assumptions regarding acquisition targets may prove to be incorrect, and actual developments may differ significantly from expectations. The Group may not be able to integrate acquisitions successfully and integration may require greater investment and time than anticipated. Additionally, the acquisitions may result in unintended consequences, for example, if significant liabilities are not identified during due diligence or come to light after the expiration of any applicable warranty or indemnity periods.

The process of integrating acquisitions may also be disruptive to the Group's operations, as a result of, among other things, unforeseen legal, regulatory, contractual and other issues and difficulties in realising operating synergies, which could cause the Group's results of operations to decline. Moreover, any acquisition may divert management's attention from day to day business and may result in the incurrence of additional debt. Should any of the above occur in connection with an acquisition, there could be a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.16 Elkem is exposed to exchange rate fluctuations

Elkem incurs a currency transaction risk whenever it enters into a purchase or sale transaction or incurs costs or indebtedness using a different currency from the currency in which it records revenues. Elkem earns a substantial proportion of its revenues, and incurs a substantial proportion of its costs, in EUR, USD and RMB. The remainder of its revenues and costs are in other currencies, mainly NOK and, to a lesser extent, Canadian dollars, Brazilian Real and Icelandic kroner as well as other local currencies of countries in which Elkem operates. Following the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, the Group's exposure to the RMB will increase further, as the businesses grow and the amount of Elkem's revenues and costs denominated in RMB increase. Elkem may also incur RMB denominated financial obligations in order to finance its operations and expansion in China. As discussed in Section 12.12.1 "Currency risk", Elkem maintains a predefined hedging policy that aims to mitigate the effects of currency movements. However, there can be no assurance that the hedging policy will be effective or that it will protect Elkem from the long-term effects of adverse currency movements.

Elkem is exposed to translation risk in respect of exchange rate fluctuations. As Elkem reports its consolidated results in NOK, the value of the NOK relative to its foreign operating subsidiaries' functional currencies will affect its combined income statement and combined statement of financial position as the operating results of those subsidiaries are translated into NOK for reporting purposes. To the extent that the NOK strengthens against one or more of the foregoing currencies for a particular reporting period, the translation of that currency or currencies into NOK would have a negative impact on Elkem's income statement and statement of financial position. Furthermore, the purchase price for each of Xinghuo Silicones and Yongdeng Silicon Materials are in the USD equivalent of RMB, and the net proceeds to the Company from the Offering, a portion of which will be used to finance the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, will be in NOK. As a result of potential exchange rate fluctuations between RMB and NOK, the purchase price of the acquisitions may be more costly than expected.

As a result, exchange rate fluctuations may have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.17 Elkem receives each year substantial amounts under the EU's CO_2 quotas compensation scheme which may be phased out

Carbon dioxide is one of the main emissions resulting from Elkem's production operations. Elkem's European operations are therefore subject to the EU's CO_2 Emissions Trading Scheme (the "**CO_2 Trading Scheme**"), which was established as part of the EU's attempts to control greenhouse gas emissions and global warming. Under the scheme, industrial emitters of CO_2 are obliged to surrender allowances to the authorities corresponding to their emissions on an

[14] Company estimate based on market share in relevant markets and production capacity.

annual basis. Depending on their industry, most companies are awarded a significant portion of their allowances for free to avoid placing them at an undue competitive disadvantage as compared to producers outside of Europe.

Elkem, which came under the ambit of the CO_2 Trading Scheme in 2013, was awarded free allowances for 73%, 75% and 79% of its emissions in 2017, 2016 and 2015, respectively, and purchased allowances in the market to cover the remainder of its emissions in each year. The cost to purchase these allowances was NOK 19.5 million in 2017, NOK 13.9 million in 2016 and NOK 13.8 million in 2015. The amount of free allowances as government grants is expected to decrease gradually until the current phase of the CO_2 Trading Scheme ends in 2020. It is currently unclear whether the Scheme will be extended or replaced. If not replaced, Elkem will no longer receive these allowances in the future, and the resulting cost impact on Elkem could be material.

2.1.18 Elkem is exposed to significant risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs

Doing business on a worldwide basis requires Elkem to comply with the laws and regulations of various jurisdictions. In particular, Elkem's international operations are subject to anti-corruption laws and regulations, such as the U.S. Foreign Corrupt Practices Act of 1977 ("**FCPA**"), the United Kingdom Bribery Act of 2010 (the "**Bribery Act**") and economic sanctions programs, including those administered by the UN, EU and OFAC and regulations set forth under the Comprehensive Iran Accountability Divestment Act. The FCPA prohibits providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage.

Elkem and its employees may deal with both governments and state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. The provisions of the Bribery Act extend beyond bribery of foreign public officials and are more onerous than the FCPA in a number of other respects, including jurisdiction, non-exemption of facilitation payments and penalties. Economic sanctions programs restrict our business dealings with certain sanctioned countries.

As a result of doing business in foreign countries, Elkem is exposed to a risk of violating anti-corruption laws and sanctions regulations applicable in those countries where Elkem, its partners or its agents operate. Some of the international locations in which the Group operates lack a developed legal system and have high levels of corruption. Elkem's continued expansion and worldwide operations, including in developing countries, its development of joint venture relationships worldwide and the employment of local agents in the countries in which it operates increases the risk of violations of anti-corruption laws, OFAC or similar laws. Violations of anti-corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts (and termination of existing contracts) and revocations or restrictions of licenses, as well as criminal fines and imprisonment. In addition, any major violations could have a significant impact on Elkem's reputation and consequently on its ability to win future business.

Elkem will seek to continuously improve its systems of compliance with anti-corruption laws and regulations and sanctions programs. There can be no assurance, however, that its policies and procedures will be followed at all times or effectively detect and prevent violations of the applicable laws by one or more of its employees, consultants, agents or partners and, as a result, Elkem could be subject to penalties and material adverse consequences on its business, financial condition and results of operations.

2.1.19 Elkem relies on the proper functioning of its computer and data processing systems that must be regularly upgraded or replaced, and a larger-scale malfunction could result in material and adverse disruptions to its business

Elkem relies primarily on globally and locally functioning information technology systems across its operations, including for management, supply chain and financial information and various other processes and transactions. This applies particularly to the Group's global enterprise resource planning system, which electronically captures and controls group business and financial transactions, as well as to the operating systems at Elkem's plants. Elkem's ability to effectively manage its business depends on the security, reliability and capacity of these systems. Information technology system failures, network disruptions or breaches of security could materially disrupt its operations, cause material delays or cancellations of customer orders or impede the production or shipment of products, processing of transactions or reporting of financial results. An attack on or other problems with the Group's systems could also result in the disclosure of proprietary information about its business or confidential information concerning its customers or employees, which could result in significant damage to its business and its reputation.

Elkem has put in place security measures designed to protect against the misappropriation or corruption of its systems, intentional or unintentional disclosure of confidential information, or disruption of its operations. However, these security measures may prove ineffective. Current employees have, and former employees may have, access to a significant amount of information regarding the Group's operations, which could be disclosed to its competitors or otherwise used to harm the business. Any breach of the Group's security measures could result in unauthorised access to and misappropriation of its information, corruption of data or disruption of operations or transactions, any of which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

Elkem has and will continue to expend material amounts, and dedicate personnel, to upgrade and maintain its information technology systems to protect against threatened or actual security breaches. In addition, Elkem could be required to expend significant amounts to respond to unanticipated information technology issues. Elkem may not have been able and may not be able to effectively implement measures that will protect against all of the significant risks to its information technology systems, including with respect to newly acquired companies such as Xinghuo Silicones and Yongdeng Silicon Materials. Failure to implement these measures that could protect against all significant risks could materially adversely affect the Group's business, financial condition, results of operations and prospects.

2.1.20 Production at Elkem's facilities may be subject to planned and unplanned production interruptions, which could have a material adverse effect on its ability to produce products for sale or maintain business operations and therefore, may materially adversely affect its business

Elkem operates multiple and complex technical processes, which may be subject to breakdowns, government shut-downs or suspensions, inefficiencies, operational human errors, sabotage and technical failures that may interrupt production operations or delay a resumption of production following a plant modification or a turnaround. Any material disruption at any of the Group's production facilities, in particular the Group's facilities with large production capacity, could impair its ability to use its facilities, have a material impact on its ability to produce products for sale or maintain business operations. Furthermore, the Group may at times enter into product swap agreements and similar arrangements with other producers to adequately supply customers. The operations of such producers are also subject to unplanned disruptions that may impact the Group's relationship with its customers.

Production disruptions may be caused by several factors including natural disasters, weather, pandemics and epidemics, supply disruptions-particularly from sole-source suppliers-strikes, transportation interruptions, government regulations or policy, political unrest or terrorism, or internal reasons, such as fires, equipment failure, unplanned maintenance, operational human errors or other production problems. Government involvement in production processes, sometimes on short notice, is a particular risk in China, where the state plays a significant role in industrial policy and state intervention is more common than in other countries where Elkem operates. For example, Chinese authorities have in the past acted to shut down production capacity in a wide range of industries in order to reduce pollution problems, and some of that production capacity remains idle. Disruptions at one or more of Elkem's production facilities or other facilities or infrastructure upon which it relies may also interrupt production further up or down the production chain and lead to a decrease in volumes and sales, potential loss of customers and damage claims by customers. Adequate spare parts and maintenance services may not be available in a timely manner to secure the continuation of the operations. If disruptions occur, alternative facilities with sufficient capacity or capabilities may not be available (or may be located in another region), may be characterised by substantially higher costs or may take significant time to start production. Moreover, long-term production disruptions may cause the Group's customers to seek alternative sources of supply, which could exacerbate any adverse effects experienced by the Group. Material disruptions at any of Elkem's production facilities could materially adversely affect its business, financial condition, results of operations and prospects.

2.1.21 Losses caused by disruptions to the supply of power could have a negative impact on Elkem's operations and profitability

Large amounts of electricity are used to produce silicon materials and foundry alloys and the Group's operations are heavily dependent upon a reliable supply of electrical power. Losses may occur due to a temporary or prolonged interruption in the supply of electrical power to the Group's facilities, which can be caused by unusually high demand, limited supply blackouts, equipment failure, natural disasters or other catastrophic events or lack of rainfall. For instance, in 2012, Elkem's ferrosilicon plant in Iceland had a production slowdown after bad weather caused a power outage for approximately 12 hours. In addition, Landsvirkjun (The National Power Company of Iceland) curtailed energy and capacity for industrial users in 2014, and notified industrial users in September 2015 that it would do the same for 2015 due to low inflow into its main reservoirs on the east and north side of Iceland. This notification was however withdrawn in October 2015. The Group's insurance coverage may not be sufficient to cover any or all losses that occur as a result of such power outage, and such policies may not cover all causes of power disruption such as those caused by terrorism, which generally is an uninsurable risk. Certain of the Group's business interruption insurance policies do not cover losses that may be incurred if suppliers are unable to provide power during periods of unusually high demand. Any interruption or reduction in the supply of electrical power could therefore have an adverse impact on production levels and result in reduced revenues and operating profit, which in turn may have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.22 Major projects are subject to failure or delays in the execution which could have a material negative impact on Elkem's competitive position, and require significant capital expenditures

Elkem may undertake major investment projects from time to time, including strategic investments to increase production capacity or to develop a new product or geographic area. Such projects are subject to the risk of delays, cost increases, availability of adequate funding and other complications. For example, in March 2017, Elkem initiated a significant energy recovery project at its Silicon Materials plant, Elkem Salten. The Elkem Salten plant plans to utilise excess heat from the smelting furnace off-gas to produce approximately 274 GWh electricity, which amounts to approximately 28% of the energy consumption at the plant. If approved, the Salten Energy Recovery Project will initially be operated as a joint venture, and the joint venture agreement contemplates that Elkem will bear a significant portion of the total cost of the project. Although there are currently no delays, cost issues or other material complications in connection with the Salten project, such issues could arise before it comes on line.

Elkem has budgeted NOK 2,071 million for capital expenditures in 2018, a portion of which may be invested in future such major projects. Failure or delays in the execution of major projects such as the Salten project could result in material additional costs and lost operating revenues while also weakening Elkem's competitive position. This in turn could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.23 Elkem may not be able to successfully implement its strategy

The successful implementation of Elkem's strategy depends on its ability to drive profitable growth by focussing on higher margin specialty products; realizing operational efficiencies and synergies through enhanced integration and continued cost reduction; leveraging its capacity in China through the integration of Xinghuo Silicones and Yongdeng Silicon Materials to build an integrated silicones value chain ; and strengthening its market position through organic growth and bolt-on acquisitions. Elkem's ability to implement these initiatives consistently across the Group and within anticipated timeframes or at all could be inhibited as a result of the complexity of Elkem's operations, macroeconomic conditions, market developments, actions by competitors or other factors, many of which are out of Elkem's control.

In particular, Elkem has for several years been increasingly focussed on the development, production and sale of specialty products, which are tailor made for customers for each application, rather than commodities in order to improve margins and reduce cyclicality. A key driver for Elkem's acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials is the potential to increase penetration of specialty products through its significant presence in the Asian / Pacific markets. However, Elkem may not be successful in continuing to increase development, production and sales of specialty products for any number of reasons, such as market demand for specialty products levelling out or declining, Elkem's competitors pursuing a similar strategy more successfully due to more efficient or higher quality production processes or stronger customer relationships, or because increased innovation across the market leads to many specialty products becoming more commoditised and therefore lower margin. If Elkem's strategic focus on speciality products fails to yield the benefits that it expects, this could undermine its strategy and have a material adverse effect on its business, financial condition and results of operations. See also Section 2.1.11, "Elkem may not effectively integrate with Xinghuo Silicones and Yongdeng Silicon Materials.".

2.1.24 The assumptions made in preparing Elkem's financial targets and outlook included in this Prospectus may prove incorrect, incomplete or inaccurate

Elkem's financial targets and outlook included in this Prospectus, which include targets with respect to operating income, Operating EBITDA margin, capex, depreciation and tax, reflect numerous assumptions made by Elkem's Management. These assumptions relate to commercial expectations and other external factors, including political, legal, fiscal, market and economic conditions and applicable legislation, regulations and rules (including, but not limited to, accounting policies and accounting treatments) and movements in foreign exchange rates, all of which are difficult to predict and are beyond Elkem's control. Accordingly, there is a risk that the assumptions made in preparing such financial targets and outlook could prove incorrect, incomplete or inaccurate and there may be differences between Elkem's actual and projected results, which could be material in nature and impact Elkem's share price. The inclusion of the financial targets and outlook in this Prospectus should not be regarded as an indication that Elkem or its Management considered or consider such outlook to be guaranteed reliable predications of future events. Accordingly, investors are strongly urged not to place undue reliance on any of these statements.

2.1.25 Elkem may have difficulty accessing credit in sufficient time, on acceptable terms, or at all, and is vulnerable to interest rate increases

The industries in which Elkem operates are cyclical and highly capital intensive and Elkem is exposed to risks related to the availability and cost of funding for future growth within its business segments. The Group is dependent on timely access to sufficient funding on acceptable terms, which may be difficult to achieve if the Group faces an economic downturn in its main markets. Any difficulty the Group may encounter in securing adequate sources of short and long-term funding could hamper the Group's future merger and acquisition opportunities and/or its ability to invest in its manufacturing capacity or in new markets, thus restraining the Group's growth opportunities. Difficulty in accessing funding may also result in financial distress and creditors imposing restrictions on the business.

In addition, deterioration in Elkem's credit profile or a rise in market interest rates could increase the costs of borrowing money and limit Elkem's access to the capital markets and commercial credit. In connection with the Listing, Elkem has entered into the New Loan Facilities Agreement (as defined below) in the aggregate principal amount of EUR 1,150 million (NOK 11,321.5 million), a portion of which will be used to refinance its existing syndicated loan facility. Although some of this indebtedness will be repaid shortly after Listing, a significant portion may remain outstanding (see Section 12.11.4.2 "The refinancing" for further information). The New Loan Facilities Agreement is subject to floating rate interest conditions. Due to the cyclical nature of its business, Elkem intends to maintain a floating interest rate policy going forward. Although interest rates in most markets are currently low by historical standards, they will likely increase in the future and a floating interest rate policy leaves the Group exposed to future interest rate hikes. A significant increase in interest rates could therefore significantly increase Elkem's debt service obligations.

Any future difficulty accessing funding at an acceptable cost, or a significant increase in its existing debt service obligations, may have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.26 Elkem relies upon intellectual property, trade secret laws and contractual restrictions to protect important proprietary rights and, if these rights are not sufficiently protected, its ability to compete and generate revenue could suffer

Elkem's ability to compete effectively in certain markets depends in part on its ability to obtain, maintain, and protect its trade secrets, proprietary information and other intellectual property rights. Elkem relies particularly on proprietary technologies and technical capabilities in order to compete effectively and produce high quality silicon, silicones, foundry alloys and carbon products. Elkem is subject to the risk that proprietary technologies may be challenged and Elkem may not be able to protect its rights to these technologies.

Further, the global silicones market is largely patent driven and a significant portion of the Silicones division's sales are based on patented products. Elkem, and in particular the Silicones division, is dependent on its patent portfolio in order to sustain a competitive advantage for its products and processes. The other divisions of Elkem generally rely on a combination of patent, trademark, copyright, domain name registration and trade secret laws, as well as contractual restrictions and physical measures to protect Elkem's trade secrets, proprietary information and other intellectual property rights. Elkem currently holds important patents, pending patent applications, and other intellectual property rights, in Norway, France and in other jurisdictions, that it believes may give it a competitive advantage in certain markets.

Where Elkem believes that patent protection is not appropriate or obtainable, it relies on trade secret laws and practices to protect its proprietary technology and processes, including controlling access to plants and offices, physical security, limited dissemination and access with respect to sensitive documents, and confidentiality agreements with its employees, consultants, business partners, potential licensees and others to protect its trade secrets and other proprietary information. There can, however, be no assurances that such protective measures will effectively prevent disclosure or unauthorised use of proprietary information or provide an adequate remedy in the event of misappropriation, infringement or other violations of Elkem's proprietary information and other intellectual property rights. Furthermore, Elkem's trade secrets and proprietary technology and related processes may otherwise become known or be independently developed by its competitors or it may otherwise not be able to maintain the confidentiality of information relating to its products. In particular, technology leakage to competitors which are able to produce similar products as Elkem at a substantially lower cost, may have a material adverse effect on Elkem's business, revenues, results of operations, financial condition and prospects.

From time to time, Elkem may also seek to enforce its intellectual property and proprietary rights against third parties. Policing unauthorised use of intellectual property can be difficult and expensive. The fact that Elkem has intellectual property rights does not guarantee success in any attempts by it to enforce these rights against third parties, and any such attempts may result in a substantial diversion of resources and, if any dispute were to be decided unfavourably against it, could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.27 Third parties may claim that Elkem's products or processes infringe their intellectual property rights

It is Elkem's intention to avoid infringing, misappropriating, or otherwise violating the intellectual property rights of others. However, Elkem cannot be certain that the conduct of its business or its products or processes do not infringe or otherwise violate such rights. Third parties may also make such claims even when inaccurate or unsupported. From time to time, Elkem may become subject to legal proceedings, including allegations and claims of alleged infringement or misappropriation of the patents and other intellectual property rights of third parties (including by means of counterclaims against it).

Legal proceedings involving intellectual property rights, regardless of merit, are highly uncertain and can involve complex legal and scientific questions, can be time consuming, expensive to litigate or settle, and can significantly divert resources. Elkem's failure to prevail in such matters could result in judgments awarding substantial damages and injunctive or other equitable relief against it. If Elkem were to be held liable or discover or be notified that its products potentially infringe or otherwise violate the intellectual property rights of others, it may not be able to exploit some or all of such intellectual property rights or technology, and may need to obtain licenses from third parties or substantially re-engineer its products in order to avoid infringement. It may not be possible to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer Elkem's products successfully or such efforts may cause it delay or require it to stop selling and marketing certain products or services.

Any of the foregoing could cause Elkem to incur significant costs or prevent it from selling its products or services, which in turn could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.28 Elkem could be materially adversely affected by legal proceedings or investigations

Elkem could be included in criminal or civil proceedings related to, among others, product liability, environment, health and safety, anti-competitive, anti-corruption, trade sanctions or other similar laws or regulations or other forms of commercial disputes which could have a material adverse effect on Elkem. Violation of applicable laws and regulations could result in substantial fines or penalties, costs of corrective work and, in rare instances, the suspension or shutdown of Elkem's operations. Silicones are used in industries which are exposed to litigation, including the automotive industry (as they are used in the manufacture of airbags) and health care. Proceedings, liabilities or actions could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.29 Changes in rules related to accounting for income taxes, changes in tax laws in any of the jurisdictions in which Elkem operates or adverse outcomes from audits by taxation authorities could result in an unfavourable change in its effective tax rate

Elkem operates its business in numerous tax jurisdictions. As a result, its effective tax rate is derived from a combination of the applicable tax rates in the various locations in which it operates. Elkem's effective tax rate may be lower or higher than its effective tax rates has been in the past due to numerous factors, including the sources of its income and the tax filing positions it takes. Elkem estimates its effective tax rate at any given point in time based on a calculated mix of the tax rates applicable to the Group and on estimates of the amount of business likely to be done in any given jurisdiction. Changes in rules related to accounting for income taxes or changes in tax laws in any of the jurisdictions in which Elkem operates, such as the recently passed U.S. Tax Cuts and Jobs Act in the United States, could result in an unfavourable change in its effective tax rate.

Elkem is currently involved in tax-related proceedings, which could result in increased tax liabilities for its business. See Note 24 to the Combined Financial Statements and the Consolidated Financial Statements for the year ended 31 December 2017 for further information. Additionally, from time to time Elkem's positions in respect of taxes may be subject to review or investigation by tax authorities of the jurisdictions in which Elkem operates. If any tax authority were to successfully challenge Elkem's operational structure, intercompany pricing policies, the taxable presence of its subsidiaries in certain countries or Elkem's interpretation of applicable tax laws, or if Elkem were to lose a material tax dispute in any country, or any tax challenge of the Elkem's tax payments were to be successful, its effective tax rate on its earnings could increase substantially.

2.1.30 The terms of the Company's financing arrangements may limit its commercial and financial flexibility

Elkem will be subject to affirmative and negative covenants contained in the New Loan Facilities Agreement. In particular, the New Loan Facilities Agreement requires Elkem to maintain an interest coverage ratio of not less than 4.0:1.0 and a ratio of total equity to total assets of more than 30% at all times. Elkem's ability to meet these ratios could be affected by events beyond its control, and there can be no assurances that Elkem will be able to meet such ratios. A breach of the financial covenants, or certain other provisions or restrictions, may cause an event of default under the New Loan Facilities Agreement. Upon the occurrence of an event of default under the New Loan Facilities Agreement, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel any commitments thereunder and elect to declare all amounts owed to them, including accrued interest, immediately due and payable.

Additionally, the New Loan Facilities Agreement contains a mandatory prepayment clause upon a change of control. A change of control is defined as China National Bluestar Co. Ltd. ceasing, directly or indirectly, to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, more than 50% of the maximum number of votes that might be cast at a general meeting of the Company, or hold beneficially more than 50% of the issued share capital and/or the economic interest of the Company, or after the Listing has occurred, the shares in the Company cease to be listed on the Oslo Stock Exchange or on the principle stock exchange in any of Copenhagen, Frankfurt, London, Paris or Stockholm. After the completion of the Offering, 54% to 60% of the Company's issued share capital will be beneficially owned by China National Bluestar Co. Ltd. If China National Bluestar Co. Ltd. were to cease to have the power to cast more than 50% of the maximum number of votes cast at a general meeting or beneficially own more than 50% of the issued share capital of the Company, the facility could be cancelled and all outstanding amounts owed to creditors, including accrued interest, could become immediately due and payable.

If the Group's creditors were to accelerate payments of outstanding amounts due under the Syndicated Loan Facilities Agreement, the Group can provide no assurances that its assets would be sufficient to repay in full those amounts due and payable.

In addition to the refinancing in connection with the Listing, for which Elkem plans to use facilities under the New Loan Facilities Agreement, Elkem may seek to enter into future financing arrangements to refinance existing debt or finance new initiatives. There is no assurance that Elkem will be able to secure such financing on terms that are as favourable as those under the New Loan Facilities Agreement, or that it will be able to secure such financing at all.

2.1.31 Elkem's joint arrangements partners may have interests that differ from Elkem's and may take actions that adversely affect Elkem

Elkem currently participates in joint arrangements in South Africa, Norway and Iceland, and may enter into other joint arrangements or co-investment projects with third parties in the future. Such current and prospective joint ventures and co-investments involve potential risks, including:

- Joint ventures may require an investment of considerable management, financial and operational resources to establish sufficient infrastructure such as risk management, compliance or other processes;
- Joint ventures may be structurally complicated by the necessity of the parties anticipating and addressing issues of governance, control, dispute resolution and ownership of intellectual property and other assets, among many other matters;
- Elkem may not have the level of strategic control over the joint venture that it requires in order to fulfil its long-term goals, or may find it is restricted by the other partner in the products it can produce or the customers to whom it can sell products or services such as manufacturing capacity;
- Elkem may find it lacks sufficient control over the operations of the joint venture, resulting in problems with quality control, inefficiency or other operational problems;
- Joint ventures may have complex governance issues arising from shared control and split ownership models;
- Joint ventures may experience delays or other timing problems prior to launch, exacerbated by disagreements between the parties;
- A joint venture partner may sell its stake in the joint venture to a buyer who is unattractive to Elkem;
- Joint ventures may expire, potentially leading to disagreements between the parties over the ownership or future of the joint venture's business or assets;

- Joint ventures may have flaws in their design that cause them to experience losses and lead to their termination;
- The objectives of the joint venture may not be achieved in a timely manner or at all;
- Partners at any time may have or develop economic or business interests or goals that are inconsistent with Elkem's;
- Partners may (i) take actions contrary to Elkem's instructions or requests, or contrary to Elkem's policies or objectives with respect to the investment or (ii) exercise veto rights so as to block actions that Elkem believes to be in Elkem's or the joint venture's or strategic alliance's best interests;
- Partners may become unwilling or unable to fulfil the objectives of the joint venture due to general market conditions, financial difficulties or other circumstances beyond Elkem's control; and
- In the event that a joint venture fails for any of the above reasons or otherwise, Elkem may have to buy out its partner or otherwise purchase the partner's interest in the underlying asset, potentially at an unacceptably high price, which in turn could impose a material cost burden on Elkem, or alternatively Elkem may have to sell its interest in the asset to the partner or another third party at an unacceptably low price.

Actions by Elkem's joint venture partners may also subject property owned by the parties to liabilities greater than those contemplated by any governing joint venture or shareholders agreement, or to other adverse consequences. In addition to the above, join ventures and co-investments are exposed to additional risks such as unfavourable global economic conditions, currency fluctuations, political risks, or other factors.

If any of these risks were to materialise, it could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.32 Insurance costs may increase and Elkem may experience additional exclusions and limitations on coverage in the future

Elkem currently maintains insurance coverage of a nature and in an amount that it believes to be customary in the industry, including property damage and business interruption, marine cargo/transportation, environmental liability, third-party public and product liability, workers' compensation, loss resulting from criminal acts by employees, employment practices liability, contaminated products insurance-recall, commercial general liability, umbrella liability and excess liability insurance, all of which are subject to certain limitations, deductibles and caps. See Section 9.15 "Insurance" for further information.

Elkem's insurance may be inadequate or unavailable to protect it in the event of a claim or other loss, or its insurance coverage may be cancelled or otherwise terminated. Elkem faces the following additional risks in respect of its insurance coverage:

It may not be able to continue to obtain insurance or renew existing insurance on commercially reasonable terms or at all.

- It may be faced with types of liabilities or losses that will not be covered by its insurance, such as liabilities for breach of contract.
- The amount of any liabilities may exceed its policy limits.
- It may incur losses from interruption of its business or other events that exceed its insurance coverage.

Even a partially uninsured claim, if successful and of significant size, could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.33 As a large portion of Elkem's employees are parties to collective bargaining agreements and members of trade unions, Elkem faces a risk of work stoppages and strikes

A large portion of Elkem's employees are party to collective bargaining agreements and members of trade unions. Elkem's relationship with its works councils and trade unions are therefore important to the operation of its business. The presence of works councils and trade unions may limit Elkem's flexibility in dealing with its workforce and ultimately lead to increased operating costs. The Group has experienced strikes by its unionised employees in the past, in particular in France, and may experience similar strikes in the future. A lengthy strike or other work stoppage by Elkem's employees, or by employees of a third-party which provides critical services to Elkem, could also have a material adverse effect on Elkem's ability to conduct its operations, which in turn could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.34 Increases in labour costs could materially impact Elkem's business and results of operations

Elkem is subject to the risk of increases in labour costs. With a significant share of its labour based in Europe, Elkem operates in a high and rising cost environment for labour. In addition, labour costs have been rising rapidly in China for several years now, especially in manufacturing. Elkem's pending acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials, both of which are currently state-owned, could also result in increased labour costs by virtue of generally higher salaries in the private sector. Any sustained increases in labour costs in Europe, China or in other geographies in which Elkem has labour intensive operations may have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.1.35 The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and Elkem's business

On 23 June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The terms of withdrawal are subject to a negotiation period that is expected to last at least two years from when the government of the United Kingdom formally initiated the withdrawal process, which occurred in March 2017. The referendum has led to disruption in debt, equity and foreign exchange markets and has created significant uncertainty about the future relationship between the United Kingdom and European Union, and between the United Kingdom and the rest of the world, including with respect to the laws and regulations that will apply as the United Kingdom determines which European Union laws to replace or replicate. Among other things, the United Kingdom may enter into trade agreements with other countries or entities that offer more favourable terms than to the European Union. These developments or the perception that any of them could occur have had and may continue to have a material adverse effect on European and global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict and the ability of key market participants to operate in certain financial markets.

Elkem is a multinational company which generates sales revenues from customers around the world, and its global operations include 27 production facilities, 12 of which are located in Europe. Elkem also operates two quartz mines in Norway and four quartz mines in Spain. To the extent that the United Kingdom's withdrawal from the European Union adversely affects the global, and in particular the European economy, or has a negative impact on global trade and the relationships which underpin it, this could have a material adverse impact on Elkem's business, financial condition and results of operations. Further, any adverse impact on global liquidity or financial markets created by such withdrawal could make it more difficult for Elkem to secure access to liquidity or financing on acceptable terms or at all.

2.1.36 Elkem is dependent upon retaining and attracting current and prospective highly skilled personnel

Elkem's ability to operate its business and implement its strategies depends, in part, on the skills, experience and efforts of its personnel involved in management, research, operations, production, sales and distribution. As a result, Elkem believes that its success depends to a significant extent upon its ability to retain such personnel, and attract prospective key employees, competition for whom may be intense, particularly where certain of Elkem's plants are located in remote geographical locations. For example, many of Elkem's products are sold and supported through dedicated staff and specifically trained personnel. If Elkem were to lose the service of one or more of its executive officers or other highly skilled personnel, it may not be able to execute its business strategy effectively. There can be no assurance, however, that Elkem will be able to retain such personnel on acceptable terms or at all. Elkem does not maintain any key-man insurance on any of its employees. The loss of such personnel could affect Elkem's ability to sell and support its products effectively, which could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.2 Risks related to the Listing and the Shares

2.2.1 The Selling Shareholder may have significant voting power, the ability to influence matters requiring shareholder approval and may block equity transactions that could be in the interest of the Company

After the Offering, China National Chemical Corporation ("**ChemChina**"), through its subsidiary, the Selling Shareholder, will control at least 60% of the Shares if the Over-Allotment Option is not exercised and at least 54% of the Shares if the Over-Allotment Option is exercised in full. Accordingly, the Selling Shareholder will continue to have significant ownership and voting power following the Offering, and be able to exercise significant influence over the general meeting and have influence over the decision to declare distribution of dividends. This concentration of ownership may not be in the best interest of Elkem's other shareholders. For instance, it could delay, defer or prevent a change in control, impede a merger, consolidation, takeover or other business combination involving Elkem, or discourage a potential acquirer from attempting to obtain control of Elkem in order not to be diluted. In addition, the interests of the Selling Shareholder (and its parent company and their affiliates) may not always coincide with the interests of other shareholders, and other investors may not agree with the manner in which the Selling Shareholder acts, such as in relation to commercial relationships with Elkem after the Listing. Additionally, three of the Board Members, Michael Koenig, Olivier de Clermont Tonnerre and Guihua Pei are employed by the Selling Shareholder. By being employed by the Selling Shareholder, Michael Koenig, Olivier de Clermont Tonnerre and Guihua Pei have fiduciary duties to the Selling Shareholder that may conflict with Elkem's interests.

A significant reduction in ChemChina's or the Selling Shareholder's shareholding could diminish this cooperation and Elkem might in the future lose the business opportunities that it previously enjoyed because its business partners took into consideration other business opportunities relating to ChemChina or the Selling Shareholder when they entered into business relations with Elkem. In addition, such a reduction in ownership may result in ChemChina or the Selling Shareholder being less supportive of Elkem and its strategic goals, particularly in relation to China. Both loss of business and a decline in support from Elkem's largest shareholders may have a material adverse impact on Elkem's business, financial condition and results of operations.

2.2.2 The price of the Shares could fluctuate significantly

The trading volume and price of the Shares could fluctuate significantly and the market price of the Shares may decline such that the Shares trade at prices significantly below the Offer Price. Securities markets in general have been volatile in the past. Some of the factors that could negatively affect the Share price or result in fluctuations in the price or trading volume of the Shares include, for example, changes in the Group's actual or projected results of operations or those of its competitors, changes in earnings projections or failure to meet investors' and analysts' earnings expectations, investors' evaluations of the success and effects of the strategy described in this Prospectus, as well as the evaluation of the related risks, changes in general economic conditions or the equities markets generally, changes in the industries in which the Group operates, changes in shareholders and other factors. This volatility has had a significant impact on the market price of securities issued by many companies. Those changes may occur without regard to the operating performance of these companies. The price of the Shares may therefore fluctuate based upon factors that have little or nothing to do with the Group, and these fluctuations may materially affect the price of the Shares.

2.2.3 There is no existing market for the Shares, and an active trading market may not develop

Prior to the Listing, there was no public market for the Shares, and there is no assurance that an active trading market for the Shares will develop, or be sustained. The market value of the Shares could be substantially affected by the extent to which a secondary market develops for the Shares following the completion of this Offering. Investors may not be in a position to sell their Shares quickly or at market price if there is no active trading in the Shares.

2.2.4 Future sales, or the possibility for future sales, including by the Selling Shareholder, of substantial numbers of Shares could affect the Shares' market price

The Company cannot predict what effect, if any, future sales of the Shares, or the availability of Shares for future sales, will have on the market price of the Shares. Sales of substantial amounts of the Shares in the public market following the Offering, including by the Selling Shareholder (which, following the Offering, will hold at least 60% (54% if the Over-Allotment Option is exercised in full) of the Shares depending on the number of Sale Shares sold in the Offering), or the perception that such sales could occur, could adversely affect the market price of the Shares, making it more difficult for holders to sell their Shares or the Company to sell equity securities in the future at a time and price that they deem appropriate. Although the Company, the Selling Shareholder, directors and managers have agreed to be subject to restrictions, subject to certain exceptions, on their ability to sell or transfer their Shares for a period of 365 days after the Institutional Closing Date, the Managers may, in their sole discretion and at any time, waive such restrictions on sales or transfer during this period. Additionally, following this period, all Shares owned by the Selling Shareholder, directors and managers will be eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

2.2.5 Future issuances of Shares or other securities could dilute the holdings of shareholders and could materially affect the price of the Shares

The Company may in the future decide to offer additional Shares or other securities in order to finance new capital-intensive projects, in connection with unanticipated liabilities or expenses or for any other purposes. Depending on the structure of any future offering, certain existing shareholders may not have the ability to purchase additional equity securities. An issuance of additional equity securities or securities with rights to convert into equity could reduce the market price of the Shares and would dilute the economic and voting rights of the existing shareholders if made without granting subscription rights to existing shareholders. Accordingly, the shareholders bear the risk of any future offerings reducing the market price of the Shares and/or diluting their shareholdings in the Company.

2.2.6 Pre-emptive rights to subscribe for Shares in additional issuances may be unavailable to U.S. or other shareholders

Under Norwegian law, unless otherwise resolved at the Company's general meeting of shareholders (the "**General Meeting**"), existing shareholders have pre-emptive rights to participate on the basis of their existing ownership of Shares in the issuance of any new Shares for cash consideration. Shareholders in the United States, however, may be unable to exercise any such rights to subscribe for new Shares unless a registration statement under the U.S. Securities Act is in effect in respect of such rights and Shares or an exemption from the registration requirements under the U.S. Securities Act is available. Shareholders in other jurisdictions outside Norway could be similarly affected if the rights and the new Shares being offered have not been registered with, or approved by, the relevant authorities in such jurisdiction. The Company is under no obligation to file a registration statement under the U.S. Securities Act or seek similar approvals under the laws of any other jurisdiction outside Norway in respect of any such rights and Shares, and doing so in the future could be impractical and costly. To the extent that the Company's shareholders are not able to exercise their rights to subscribe for new Shares, their proportional interests in the Company will be diluted.

2.2.7 Investors could be unable to exercise their voting rights for Shares registered in a nominee account

Beneficial owners of the Shares that are registered in a nominee account (such as through brokers, dealers or other third parties) could be unable to vote such Shares unless their ownership is re-registered in their names with the VPS prior to any General Meeting. There is no assurance that beneficial owners of the Shares will receive the notice of any General Meeting in time to instruct their nominees to either effect a re-registration of their Shares or otherwise vote their Shares in the manner desired by such beneficial owners.

2.2.8 The Company's ability to pay dividends in accordance with its dividend policy or otherwise is dependent on the availability of distributable reserves and the Company may be unable or unwilling to pay any dividends in the future

Norwegian law provides that any declaration of dividends must be adopted by the shareholders at the General Meeting, or by the Board of Directors in accordance with an authorisation from the General Meeting. Dividends may only be declared to the extent that the Company has distributable equity and that the Company's equity and liquidity are sound in relation to the risk and scope of the Company's business. As the Company's ability to pay dividends is dependent on the availability of distributable reserves, it is, among other things, dependent upon receipt of dividends and other distributions of value from its subsidiaries and companies in which the Company may invest. As a general rule, the General Meeting may not declare higher dividends than the Board of Directors has proposed or approved. If, for any reason, the General Meeting does not declare dividends in accordance with the above, a shareholder will, as a general rule, have no claim in respect of such non-payment, and the Company will, as a general rule, have no obligation to pay any dividend in respect of the relevant period.

2.2.9 Investors could be unable to recover losses in civil proceedings in jurisdictions other than Norway

The Company is a public limited company organised under the laws of Norway. The majority of the members of the Board of Directors and Management reside in Norway. As a result, it may not be possible for investors to effect service of process in other jurisdictions upon such persons or the Company, to enforce against such persons or the Company judgments obtained in non-Norwegian courts, or to enforce judgments on such persons or the Company in other jurisdictions.

2.2.10 Norwegian law could limit shareholders' ability to bring an action against the Company

The rights of holders of the Shares are governed by Norwegian law and by the Articles of Association. These rights may differ from the rights of shareholders in other jurisdictions. In particular, Norwegian law limits the circumstances under which shareholders of Norwegian companies may bring derivative actions. For example, under Norwegian law, any action brought by the Company in respect of wrongful acts committed against the Company will be prioritised over actions brought by shareholders claiming compensation in respect of such acts. In addition, it could be difficult to prevail in a claim against the Company under, or to enforce liabilities predicated upon, securities laws in other jurisdictions.

2.2.11 Elkem will incur increased costs as a result of being a publicly traded company

As a publicly traded company with its Shares listed on the Oslo Stock Exchange, Elkem will be required to comply with the Oslo Stock Exchange's reporting and disclosure requirements and with its corporate governance requirements.

Elkem will incur additional legal, accounting and other expenses to comply with these and other applicable rules and regulations, including potentially hiring additional personnel. Elkem anticipates that its incremental general and administrative expenses as a publicly traded company will include, among other things, costs associated with annual and quarterly reports to shareholders, shareholders' meetings, investor relations, incremental director and officer liability insurance costs and officer and director compensation. Any such increased costs, individually or in the aggregate, could have a material adverse effect on Elkem's business, results of operations, financial condition and prospects.

2.2.12 *Exchange rate fluctuations could adversely affect the value of the Shares and any dividends paid on the Shares for an investor whose principal currency is not NOK*

The Shares will be priced and traded in NOK on the Oslo Stock Exchange and any future payments of dividends on the Shares will be denominated in the currency of the bank account of the relevant shareholder, and will be paid to the shareholders through DNB Bank ASA ("**DNB**"), being the Company's VPS registrar (the "**VPS Registrar**"). Shareholders registered in the VPS who have not supplied their VPS account operator with details of their bank account, will not receive payment of dividends unless they register their bank account details of their VPS account, and thereafter inform the VPS Registrar about said account. The exchange rate(s) that is applied when denominating any future payments of dividends to the relevant shareholder's currency will be the VPS Registrar's exchange rate on the payment date. Exchange rate movements of NOK will therefore affect the value of these dividends and distributions for investors whose principal currency is not NOK. Further, the market value of the Shares as expressed in foreign currencies will fluctuate in part as a result of foreign exchange fluctuations. This could affect the value of the Shares and of any dividends paid on the Shares for an investor whose principal currency is not NOK.

2.2.13 *The Shares are listed on an "if issued/if sold" basis until delivery of the Shares, which could result in all conditional trades being reversed*

The Shares will be listed on the Oslo Stock Exchange on an "if issued/if sold" basis. Therefore, the Shares will be tradable on the Oslo Stock Exchange before the Shares are delivered to each investor. If the Underwriting Agreement is terminated due to certain force majeure events or the default by Managers in certain circumstances, the Shares will not be delivered to the investors. All trades with the Shares will be cancelled and reversed, and any payments made will be returned without interest or other compensation. Such events could adversely affect participants in the Offering and those who trade in the Shares during the period of conditional trading. The Managers, the Company and the Selling Shareholder do not accept any responsibility or liability for any loss incurred by any person as a result of a termination of the Offering or (the related) annulment of any transactions on the Oslo Stock Exchange during the period of conditional trading.

2.2.14 *The limited free float of the Shares may have a negative impact on the liquidity of and market price for the Shares*

After completion of the Offering, 40% of the Company's share capital (46% of the share capital if the Over-Allotment Option is exercised in full) will be publicly held if all the Offer Shares are sold. The remaining 60% (54% if the Over-Allotment Option is exercised in full) of the share capital is expected to be held by the Selling Shareholder. The limited free float may have a negative impact on the liquidity of the Shares and result in a low trading volume of the Shares, which could have an adverse effect on then prevailing market price for the Shares and could result in increased volatility of the market price for the Shares.

3 RESPONSIBILITY FOR THE PROSPECTUS

3.1 The Board of Directors of Elkem ASA

This Prospectus has been prepared in connection with the Offering and the Listing of the Shares on the Oslo Stock Exchange described herein.

The Board of Directors of Elkem ASA accepts responsibility for the information contained in this Prospectus. The members of the Board of Directors confirm that, after having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

9 March 2018

The Board of Directors of Elkem ASA

Michael Koenig *Chairperson*	Olivier de Clermont Tonnerre *Director*	Guihua Pei *Director*
Einar Støfringshaug *Director*		Marianne Ferøyvik *Director*

3.2 The Selling Shareholder

The Selling Shareholder confirms that the Offer Shares are being offered free of any liens or encumbrances.

9 March 2018

For Bluestar Elkem International Co., Ltd. S.A.

Michael Koenig
Director

4 GENERAL INFORMATION

4.1 Other important investor information

The Company has furnished the information in this Prospectus. The Managers make no representation or warranty, whether express or implied, as to the accuracy, completeness or verification of the information in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Managers, whether as to the past or the future. The Managers disclaim, to the fullest extent permitted by applicable law, any and all liability, whether arising in tort, contract or otherwise which they might otherwise have in respect of this Prospectus or any such statement.

The Managers are acting exclusively for the Company and the Selling Shareholder and no-one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company and the Selling Shareholder for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

None of the Company, the Managers, or any of their respective affiliates, representatives, advisers or selling agents, is making any representation to any offeree or purchaser of the Offer Shares regarding the legality of an investment in the Offer Shares. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Shares.

Investing in the Offer Shares involves a high degree of risk. See Section 2 “Risk Factors”.

In connection with the Offering, each of the Managers and any of their respective affiliates, acting as an investor for its own account, may take up Offer Shares in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Offer Shares or related investments and may offer or sell such Offer Shares or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to Offer Shares being offered or placed should be read as including any offering or placement of Offer Shares to any of the Managers or any of their respective affiliates acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions other than in accordance with legal or regulatory obligation to do so. In addition, certain of the Managers or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Managers (or their affiliates) may from time to time acquire, hold or dispose of Shares.

4.2 Presentation of financial and other information

4.2.1 Financial information

Elkem has prepared audited consolidated financial statements in accordance with the International Financial Reporting Standards, as adopted by the European Union (“**IFRS**”) as of and for the years ended 31 December 2017, 2016 and 2015 (the “**Consolidated Financial Statements**”), included in Appendix C to this Prospectus. In addition, due to the Reorganisation as further described in Section 6 “Reorganisation”, Elkem has for the purpose of the Offering and Listing prepared audited combined financial statements for the Group as of and for the years ended 31 December 2017 and 2016 (the “**Combined Financial Statements**”), included in Appendix B to this Prospectus. The Consolidated Financial Statements and the Combined Financial Statements are together referred to as the “**Financial Information**”. The Consolidated Financial Statements and the Combined Financial Statements are not comparable, and prospective investors should not rely on comparisons between the Consolidated Financial Statements and the Combined Financial Statements in this Prospectus. See Section 12 “Operating and Financial Review” for further information.

References in this Prospectus to “financial information on a combined basis” are to financial information derived from the Combined Financial Statements and references in this Prospectus to “financial information on a consolidated basis” are to financial information derived from the Consolidated Financial Statements.

The Combined Financial Statements were prepared by combining the financial statements for Elkem, Xinghuo Silicones and Yongdeng Silicon Materials for the relevant historical periods. Xinghuo Silicones and Yongdeng Silicon Materials are included as if they had been a part of Elkem for the relevant periods, reflecting the assumption that Xinghuo Silicones and Yongdeng Silicon Materials have been under Elkem's control for such period. Thus, the activities presented in the Combined Financial Statements are those of Elkem following the Reorganisation described in Section 6 “Reorganisation”. For a description of the accounting treatment of the transactions carried out as part of the Reorganisation, see Section 6.4 “Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials”. Since IFRS does not provide explicit guidance for the preparation of combined financial information, the Combined Financial Statements have been prepared in accordance with IFRS to the extent appropriate. The Combined

Financial Statements are prepared on a basis that deviate from IFRS 10 Consolidated Financial Statements, as no historical parent – subsidiary relationship has existed. The Combined Financial Statements are included in Appendix B to this Prospectus.

Management believes that assumptions underlying the Combined Financial Statements are reasonable. However, the Combined Financial Statements as presented may not reflect what the results of operations, financial position and cash flow would have been if Elkem, including Xinghuo Silicones and Yongdeng Silicon Materials, had been a stand-alone company during the periods presented. The Combined Financial Statements may not be indicative of future performance.

The Consolidated Financial Statements as of and for the years ended 31 December 2017 and 2016, and the Combined Financial Statements as of and for the years ended 31 December 2017 and 2016 have been audited by KPMG AS, as set forth in their auditor's reports included herein. The Consolidated Financial Statements as of and for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers AS, as set forth in their auditor's report included herein.

The Company presents its Financial Information in NOK (presentation currency).

4.2.2 Alternative Performance Measures

In order to enhance investors' understanding of Elkem's performance, the Company presents in this Prospectus certain alternative performance measures ("**APMs**") as defined by the European Securities and Markets Authority ("**ESMA**"), including Operating EBIT, Operating EBIT margin, Operating EBITDA, Operating EBITDA margin, ROCE, capital turnover, net working capital and average capital employed. An APM is defined as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework (IFRS). Elkem uses Operating EBIT, Operating EBIT margin, Operating EBITDA and Operating EBITDA margin to measure operating performance at the Group and segment level. In particular, Management regards Operating EBIT and Operating EBITA as useful performance measures at segment level because income tax, finance expenses, foreign exchange gains (losses), finance income, income from associates and joint ventures, other gains and losses, impairment loss and amortisation and depreciation are managed on a Group basis and are not allocated to each segment. Elkem uses ROCE, or return on capital employed, and capital turnover as measures of the development of the Group's return on capital. Elkem relies on these measures as part of its capital allocation strategy.

Operating EBIT and Operating EBITDA and related APMs are defined by Elkem as follows:

- Operating EBIT is defined as Elkem's profit (loss) for the year on a combined basis, and profit (loss) for the year from continued operations on a consolidated basis for 2015, less income tax (expense), finance expenses, foreign exchange gains (losses), finance income, income from associates and joint ventures and other gains (losses).
- Operating EBIT margin is defined as Operating EBIT divided by total operating income.
- Operating EBITDA, also referred to as gross operating profit (loss), is defined as Elkem's profit (loss) for the year on a combined basis, and profit (loss) for the year from continued operations on a consolidated basis for 2015, less income tax (expense), finance expenses, foreign exchange gains (losses), finance income, income from associates and joint ventures, other gains (losses), impairment loss and amortisation and depreciation.
- Operating EBITDA margin is defined as Operating EBITDA divided by total operating income.

Below is a reconciliation of Operating EBIT and Operating EBITDA, on a combined basis, for the years ended 31 December 2017 and 2016, and a reconciliation of Operating EBIT and Operating EBITDA, on a consolidated basis, for the year ended 31 December 2015, in all cases including the Group, its segments, other and eliminations.

In NOK millions	Year ended 31 December 2017 Combined						
	Elkem	**Silicones**	**Silicon Materials**	**Foundry Products**	**Carbon**	**Other**	**Eliminations**
Profit (loss) for the year	1,249.4						
Income tax (expense)................	269.4						
Finance expenses.....................	474.5						
Foreign exchange gains (losses)	7.7						
Finance income........................	(30.4)						
Income from associates and joint ventures	(34.1)						
Other gains (losses)	(43.6)						
Operating EBIT	**1,892.8**	**840.4**	**526.7**	**492.3**	**208.9**	**(147.4)**	**(28.1)**
Impairment loss.......................	16,8	-	-	13.9	2.1	0.8	0
Amortisation and depreciation	1,244.0	675.0	277.3	201.2	62.8	27.8	0
Operating EBITDA	**3,153.6**	**1,515.4**	**804.0**	**707.4**	**273.7**	**(118.8)**	**(28.1)**

In NOK millions	Year ended 31 December 2016 Combined						
	Elkem	**Silicones**	**Silicon Materials**	**Foundry Products**	**Carbon**	**Other**	**Eliminations**
Profit (loss) for the year	(268.2)						
Income tax (expense)................	188.6						
Finance expenses.....................	486.7						
Foreign exchange gains (losses)	(49.7)						
Finance income........................	(36.6)						
Income from associates and joint ventures	(22.1)						
Other gains (losses)	(57.3)						
Operating EBIT	**241.4**	**(373.5)**	**363.1**	**304.8**	**219.6**	**(280.3)**	**7.6**
Impairment loss.......................	77.8	65.9	6.6	5.0	0.2	-	0
Amortisation and depreciation	1,217.3	709.8	232.5	192.8	55.4	26.7	0
Operating EBITDA	**1,536.4**	**402.3**	**602.2**	**502.6**	**275.3**	**(253.6)**	**7.6**

In NOK millions	Year ended 31 December 2015						
	Consolidated						
	Elkem	**Silicones**	**Silicon Materials**	**Foundry Products**	**Carbon**	**Other**	**Eliminations**
Profit (loss) for the year from continued operations	842.4						
Income tax (expense)................	424.7						
Finance expenses......................	154.1						
Foreign exchange gains (losses)	(32.5)						
Finance income	(57.5)						
Income from associates and joint ventures	(21.3)						
Other gains and losses..............	221.0						
Operating EBIT	**1,530.8**	**222.3**	**735.1**	**539.0**	**221.8**	**(177.3)**	**(10.1)**
Impairment loss........................	1.8	-	1	0.8	-	-	0
Amortisation and depreciation	674.4	247.5	171.1	177.2	53.2	25.3	0
Operating EBITDA	**2,207.0**	**469.8**	**907.2**	**717.1**	**275.0**	**(151.9)**	**(10.1)**

The remaining APMs described above and related measures are defined as follows:

- ROCE, Return on capital employed, is defined as Operating EBIT divided by the average capital employed, where capital employed comprises working capital and fixed assets.
- Capital turnover is defined as total operating income divided by average capital employed.
- Working capital is defined as accounts receivable, inventory, accounts payable, other current assets, and other current liabilities. Accounts payable is defined as accounts payable less accounts payable related to purchase of non-current assets. Other current assets included in working capital is defined as other current assets less current receivables to related parties, current interest-bearing receivables, tax receivables, grants that are net settled against tax payables and accrued interest income. Other current liabilities is defined as provisions and other current liabilities less current provisions and liabilities to related parties.
- Average capital employed is defined as the average of the opening and ending balance of capital employed for the relevant reporting period.

Below is a reconciliation of working capital and capital employed, which are used to calculate ROCE and capital turnover, on a combined basis for the years ended 31 December 2017 and 2016, and on a consolidated basis for the year ended 31 December 2015:

In NOK millions	Year ended 31 December 2017 (Combined)	2016 (Combined)	2015 (Consolidated)
Inventories	**4,099.2**	**3,792.3**	**3,302.2**
Accounts receivable	**2,518.4**	**1,952.5**	**1,864.0**
Other current assets	2,090.9	1,621.9	755.7
Current receivables to related parties	(1,354.0)	(582.8)	-
Grants that are net settled against tax payables	(55.9)	(51.4)	(257.9)
Current interest - bearing receivables	-	-	-
Tax receivable	(25.0)	(51.1)	(36.6)
Accrued interest income	(0.2)	(1.0)	(0.4)
Other current assets included in working capital	**655.8**	**935.6**	**460.9**
Accounts payable	2,650.4	2,310.5	1,448.6
Accounts payable related to purchase of non-current assets	(439.4)	(276.8)	(82.8)
Accounts payable included in working capital	**2,211.0**	**2,033.7**	**1,365.8**
Provisions and other current liabilities	1,669.8	1,379.8	1,031.4
Current provisions	(155.2)	(163.1)	(191.5)
Liabilities to related parties	(323.6)	(274.7)	-
Other current liabilities included in working capital	**1,191.0**	**942.0**	**839.9**
Working capital	**3,871.4**	**3,704.7**	**3,421.5**
Property, plant and equipment	**11,950.4**	**11,410.4**	**5,602.2**
Capital employed	**15,821.8**	**15,115.1**	**9,023.7**

The definitions of accounts receivable, inventory and accounts payable correspond with the respective definitions in the Financial Information. Other current assets does not include loans to related parties, tax receivables, restricted deposit and accrued interest. Other current liabilities does not include short term provisions.

The APMs presented herein are not measurements of performance under IFRS or other generally accepted accounting principles and investors should not consider any such measures to be an alternative to: (a) operating revenues or operating profit (as determined in accordance with IFRS or other generally accepted accounting principles), as a measure of Elkem's operating performance; or (b) any other measures of performance under generally accepted accounting principles. The APMs presented herein may not be indicative of Elkem's historical operating results, nor are such measures meant to be predictive of the Group's future results. The Company believes that the APMs presented herein are commonly reported by companies in the countries in which it competes and are widely used by investors in comparing performance on a consistent basis without regard to factors such as depreciation and amortisation, which can vary significantly depending upon accounting methods (particularly when acquisitions have occurred) or based on non-operating factors. Accordingly, Elkem discloses the APMs presented herein to permit a more complete and comprehensive analysis of its operating performance relative to other companies and across periods, and of Elkem's ability to service its debt. Because companies calculate the APMs presented herein differently, Elkem's presentation of these APMs may not be comparable to similarly titled measures used by other companies.

4.2.3 Industry and market data

In this Prospectus, the Company has used industry and market data from independent industry publications and market research. These include a) The CRU Group ("**CRU**"), b) The Freedonia Group and other publicly available information. CRU is a business intelligence company focusing on the global mining, metals and fertilizers markets, providing consultancy, business analysis, news, data and conferences services. The Freedonia Group is a leading international business research company, providing critical market research through the publication of more than 400 research studies annually and customized research engagements. In connection with the Listing, the Company has commissioned an industry report from CRU, prepared specifically for the Company, dated 10 January 2018 (the "**CRU Elkem IPO Support (CRU, January 2018)**"[15].

The Company confirms that where information has been sourced from a third party, such information has been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by these third party providers, no facts have been omitted that would render the reproduced information inaccurate or

[15] CRU does not have a "material interest" in the Company as defined by ESMA.

misleading. Where information sourced from third parties has been presented, the source of such information has been identified. The Company has obtained the consent of CRU to use data provided in CRU Elkem IPO Support (CRU, January 2017) in this Prospectus.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Company has not independently verified and cannot give any assurances as to the accuracy of market data contained in this Prospectus that was extracted from these industry publications or reports and reproduced herein. Market data and statistics are inherently unpredictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market.

The Company cautions prospective investors not to place undue reliance on the above mentioned data. Unless otherwise indicated in the Prospectus, any statements regarding the Group's competitive position are based on the Company's own assessment and knowledge of the market in which it operates.

As a result, prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Prospectus (and projections, assumptions and estimates based on such information) may not be reliable indicators of the Group's future performance and the future performance of the industry in which it operates. Such indicators are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in Section 2 "Risk Factors" and elsewhere in this Prospectus.

4.2.4 Other information

In this Prospectus, all references to "**NOK**" and "**Norwegian kroner**" are to the lawful currency of Norway, all references to "**USD**", "**$**" and "**U.S. dollars**" are to the lawful currency of the United States of America, all references to "**EUR**", "**€**" and "**euros**" are to the lawful common currency of the EU member states who have adopted the Euro as their sole national currency, all references to "**RMB**" and "**Renminbi**" are to the lawful currency of the People's Republic of China and all references to "**CAD**" and "**Canadian dollars**" are to the lawful currency of Canada. The Financial Statements are published in NOK.

4.2.5 Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments (by rounding to the nearest whole number or decimal or fraction, as the case may be). Accordingly, figures shown for the same category presented in different tables may vary slightly. As a result of rounding adjustments, the figures presented may not add up to the total amount presented.

4.3 Cautionary note regarding forward-looking statements

This Prospectus includes forward-looking statements that reflect the Company's current views with respect to future events and financial and operational performance. These forward-looking statements may be identified by the use of forward-looking terminology, such as the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "should", "will", "would" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements are not historic facts. They appear, among other areas, in the following sections in this Prospectus, Section 8 "Industry and Market Overview", Section 9 "Business" and Section 12 "Operating and Financial Review", and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, financial strength and position of the Group, operating results, liquidity, prospects, growth, the implementation of strategic initiatives, as well as other statements relating to the Group's future business development and financial performance, and the industry in which the Group operates, such as, but not limited to, statements relating to:

- the Group's strategy, outlook and growth prospects;
- the acquisition and integration of Xinghuo Silicones and Yongdeng Silicon Materials and anticipated synergies that the Group will benefit from;
- the Group's operational and financial objectives, including statements relating to expectations for the financial year 2018 and statements as to the Company's medium or long-term growth, margin, and dividend policy;

- the competitive nature of the business in which the Group operates and the competitive pressure and competitive environment in general;
- earnings, cash flow, dividends and other expected financial results and conditions;
- the expected growth and other developments of the industries which the Group operates;
- the Company's planned investments;
- forecasts; and
- the Company's liquidity, capital resources, capital expenditures, and access to funding.

Prospective investors in the Offer Shares are cautioned that forward-looking statements are not guarantees of future performance and that the Group's actual financial position, operating results and liquidity, and the development of the industry in which the Group operates, may differ materially from those made in, or suggested, by the forward-looking statements contained in this Prospectus. The Company cannot guarantee that the intentions, beliefs or current expectations upon which its forward-looking statements are based will occur.

By their nature, forward-looking statements involve, and are subject to, known and unknown risks, uncertainties and assumptions as they relate to events and depend on circumstances that may or may not occur in the future. Because of these known and unknown risks, uncertainties and assumptions, the outcome may differ materially from those set out in the forward-looking statements. Important factors that could cause those differences include, but are not limited to:

- changes in general economic and industry conditions;
- changes in electricity costs;
- competitive pressure and changes to the competitive environment in general;
- decrease in availability, or increase in the costs, of raw materials, labour and transportation;
- the historic cyclicality of the silicon-based advanced material and chemical industries and the connected fluctuations in market price and demand;
- compliance with, potential liability under, and risks related to environmental, health and safety laws and regulations and certain specific emissions-related laws, including climate change laws and regulations (and changes in such laws and regulations, including their enforcement or interpretation);
- risks associated with silicones and metal manufacturing, the associated chemical production process and mining;
- risks from international operations, such as foreign exchange, tariff, tax, inflation, increased costs, political risks and our ability to expand in certain international markets;
- failure to effectively integrate and develop prior and future acquisitions (including Xinghuo Silicones and Yongdeng Silicon Materials);
- changes in laws protecting EU and U.S. companies from unfair foreign competition or the measures currently in place or expected to be imposed under those laws;
- fluctuations of exchange and interest rates;
- implementation of strategy and ability to further expand its business and growth;
- failure to access relevant funding;
- costs associated with labor disputes and stoppage;
- the ability to manage price and operational risks including industrial accidents and natural disasters;
- risk associated with potential unionization of employees or work stoppages that could adversely affect the business;
- the ability to attract and retain skilled personnel;
- failure to protect and enforce our intellectual property right and liability from intellectual property claim;
- planned and unplanned production interruptions that could affect the ability to produce products for sale or maintain business operations;

- failure to have sufficient insurance coverage; and
- change in tax laws and regulations or the interpretation of such laws and regulations by governmental authorities.

The risks that could affect the Group's future results and could cause results to differ materially from those expressed in the forward-looking statements are discussed in Section 2 "Risk Factors".

The information contained in this Prospectus, including the information set out under Section 2 "Risk Factors", identifies additional factors that could affect the Group's financial position, operating results, liquidity and performance. Prospective investors in the Shares are urged to read all Sections of this Prospectus and, in particular, Section 2 "Risk Factors" for a more complete discussion of the factors that could affect the Group's future performance and the industry in which the Group operates when considering an investment in the Company.

These forward-looking statements speak only as at the date on which they are made. The Company undertakes no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

4.4 Exchange rates

The following table sets out the actual annual average of monthly rates in the Norwegian kroner exchange rate against USD, EUR, RMB and CAD over the years ended 31 December 2017, 2016, 2015, 2014 and 2013. All translations from USD, EUR, RMB or CAD to NOK in this prospectus are made at the rates listed below for the relevant period, or at the rate applicable at the date of the transaction which is within the range indicated in the table below.

	Months						**Year ended 31 December**				
	Feb. 2018	**Jan. 2018**	**Dec. 2017**	**Nov. 2017**	**Oct. 2017**	**Sep. 2017**	**2017**	**2016**	**2015**	**2014**	**2013**
USD[1]	7.8327	7.9092	8.3147	8.1853	7.9944	7.8290	8.2630	8.3987	8.0739	6.3019	5.8768
EUR[1]	9.6712	9.6464	9.8412	9.6082	9.3976	9.3275	9.3271	9.2899	8.9530	8.3534	7.8087
RMB[1]	123.89	123.05	126.05	123.62	120.66	119.19	122.27	126.41	128.41	102.32	95.61
CAD[1]	6.2291	6.3611	6.5139	6.4149	6.3493	6.3722	6.3696	6.3397	6.3106	5.7041	5.7031

1 *Source: Average figures http://www.norges-bank.no.*

The following table sets out the actual annual average of monthly rates in the EUR exchange rate against USD and RMB over the years ended 31 December 2017, 2016, 2015, 2014 and 2013.

	Months						**Year ended 31 December**				
	Feb. 2018	**Jan. 2018**	**Dec. 2018**	**Nov. 2017**	**Oct. 2017**	**Sep. 2017**	**2017**	**2016**	**2015**	**2014**	**2013**
USD[1]	1.2291	1.2178	1.1834	1.1739	1.1759	1.1954	1.1301	1.1078	1.1092	1.3289	1.3281
RMB[1]	7.7568	7.8293	7.7942	7.7769	7.7898	7.8228	7.6293	7.3524	6.8936	8.1651	8.2184

1 *Source: Average figures http://www.oanda.com*

5 REASONS FOR THE OFFERING AND THE LISTING

The Company believes the Offering and Listing will:

- enable the Selling Shareholder to partially monetise its holding, optimize its capital structure and investment portfolio;
- diversify the shareholder base and enable other investors to take part in Elkem's future growth and value creation;
- enhance Elkem's profile with investors, business partners and customers;
- further enhance the ability of Elkem to attract and retain key management and employees; and
- facilitate the use of Shares as currency in M&A transactions and provide access to capital markets.

The gross proceeds from the sale of the New Shares in the Offering are expected to amount to approximately NOK 5,200 million and net proceeds of approximately NOK 5,000 million, based on estimated total transaction costs of approximately NOK 200 million related to the New Shares and all other directly attributable costs in connection with the Listing and the Offering to be paid by the Company. The Company intends to use a portion of the net proceeds from the New Shares in the Offering (approximately NOK 4,100 million) to finance the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials and to reduce parts of the Group's long term interest bearing debt (approximately NOK 900 million).

The Selling Shareholder plans to use the net proceeds it receives in the Offering for general corporate purposes.

The Company will not receive any proceeds from the sale of the Sale Shares or the Additional Shares.

The Selling Shareholder intends to remain a long-term majority shareholder in Elkem, and is committed to assist Elkem in the execution of its strategic plan.

6 REORGANISATION

6.1 Introduction

6.1.1 The Reorganisation transactions

In connection with the IPO, the following reorganisation of the Bluestar Group will be carried out (the "**Reorganisation**"):

(i) Elkem will acquire 100% of the shares in Jiangxi Bluestar Xinghuo Organic Silicones Co. Ltd. ("**Xinghuo Silicones**" or "**XH**") from Bluestar Elkem Investment Co. Ltd., a subsidiary of China National Bluestar (Group) Co. Ltd. ("**China Bluestar**"); and

(ii) Elkem will acquire 100% of the shares in Bluestar Silicon Material Co. Ltd. ("**Yongdeng Silicon Materials**" or "**YD**") from Bluestar Elkem Investment Co. Ltd.

Completion of the Reorganisation is conditional only upon a completed IPO and the transactions which constitute the Reorganisation (see Sections 6.2 "Transfer of Xinghuo Silicones to Elkem" and 6.3 "Transfer of Yongdeng Silicon Materials to Elkem" below) will be effective from the time of the completion of the IPO.

6.1.2 Background for the Reorganisation

Since Bluestar's acqusition of Elkem in 2011 (see Section 9 "Business of the Group"), Elkem have together with Xinghuo Silicones and and Yongdeng Silicon Materials been under common control by Bluestar. During this period, Bluestar has supported Elkem in the expansion of its value chain which has led to Elkem's current market position as a leader in the production of silicon-based advanced materials. During this period, Elkem has undergone a significant development and is today more specialised and has transitioned into a predominantly chemical company.

As further described in Section 9.3 "Strategy", important elements in Elkem's strategy is to further improve its operational efficiencies across the Group and exploit the synergies between the Silicones division and the Silicon Materials division. In addition, Elkem will focus on gaining access to new market opportunities and in particular, China. The Reorganisation is a key element in the succesful implementation of this strategy. Xinghuo Silicones, whose main products include organic silicone monomer and organic silicone-related downstream products for the sealants, rubber and emulsion markets, will through the Reorganisation be combined with ESi (as defined below) as part of Elkem's Silicones division, and Yongdeng Silicon Materials, whose main product is Silicon 99 will become part of Elkem's Silicon Materials division, which is already one of the world's leading[16] suppliers of silicon and microsilica. See Section 9.5.2 "Silicones" and 9.5.3 "Silicon Materials" for further information about Elkem's operating divisions.

Through the Reorganisation, Elkem targets to further expand and develop its fully integrated silicone-based value chain. Xinghuo Silicones and Yongdeng Silicon Materials will complement Elkem's fully integrated silicones value chain and allow Elkem to further develop its integrated silicon value chain, from upstream quartz mining to silicon, silicones and downstream silicones specialities. Further, by acquiring Xinghuo Silicones and Yongdeng Silicon Materials, Elkem will gain access to high growth markets in China with significant upstream capacity, improved supply of full product range to specialty customers in China and increasing penetration of high value-add products in the specialty segment in China.

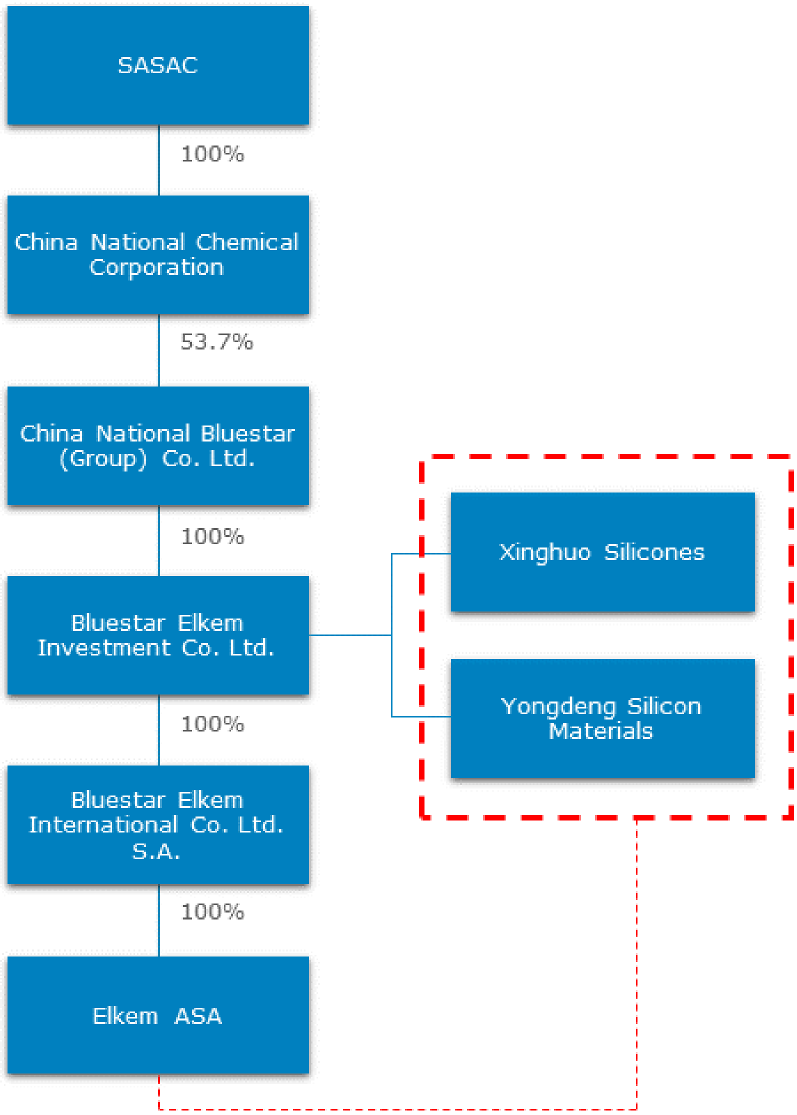
The Reorganisation is a result of a long term process which began with the partial integration of Elkem and BSI (as defined below) in 2011. Since then, the aim has been to enhance Elkem's integrated position in the silicon value chain, from upstream quartz mining to silicon, silicones and downstream silicones specialities, and to strengthen Elkem's position in the attractive and fast-growing Chinese market. Elkem has a clear ambition of fortressing and building its position within silicones through the integration of Xinghuo Silicones, which is the largest silicones plant in China in terms of capacity, targeting to become one of the largest producers worldwide. Furthermore, Elkem will maintain the highly regarded expertise and marketing competencies that have been the key pillars for its historic success.

As of 31 December 2017, Elkem's Silicones and Silicon Materials divisions accounted for 77% of Elkem's total operating income on a combined basis, including intragroup sales. As a result of the Reorganisation, Elkem will gain access to significant and fully invested capacity reservoir which will ensure an attractive growth option for the Group. On a combined basis, Elkem's total operating income increased by 26% from 2016 to 2017. In the medium term, the Group is targeting revenues to reach approximately double world GDP growth and for 2018, the Group targets double digits revenue growth.

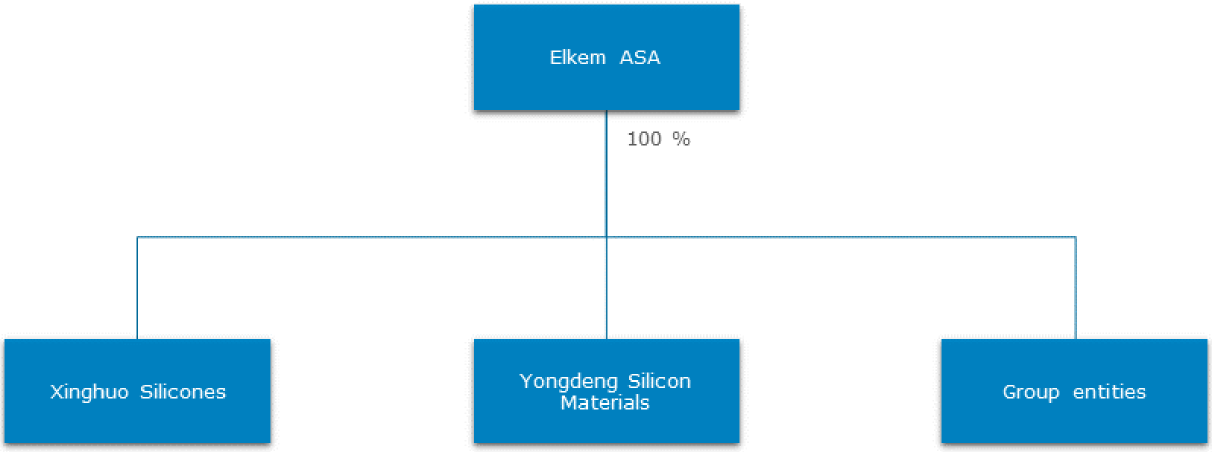
[16] Company estimate based on data provided by CRU, market share and production capacity.

6.1.3 Group chart prior to and after the Reorganisation

The figure below provide an illustration of the Bluestar Group including Xinghuo Silicones and Yongdeng Silicon Materials prior to the Reorganisation:



The figure below provide an illustration of the Group including Xinghuo Silicones and Yongdeng Silicon Materials after the Reorganisation:



6.2 Transfer of Xinghuo Silicones to Elkem

On 30 January 2018, the Company and Bluestar Elkem Investment Co. Ltd. entered into an equity transfer agreement pursuant to which Bluestar Elkem Investment Co. Ltd. has agreed to transfer 100% of the shares in Xinghuo Silicones to the Company. The total purchase price for Xinghuo Silicones is RMB 2,734 million (NOK 3,445.6 million[17]) and will be settled in cash in USD. The purchase price for Xinghuo Silicones is based on an enterprise value of RMB 6,400 million (NOK 8,066 million) and a total net debt as of 31 December 2017 in the amount of RMB 3,666 million (NOK 4,620 million). The purchase price is not subject to any post signing adjustments. See Section 2.1.16 "Elkem is exposed to exchange rate fluctuations.".

Pursuant to the terms of the equity transfer agreement, Bluestar Elkem Investment Co. Ltd. has made certain representations and warranties relating to the transfer of Xinghuo Silicones. In addition, the equity transfer agreement contains an indemnity clause pursuant to which Bluestar Elkem Investment Co. Ltd. shall hold Elkem harmless against all liabilities, costs, expenses, damages, claims and losses suffered or incurred by Elkem arising out of, in connection with or resulting from (i) the transfer of Xinghuo Silicones and/or (ii) any facts or circumstances existing or occurring at any time prior to closing of the transfer. The indemnity undertaken by Bluestar Elkem Investment Co. Ltd. does not cover any liability with respect to any claims against Xinghuo Silicones to the extent this is provided for in the balance per 31 December 2017, and the indemnity is subject to a lower limit of USD 5 million in aggregate losses. Elkem must notify Bluestar Elkem Investment Co. Ltd. of any claim under the indemnity prior to the third anniversary of completion of the acquisition.

Completion of the transaction is conditional only upon a completed IPO.

6.3 Transfer of Yongdeng Silicon Materials to Elkem

On 30 January 2018, the Company and Bluestar Elkem Investment Co. Ltd. entered into an equity transfer agreement pursuant to which Bluestar Elkem Investment Co. Ltd. has agreed to transfer 100% of the shares in Yongdeng Silicon Materials to the Company. The total purchase price for Yongdeng Silicon Materials is RMB 540 million (NOK 680.5 million[18]) and will be settled in cash in USD. The purchase price for Yongdeng Silicon Materials is based on an enterprise value of RMB 880 (NOK 1,109 million million) and a total net debt as of 31 December 2017 in the amount of RMB 340 million (NOK 429 million).The purchase price is not subject to any post signing adjustments. See Section 2.1.16 "Elkem is exposed to exchange rate fluctuations.".

[17] This amount is based on the estimated purchase price presented in the Consolidated Financial Statements for the year ended 31 December 2017, as described in Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", and deviates from the rounded amounts presented elsewhere in this Prospectus, see Sections 5 "Reasons for the Offering and the listing" and 10 "Capitalisation and Indebtedness". The final purchase price will be determined at the time of completion of the IPO.

[18] This amount is based on the estimated purchase price presented in the Consolidated Financial Statements for the year ended 31 December 2017, as described in Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", and deviates from the rounded amounts presented elsewhere in this Prospectus, see Sections 5 "Reasons for the Offering and the listing" and 10 "Capitalisation and Indebtedness". The final purchase price will be determined at the time of completion of the IPO.

Pursuant to the terms of the equity transfer agreement, Bluestar Elkem Investment Co. Ltd. has made certain representations and warranties relating to the transfer of Yongdeng Silicon Materials. In addition, the equity transfer agreement contains an indemnity clause pursuant to which Bluestar Elkem Investment Co. Ltd. shall hold Elkem harmless against all liabilities, costs, expenses, damages, claims and losses suffered or incurred by Elkem arising out of, in connection with or resulting from (i) the transfer of Yongdeng Silicon Materials and/or (ii) any facts or circumstances existing or occurring at any time prior to closing of the transfer. The indemnity undertaken by Bluestar Elkem Investment Co. Ltd. does not cover any liability with respect to any claims against Yongdeng Silicon Materials to the extent this is provided for in the balance per 31 December 2017, and the indemnity is subject to a lower limit of USD 5 million in aggregate losses. Elkem must notify Bluestar Elkem Investment Co. Ltd. of any claim under the indemnity prior to the third anniversary of completion of the acquisition.

Completion of the transaction is conditional only upon a completed IPO.

6.4 Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials

The Company, Xinghuo Silicones and Yongdeng Silicon Materials are, as of the date of this Prospectus, under common control of China Bluestar. Business combinations involving entities under common control are accounted for according to the "pooling of interest method"[19]. The "pooling of interest method" involves the following: (i) assets and liabilities of the combining entities are reflected at their carrying amounts; (ii) no new goodwill is recognised as a result of the combination; and (iii) the statement of income reflects the results of the combining entities for the full year, irrespective of when the combination took place. Comparable figures are restated.

The tables below are derived from note 33 of the Consolidated Financial Statements for the year ended 31 December 2017 and provide an overview of the effects the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials will have on a consolidated basis as of 31 December 2017. The cash consideration of NOK 4,126.1 million[20] and continuity differences booked as a reduction of consolidated equity of NOK 3,888.8 million are based on the prevailing RMB/NOK currency exchange rate of RMB 100 RMB to NOK 129.03 as of 31 December 2017. The Company has not hedged the currency exposure of the purchase price for Xinghuo Silicones and Yongdeng Silicon Materials.

In NOK thousands	**Xinghuo Silicones and Yongdeng Silicon Materials**
Consideration	
Cash	4,126,104
Contingent consideration	-
Non-controlling ownership interest in subsidiary	-
Consideration transferred	**4,126,104**
Fair value of previously held equity interest	-
Total	**4,126,104**

[19] The "pooling of interest method" is also referred to as "the merger method".

[20] This amount is based on the estimated purchase price presented in the Consolidated Financial Statements for the year ended 31 December 2017, see Sections 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", and deviates from the rounded amounts presented elsewhere in this Prospectus, see Sections 5 "Reasons for the Offering and the listing" and 10 "Capitalisation and Indebtedness". The final purchase price will be determined at the time of completion of the IPO.

In NOK thousands	**Xinghuo Silicones and Yongdeng Silicon Materials**
Amounts for assets and liabilities recognised	
Property plant and equipment	5,381,484
Other intangible assets	191,671
Other non-current assets	31,259
Inventories	543,430
Accounts receivable	322,446
Other current assets	1,489,127
Restricted deposits	1,016,018
Cash and cash equivalents	257,652
Non-current interest-bearing liabilities	(1,902,999)
Provisions	(36,356)
Accounts payable	(882,001)
Income tax payables	(248)
Interest-bearing current liabilities	(2,986,109)
Bills payable	(2,649,760)
Other current liabilities	(538,349)
Total	**237,265**
Non-controlling interests	-
Goodwill	-
Continuity differences recognised against equity	**(3,888,839)**

7 DIVIDENDS AND DIVIDEND POLICY

7.1 Dividend policy

In deciding whether to propose a dividend and in determining the dividend amount, the Board of Directors will take into account legal restrictions, as set out in the Norwegian Public Limited Companies Act of 13 June 1997 no. 45 (the "**Norwegian Public Limited Companies Act**") (see Section 7.2 "Legal constraints on the distribution of dividends"), the Company's capital requirements, including capital expenditure requirements, the Company's financial condition, general business conditions and any restrictions that its contractual arrangements in place at the time of the dividend may place on its ability to pay dividends and the maintenance of appropriate financial flexibility. Except in certain specific and limited circumstances set out in the Norwegian Public Limited Companies Act, the amount of dividends paid may not exceed the amount recommended by the Board of Directors.

Elkem will initially target a dividend pay-out ratio of 30-50% of the Group's net income for the year.

The proposal to pay a dividend in any year is, in addition to the legal restrictions as set out in Section 7.2 "Legal constraints on the distribution of dividends", further subject to any restrictions under the Group's borrowing arrangements or other contractual arrangements in place at the time. See Section 12.11.4 "Financing arrangements" for further information concerning the Group's current borrowing arrangements.

There can be no assurance that a dividend will be proposed or declared in any given year. If a dividend is proposed or declared, there can be no assurance that the dividend amount or yield will be as contemplated above.

In 2017, a dividend of NOK 170 million was distributed to the Selling Shareholder as extraordinary dividend. No dividend was distributed in 2016. In 2015, a dividend of NOK 750 million was distributed to the Selling Shareholder as ordinary dividend and an extraordinary dividend (in kind) of NOK 1,067 million was distributed to the Selling Shareholder in June 2015 in connection with the acquisition of BSI (as defined below) and sale of its entire ownership stake in Elkem Solar Holding S.á.r.l. Additionally, the Company distributed an extraordinary dividend of NOK 1,150 million to the Selling Shareholder in December 2015.

7.2 Legal constraints on the distribution of dividends

Dividends may be paid in cash or in some instances in kind. The Norwegian Public Limited Companies Act provides the following constraints on the distribution of dividends applicable to the Company:

- Section 8-1 of the Norwegian Public Limited Companies Act provides that the Company may distribute dividends to the extent that the Company's net assets following the distribution cover (i) the share capital, (ii) the reserve for valuation variances and (iii) the reserve for unrealised gains. The amount of any receivable held by the Company which is secured by a pledge over Shares in the Company, as well as the aggregate amount of credit and security which, pursuant to Sections 8-7 to 8-10 of the Norwegian Public Limited Companies Act fall within the limits of distributable equity, shall be deducted from the distributable amount.

  The calculation of the distributable equity shall be made on the basis of the balance sheet included in the approved annual accounts for the last financial year, provided, however, that the registered share capital as of the date of the resolution to distribute dividends shall be applied. Following the approval of the annual accounts for the last financial year, the General Meeting may also authorise the Board of Directors to declare dividends on the basis of the Company's annual accounts. Dividends may also be resolved by the General Meeting based on an interim balance sheet which has been prepared and audited in accordance with the provisions applying to the annual accounts and with a balance sheet date not further into the past than six months before the date of the General Meeting's resolution.

- Dividends can only be distributed to the extent that the Company's equity and liquidity following the distribution is considered sound.

The Norwegian Public Limited Companies Act does not provide for any time limit after which entitlement to dividends lapses. Subject to various exceptions, Norwegian law provides a limitation period of three years from the date on which an obligation is due. There are no dividend restrictions or specific procedures for non-Norwegian resident shareholders to claim dividends. For a description of withholding tax on dividends applicable to non-Norwegian residents, see Section 19 "Taxation".

7.3 Manner of dividend payments

Any future payments of dividends on the Shares will be denominated in the currency of the bank account of the relevant shareholder, and will be paid to the shareholders through the VPS Registrar. Shareholders registered in the VPS who have not supplied their VPS account operator with details of their bank account, will not receive payment of dividends unless they register their bank account details on their VPS account, and thereafter inform the VPS Registrar about said account. The exchange rate(s) that is applied when denominating any future payments of dividends to the relevant shareholder's currency will be the VPS Registrar's exchange rate on the payment date. Dividends will be credited automatically to the VPS registered shareholders' accounts, or in lieu of such registered account, at the time when the shareholder has provided the VPS Registrar with their bank account details, without the need for shareholders to present documentation proving their ownership of the Shares. Shareholders' right to payment of dividend will lapse three years following the resolved payment date for those shareholders who have not registered their bank account details with the VPS Registrar within such date. Following the expiry of such date, the remaining, not distributed dividend will be returned from the VPS Registrar to the Company.

8 INDUSTRY AND MARKET OVERVIEW[21]

8.1 Overview

Elkem is primarily engaged in the production and sale of (i) silicon materials such as silicon and microsilica used for a large number of applications, including the production of aluminium alloys, silicones and polysilicon, (ii) specialty silicones, which comprise several, high-performance products utilised in numerous industrial and consumer end-markets, (iii) foundry alloys for iron foundries and ferrosilicon for the steel industry, and (iv) carbon products such as electrode paste used in electric arc furnaces. Given the global pedigree of its sub-markets, Elkem operates an asset base comprising several production facilities located worldwide.

8.2 Silicones

8.2.1 Description

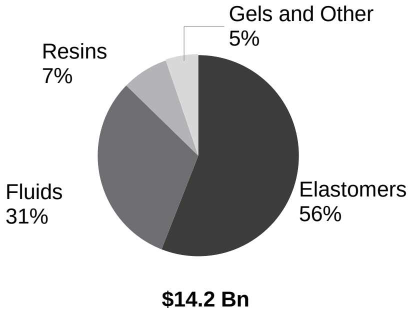
Silicones are polymers and can be manufactured into many forms including solids, liquids, semi-viscous pastes, greases, oils and rubber. They are flexible and can resist moisture, chemicals, heat, cold and ultraviolet radiation and can be encountered every day without noticing them e.g. silicone rubber in cars to protect electronics, silicones in the gel on a wound dressing, and sealing and insulating materials in electrical equipment. Silicones represent an entire class of materials and have a near-infinite range of forms and applications (e.g. aging resistant, hot, cool, softness, flexible, anti-foaming and water-repellent).

In terms of applications, silicone products are used in a diverse range of industries including electrical and electronics (e.g. electronic products, electrical power generation), construction (e.g. sealants, adhesives, and coatings), transportation (e.g. motor vehicles, aerospace equipment), health and personal care (e.g., personal care products, medical products), chemicals (e.g. plastic processing, oil and gas production) and others (e.g. machinery, textiles and paper). Electrical and electronic products accounted for approximately 19% of silicone demand in 2016 and construction, transportation and health and personal care[22] accounted for approximately 20%, 17% and 12%, respectively, of silicone demand.

Due to its wide range of application areas, silicones are used in a large number of products and industries, including manufactured goods, construction materials, and consumer items. As a result, trends in silicone demand generally tend to be driven by macro trends such as GDP growth, urbanization and increased mobility.

Exhibit 1: World silicone demand by product (2016)[23]

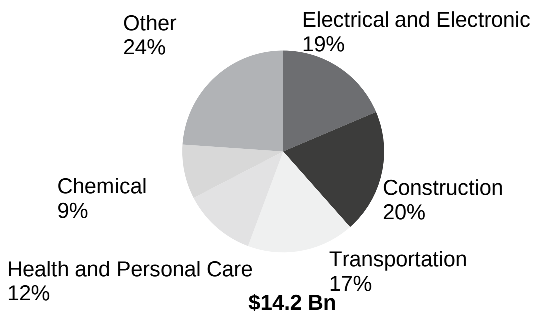
% demand



Source: Freedonia

Exhibit 2: World silicone demand by market (2016)[24]

% demand



Source: Freedonia

Silicone elastomers represent over 50% of the global silicones consumption and are mainly driven by the construction and transportation markets. Silicone fluid and gels represents approximately 36% of the total global silicones consumption and are used in the health and personal care market (e.g. cosmetics, toiletry, and wound care). Silicone resins are primarily dependent on the construction industry.

8.2.2 Demand overview

Global consumption of silicones is forecast to grow 5.1% per annum through 2021 to USD 18.3 billion. This will represent acceleration from the pace of the 2011-2016 period. In general, gains will be driven by (i) higher personal incomes in developing countries, raising consumption of silicone-containing products, (ii) capture of market share from

[21] See section 4.2.3 "Industry and market data" regarding sources for industry and market data.

[22] World Silicones Industry Study (Freedonia, May 2017) (payable source).

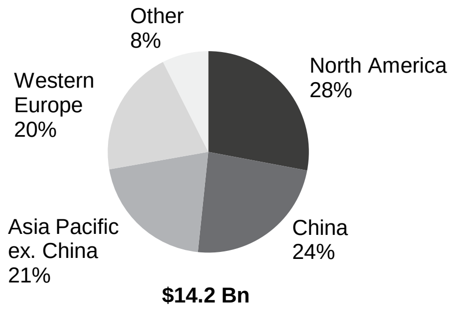
[23] World Silicones Industry Study (Freedonia, May 2017) (payable source).

[24] World Silicones Industry Study (Freedonia, May 2017) (payable source).

other materials, such as thermoplastics and (iii) rising penetration of silicones into construction, motor vehicle, and electronic markets.

Exhibit 3: Global Silicones Demand by Region (2016)[25]

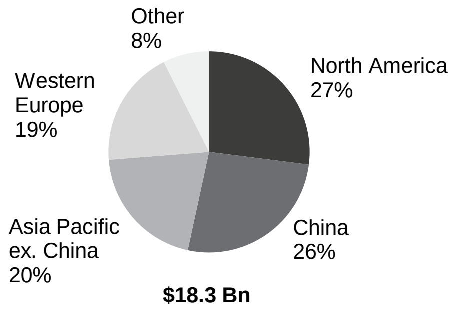
% demand



Source: Freedonia

Exhibit 4: Global Silicones Demand by Region (2021E)[26]

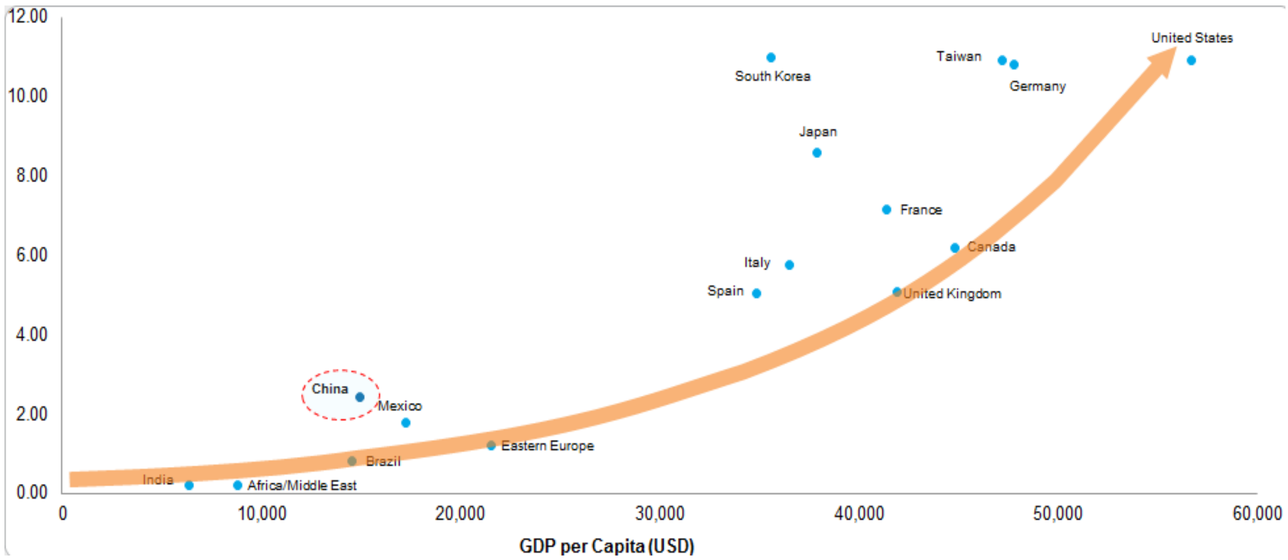
% demand



Source: Freedonia

Increased standard of living through higher personal income in developing and emerging markets is expected to boost demand for more advanced and higher value-add products which have a higher density of silicones material in it.

Exhibit 5: Silicone consumption (USD/capita)



Demand by Asia / APAC

The Asia/Pacific region will remain the largest and fastest growing market for silicones, accounting for 47% of the 2021 total world demand, up from 44% in 2016. It will be the fastest growing regional market through 2021 due to rapid growth in India and China, the two national markets with the strongest growth. China will also overtake the US as the largest national market in value terms, although it has outpaced the US in volume terms since 2008. Smaller Asian markets, such as Indonesia, will also see rapid gains. However, more rapid increases will be tempered by much slower increases in the large Japanese market, which will remain the third largest globally.

The regional silicones market is expected to grow by approximately 6.2% p.a. from 2016 to 2021, with key drivers for such strong growth including:

(i) rising intensity of use of high-value adhesives, sealants, and coatings in the construction market;

(ii) increasing solar panel output, which will fuel gains in the electrical and electronic products market;

[25] World Silicones Industry Study (Freedonia, May 2017) (payable source).

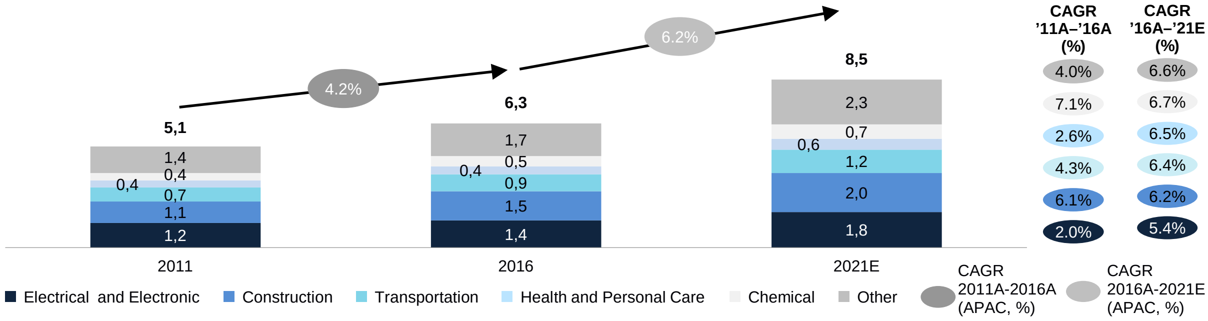
[26] World Silicones Industry Study (Freedonia, May 2017) (payable source).

(iii) a pickup in the transportation market, as consumer tastes and finances help the motor vehicle industry align more closely with products found in the developed world;

(iv) advances in cosmetic, toiletry and healthcare spending; and

(v) an improvement in machinery manufacturing activity.

Exhibit 6: Asia/Pacific: Silicones demand by end-market



Source: Freedonia

China is the largest silicones market in the region by a wide margin, accounting for approximately 54% of the regional total demand, followed by Japan's (approximately 17%) and South Korea (approximately 9%). Silicones demand in China is projected to expand 7.4% p.a. through 2021 to $4.8Bn, surpassing the US to become the largest market worldwide in terms of value, while remaining one of the fastest growing national silicone users globally. The silicones market in health and personal care is expected to grow by double-digits, underpinned by increasing standards of living and the aging of population due to China's one-child policy. Rise in the use of silicones in transportation equipment is expected to continue as the size and complexity of the equipment manufactured in China increases (e.g. electrification of automobiles and increased penetration of advanced electronics in the average automobile). China is the world's leader in solar panel production, a trend that is expected to grow going forward and also provides opportunities for growth for other sectors, such as electrical and electronic products market. However, further demand increases are expected to be somewhat offset by a slowdown in the construction industry, which represents China's largest market for silicones.

Demand by North America and Western Europe

North America and Western Europe will remain far more intensive consumers of silicones on a per capita and per dollar of GDP basis, due to the widespread use of silicones in a number of industries. Gains in North America will continue to advance at a solid pace, supported by increases in the construction, electrical and electronic products, health and personal care, and transportation equipment industries. Silicone demand in Western Europe will rebound from declines registered from 2011 to 2016, but will continue to trail the global average. In this region, aging populations will drive demand for silicones in the health and personal care market.

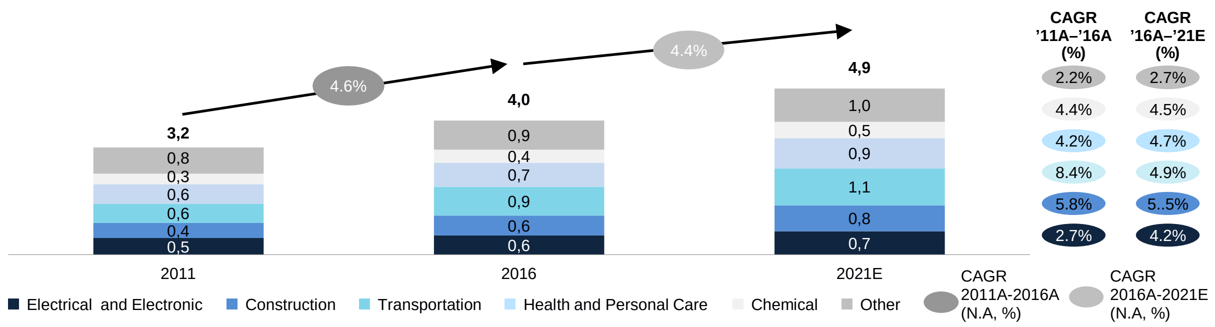
The North America silicones market is expected to grow by approximately 4.4% p.a. from 2016 to 2021. Key drivers for such growth include:

(i) Transportation is expected to remain the largest market despite decreasing vehicle production (e.g. electrification of automobiles and increased penetration of advanced electronics in the average automobile);

(ii) Health and personal care application is expected to continue to present increasing opportunities for silicone suppliers in the US and Canada as population is ageing, boosting spending on healthcare and related consumables (e.g. wound care); and

(iii) Construction and electrical & electronics market are expected to present valuable opportunities for silicones.

Exhibit 7: North America: Silicones demand by end-market



Source: Freedonia

The United States represent approximately 89% of the regional market, followed by Canada (approximately 6%) and Mexico (approximately 6%). The US market is the largest silicones market in the world, accounting approximately 25% of global demand in value terms. However, while China is the largest market in volume terms, US benefits from higher prices from usage of more advanced silicones and higher demand per capita.

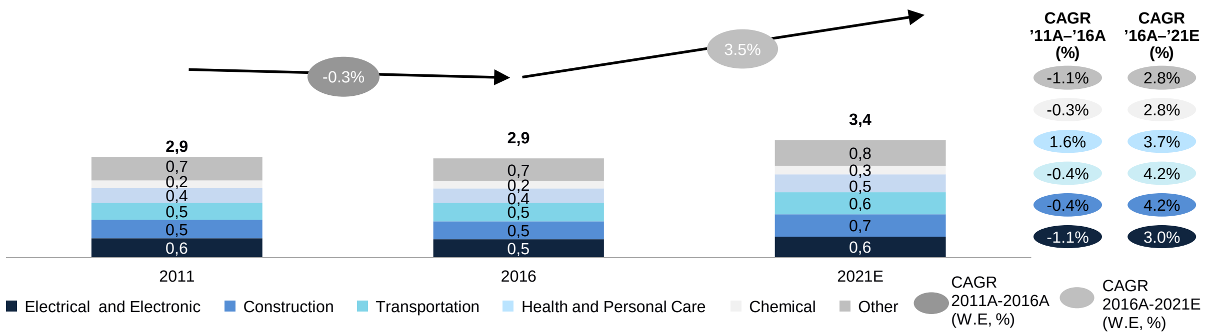
Western Europe silicones market is expected to grow by approximately 3.5% p.a. from 2016 to 2021 with key drivers for the growth including:

(i) Health and personal care expected to be the fastest growing end-market, underpinned by growth in cosmetic and toiletry shipments and the growing medical needs of an aging population across the region (e.g. increased demand from wound care due to chronical diseases);

(ii) Construction market expected to grow at equally pace as health and personal care as European industry activity has recovered; and

(iii) Silicones demand is expected to benefit from the shift from fossil to renewable energy as solar panels, wind turbines and LEDs becomes more common.

Exhibit 8: Western Europe: Silicones demand by end-market (USD Bn)



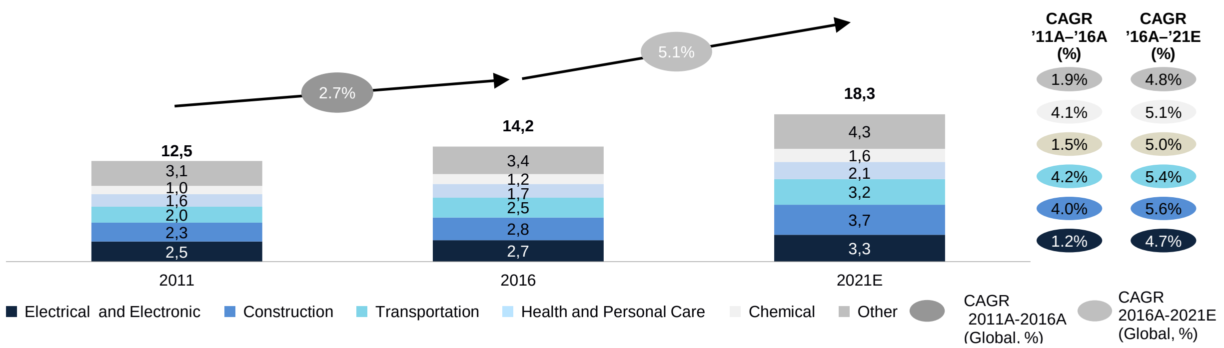
Source: Freedonia

Germany represents approximately 30% of the regional market, followed by France (approximately 16%), Italy (approximately 12%) and UK (approximately 11%). The Western European market is the third largest silicones market in the world, accounting approximately 20% of global demand in value terms. The region is characterized by an significant use of silicones per capita underpinned by aging population and high standards of living.

Demand by RoW

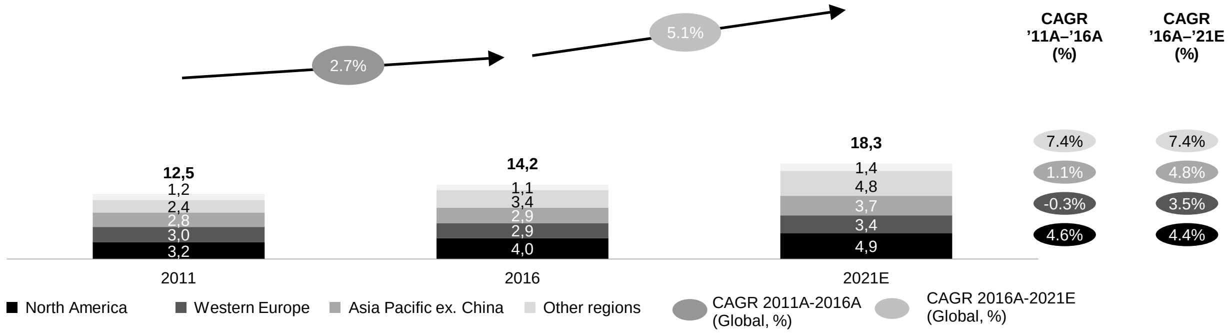
Central and South America, Eastern Europe, and the Africa/Mideast region will continue to have relatively little impact on the global silicone market, with each area accounting for under 3% of 2021 global silicone sales. Intensity of use is also expected to remain low by global standards.

Exhibit 9: Global silicones demand by end end-market (USD Bn)



Source: Freedonia

Exhibit 10: Global silicones demand by geography (USD Bn)



Source: Freedonia

8.2.3 Supply overview

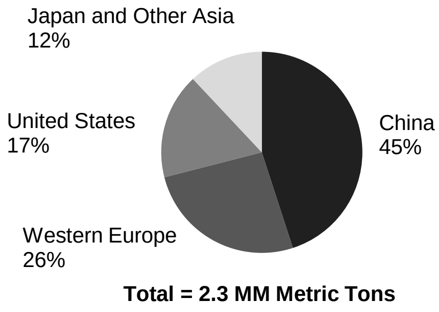
The global silicone industry is comprised of more than 100 significant producers, however, the top five largest, integrated, multinational firms accounted for more than 67% of the global silicones production capacity in 2016[27]. Dow Corning is the largest producer by capacity, accounting for 27% of the world market in 2016. The next four leading suppliers by capacity, Wacker Chemie, Elkem, Momentive Performance Materials and Shin-Etsu Chemical accounted for an additional 40% of global capacity[28] in 2016.

Most producers have global presence; however, they tend to have stronger position in certain regional markets. For example, China accounts for nearly half of Elkem's markets while North America accounts for nearly half of Dow Corning's markets , but only approximately 27% of sales in Western Europe, where Wacker Chemie is a leading producer (source: Freedonia, Global Silicones Market, 4th Edition). As the silicone industry is already highly concentrated and has disciplined players, merger and acquisitions activity tends to occur on a relatively small scale.

[27] Silicones, Chemical Economics Handbook (IHS, April 2017) (payable source).
[28] Silicones, Chemical Economics Handbook (IHS, April 2017) (payable source).

Exhibit 11: World Capacity of Silicones by Region (2016)[7]

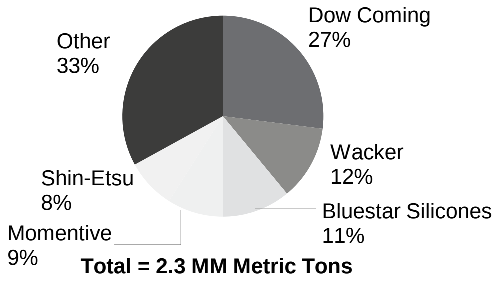
% demand



Source: IHS

Exhibit 12: World capacity shares for silicones (2016)[7]

% demand



Source: IHS

China continues to be the largest consumer of silicones in the world by volume and has as well the largest capacity, where Elkem is the leader. An additional capacity increase by 220,000 metric tonnes is expected in China during 2017-2019 (source: IHS, Silicones April 2017).

All leading producers are highly diversified suppliers of silicones and five of the six largest producers are integrated siloxanes producers. Several of the major siloxane producers are also further integrated with production of silicon metal, a key feedstock in siloxane production.

Silicones are high value materials and can be economically transported over long distances from production sites to customers or distributors. Silicones production is primarily concentrated in developed countries, making them net exporters, with developing countries generally net importers.

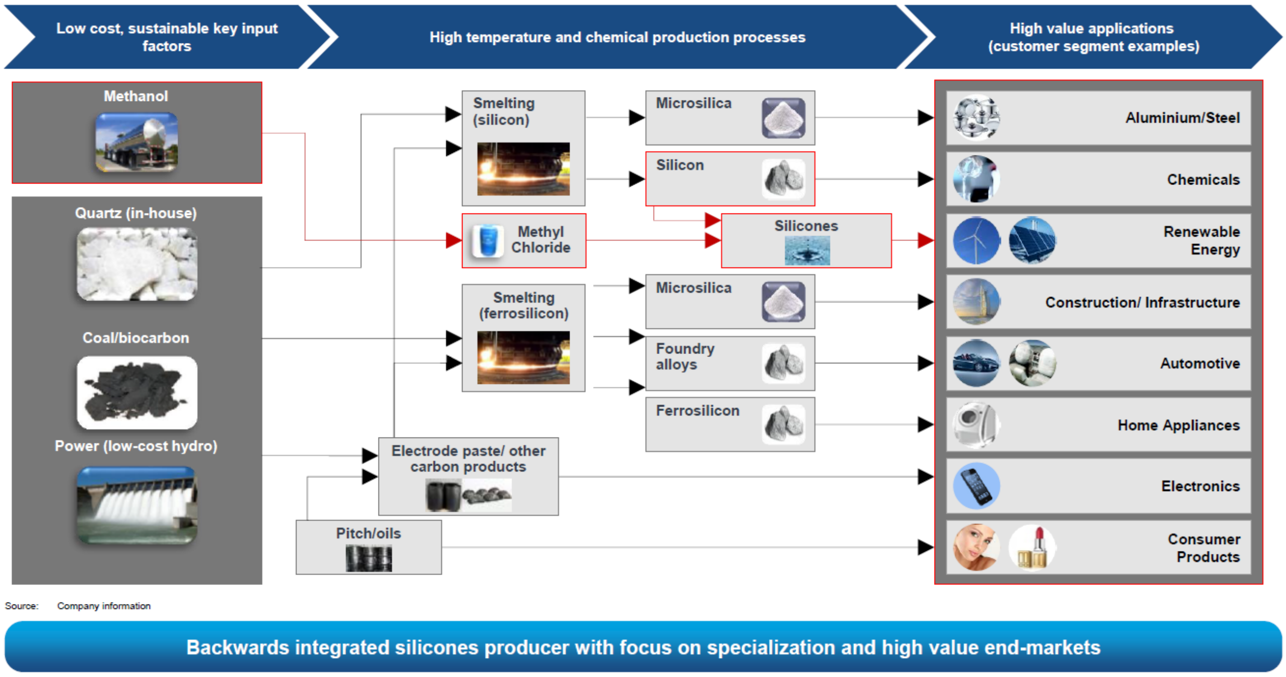
Germany was the leading exporter of silicones in 2016. It has several leading silicones manufacturers (Wacker Chemie, Momentive and Evonik) and exports silicones globally with significant sales to Western Europe, US, China, Turkey, South Korea, Russia and Brazil. Japan is also a major exporter of silicones supplying most of the Asia Pacific markets. Other net exporters include the United Kingdom and the United States[29].

8.2.4 Raw materials

The production process of Silicones is dependent on a few raw materials such as silicon, platinum and methanol. Silicon reacts with methyl chloride in the presence of a copper catalyst to make chlorosilanes. Chlorosilanes then react with water to produce siloxanes, the most basic silicone polymer, and is processed further by silicone manufacturers into products such as fluids, elastomers, resins, and gels. Almost all leading silicone producers are backward integrated into siloxanes due to cost benefits.

[29] World Silicones Industry Study (Freedonia, May 2017) (payable source).

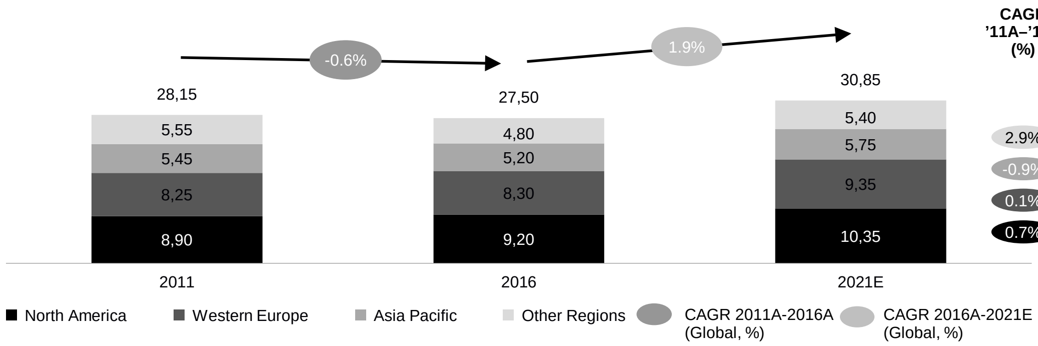
Exhibit 13: Silicones production value chain



8.2.5 Pricing

Silicones prices can vary significantly across each region due to different dynamics such as product quality and technology (e.g., more sophisticated products). High-value products as specialised silicones tend to have higher penetration than commoditised products, which in turn, have higher penetration compared to basic silicone fluids and elastomers. North America, Western Europe and Japan have experienced higher prices compared to the rest of the world in the past. Typically, transportation and electrical and electronic product markets have the highest average prices for silicones due to the higher quality of materials required and the specialised application in which they are used. The opposite is true of construction and chemical markets, which use less complex silicones and therefore have the lowest average prices of the major markets.

Exhibit 14: Global silicones pricing trends by region & market (USD per kg)



Source: Freedonia

8.2.6 Environmental and regulatory trends

Silicones are considered nontoxic and environmental friendly alternative to many hydrocarbon-based products. However, environmental concerns have been raised in regards to some silicone materials and products, in particular for two molecular weight silicones commonly used in cosmetic and toiletry products, octamethylcyclotetrasiloxane (D4) and decamethycyclopentasiloxane (D5), have seen increased scrutiny in recent years. In February 2017, the European Commission submitted the restriction to the World Trade Organization, and the two siloxanes are expected to be banned from use in wash-off personal care products after a 24-month transition period.

8.3 Silicon Materials

8.3.1 Description

Silicon materials comprise a wide range of versatile products including high purity silicon and microsilica. The common denominator for the product category is the element silicon (Si), which serves as the backbone for the various individual products. Silicon production builds on quartz and quartzite, which consist of Si and oxygen (O2), "**SiO2**". Quartz is one of the most abundant minerals on the earth, and has the chemical purity needed for metallurgical applications. The silicon production process consist of heating quartz and coal in a high temperature electric arc furnace together with woodchips and coal-based reductants (typically low-ash metallurgical coal and charcoal) leading to a carbothermal reduction of quartz.

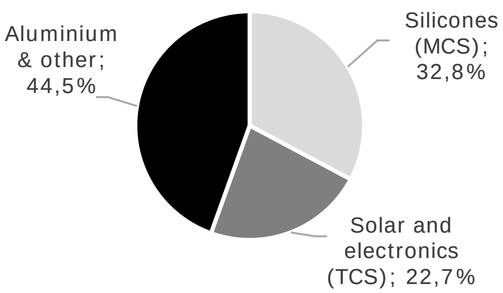
Silicon has a number of favourable chemical and physical properties, including semi-conductivity, making it highly versatile for numerous industrial and electronic applications. As such, it has a wide array of applications predominantly as an alloy with aluminium and in the production of silicones and polysilicon, as set forth below.

- **Aluminium alloys:** Silicon is used as an alloying agent in the aluminium industry due to its ability to increase the castability, corrosion resistance, hardness, tensile strength, wear-resistance and weldability of aluminium. The automotive industry commonly uses aluminium alloys to produce engine blocks, transmission housings and aluminium alloy wheels.
- **Silicones:** Silicones are silicon-based polymers found in both speciality applications and numerous everyday industrial and consumer products such as lubricants, greases, resins and skin and hair care products. In recent years, silicones have become increasingly more relevant in various sectors such as healthcare due to their strong chemical and physical properties relative to other materials.
- **Polysilicon:** Polysilicon is a high purity, polycrystalline form of silicon, used in the electronics industry, in semi-conductors and photovoltaic (PV) cells for the solar industry, and in optical fibre.

In 2016, the aluminium industry accounted for approximately 45% of the global silicon demand in terms of volumes, while chemicals (predominantly silicones) and polysilicon accounted for approximately 33% and 22%, respectively[30]. In terms of geographical volume demand, China represented the largest market accounting for approximately 35% of demand in 2016, followed by Europe and the Americas at 23% and 15%, respectively.

Exhibit 15: Global silicon demand by end-use, 2016 [31]

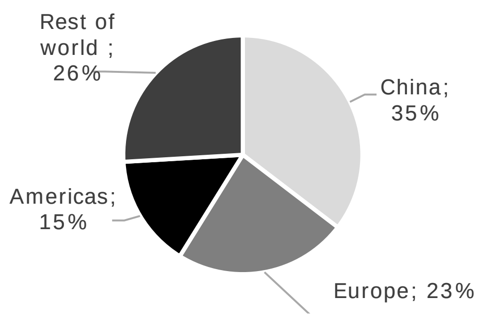
% demand



Source: CRU

Exhibit 16: Global silicon demand by geography[32]

% demand



Source: CRU

Microsilica is an ultrafine powder of silicon dioxide (silica, SiO2), collected as a by-product of silicon and ferrosilicon production by threating off-gases, and has a different set of properties compared to high purity silicon. It is widely used as an additive in order to improve the properties of materials used in areas such as construction and infrastructure, oil production and refractories. Specifically, microsilica is a key ingredient in improving e.g. the compressive strength, bond strength and abrasion resistance in construction materials.

8.3.2 Demand overview

Global demand for silicon increased from approximately 2.0 million MT **("MMt")** in 2012 to 2.6 MMT in 2016, corresponding to a CAGR of 6.9%. The strong growth in demand for polysilicon over the period, reflected by a 15.2% CAGR, has been a material driver for overall silicon consumption, while aluminium and chemicals have grown at a more modest pace of 5.8% and 3.9%, respectively. Going forward, CRU forecasts global silicon demand to grow 5.2%

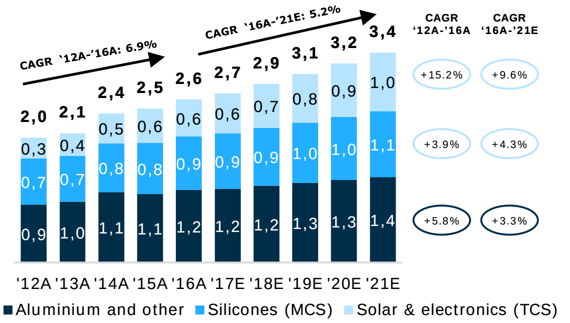
[30] Silicon Metal Market Outlook (CRU, October 2017).
[31] Silicon Metal Market Outlook (CRU, October 2017).
[32] Silicon Metal Market Outlook (CRU, October 2017).

annually from 2016 to 2021, implying a total demand of 3.4 MMt. The forecasted growth rate in silicon consumption is in excess of the forecasted global gross domestic products ("**GDP**")[33] growth for the period, predominantly driven by close to double-digit growth in solar-related consumption. CRU forecasts polysilicon applications to remain the key demand growth driver for silicon with a CAGR of 9.6% between 2016 and 2021, compared to 3.3% for aluminium industry end-uses and 4.3% for chemical applications[34]. However, in terms of end-market size in 2021, the aluminium sector will remain the largest at approximately 41% followed by the chemicals sector at 31%[35].

The exhibits below depict the historical growth from 2012 to 2016 and the forecasted growth in silicon demand from 2016 to 2021 by end-use and geography.

Exhibit 17: Global silicon demand by end-use [36]

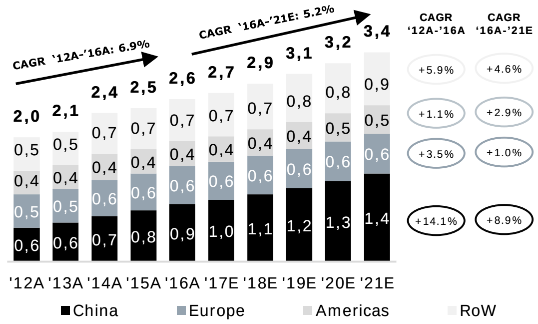
MM Tonnes



Source: CRU

Exhibit 18: Global silicon demand by geography[37]

MM Tonnes



Source: CRU

From 2012 to 2016, silicon demand increased the fastest in China at a CAGR of 14.1%[38]. Over the same period, demand in Europe, the Americas and Rest of the World increase at a CAGR of 3.5%, 1.1% and 5.9%, respectively[39].

For the period 2016 to 2021, CRU forecasts that China will remain the growth engine for global silicon demand. During the period, the forecasted CAGR for China is 8.9%[40], while the corresponding growth in silicon demand for Europe, the Americas and the Rest of the World is 1.0%, 2.9% and 4.6%, respectively. As such, CRU anticipates Chinese demand to constitute 42% of global silicon demand in 2021, compared to 35% in 2016[41].

From 2016 to 2021 CRU forecasts demand in the polysilicon industry (mainly used in solar and electronics) to be driven by rising solar capacity, especially in China where the government has increased its targets for incremental annual solar capacity for 2018-2022[42]. Furthermore, emerging markets e.g. India will offset slower growth in China, the US and Japan in the longer run. On a global basis, the increase in solar installations exceeding 100 gigawatt per year ("**GW/y**") in 2020 relative to 75 GW/y in 2016 will be the key growth engine of demand for high purity silicon used in the production of photovoltaic cells.

For chemicals, used in the production of silicones, the best proxy for future demand is the GDP growth given its wide range of end-uses spanning e.g. manufactured goods, construction materials, and consumer goods. According to CRU, the silicone-related consumption will grow at approximately 4.3% from 2016 to 2017, which is approximately 50% faster than the global economy at 2.8%[43]. This links to a combination of continued strong demand for silicones in Chinese further amplified by higher consumption of specialty silicones, implying that the value in USD per MMt silicone

[33] An estimated value of the total worth of a country's production and services, within its boundary, by its nationals and foreigners, calculated over the course on one year.
[34] Silicon Metal Market Outlook (CRU, October 2017).
[35] Silicon Metal Market Outlook (CRU, October 2017).
[36] Silicon Metal Market Outlook (CRU, October 2015, October 2016 and October 2017).
[37] Silicon Metal Market Outlook (CRU, October 2017).
[38] Silicon Metal Market Outlook (CRU, October 2017).
[39] Silicon Metal Market Outlook (CRU, October 2017).
[40] Silicon Metal Market Outlook (CRU, October 2017).
[41] Silicon Metal Market Outlook (CRU, October 2017).
[42] Silicon Metal Market Outlook (CRU, October 2017).
[43] Silicon Metal Market Outlook (CRU, October 2017).

will increase[44][45]. As such, global demand from the chemicals industry is set to exceed 0.9 MMt, corresponding to all-time high levels.

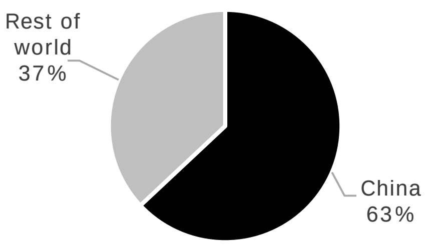
CRU forecasts demand for silicon-intensive alloys to increase at a 3.3% CAGR from 2016 to 2021, primarily driven by continued growth in new vehicle production, especially in the US and Asia (an increasing share of global car production and light truck production originates from Asia[46]). In addition, aluminium castings and other shapes continue to replace steel in the automotive production. However, this compares to a historical CAGR of 5.8% from 2012 to 2016[47]. The primary reasons for the moderated forecasted growth rate relate to i.a. (i) increased demand for automotive sheets requiring less silicon per tonne of alloy driven light weighting, (ii) a gradual shift towards Electric Vehicles and (iii) increased recycling of silicon-intensive alloy[48].

8.3.3 Supply overview

In the period from 2012 to 2016, the global supply of silicon increased at a 6.7% CAGR predominantly driven by Chinese output sustaining above double-digit growth at 11.6% compared to Europe at a 5.0% CAGR[49]. The soaring demand for silicon in China has led to a doubling in the country's output since 2000[50]. In 2016, silicon production in China accounted for approximately 63% of global production volume, while the second largest producing region, Europe, accounted for approximately 16% and the Rest of the World for the remaining 21%[51] of global silicon production. Outside China, Ferroglobe represented approximately 29% of the produced silicon volumes in 2016, followed by Dow Corning and Elkem accounting for approximately 17.9% and 14.7% of production volumes outside China, respectively. Combined with UC Rusal and Simcoa, the five largest producers of silicon metal outside China in aggregate accounted for 71% of production volumes in 2016[52]. On a global basis including Chinese production, Ferroglobe, Dow Corning and Elkem represented 10.7%, 6.1% and 5.4% of the market, respectively. Given Dow Corning's production is utilised internally for the production of silicones it is not a part of the merchant market[53].

Exhibit 19: Global silicon metal production breakdown by region (2016A) [54]

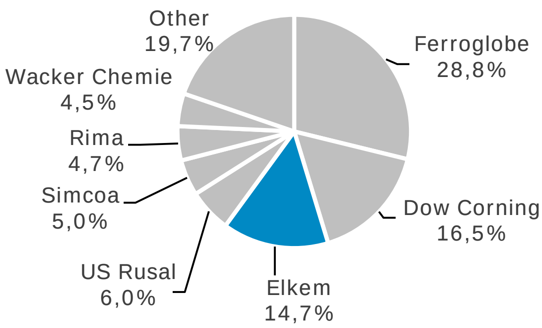
% Demand



Source: CRU

Exhibit 20: Global (excl. China) silicon metal production breakdown by producer (2016A) [55]

% Demand



Source: CRU

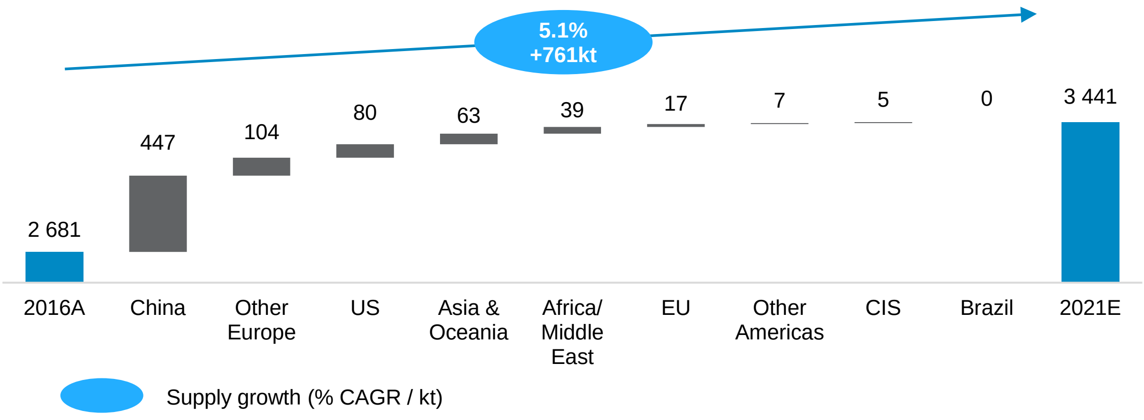
The silicon production base in China is highly fragmented. The majority of production is located in the Xinjiang region, which accounts for approximately 33% of the total silicon production in China and is the most sought location for new investments given i.a. better access to electricity[56]. However, a number of Chinese suppliers have idled their facilities for extended periods due to economic reasons. In addition, several suppliers, specifically located in South-West China, operate only during the rainy season due to the availability of electric power at low cost[57]. Moreover, enforcement of

[44] Global Silicones Market 4th Edition (Freedonia, June 2017) (payable source).
[45] Silicon Metal Market Outlook (CRU, October 2017).
[46] Silicon Metal Market Outlook (CRU, October 2017).
[47] Silicon Metal Market Outlook (CRU, October 2017).
[48] Silicon Metal Market Outlook (CRU, October 2017).
[49] Silicon Metal Market Outlook (CRU, October 2017).
[50] Silicon Metal Market Outlook (CRU, October 2017).
[51] Silicon Metal Market Outlook (CRU, October 2017).
[52] Silicon Metal Market Outlook (CRU, October 2017).
[53] Silicon Metal Market Outlook (CRU, October 2017).
[54] Silicon Metal Market Outlook (CRU, October 2017).
[55] Silicon Metal Market Outlook (CRU, October 2017).
[56] Silicon Metal Market Outlook (CRU, October 2017).
[57] Silicon Metal Market Outlook (CRU, October 2017).

increasingly stringent environmental rules and regulations by the Chinese government contribute to idle facilities and closures. These factors have triggered a consolidation of the Chinese silicon industry, with an increasing number of larger, more advanced production units[58]. On an aggregate level, CRU expects a progressively slower growth rate in Chinese production due to the elimination of smaller furnaces[59].

From 2016 to 2021, a 761 kilo-tonnes ("**Kt**") silicon production increase globally is forecasted by CRU, which corresponds to a CAGR of 5.1%. Despite China accounting for 59% of the increase in production, China's share of global production is projected to decrease over the period from approximately 65% at peak in 2017 to approximately 62% in 2021. The decrease in forecasted production is anticipated to occur as a result of larger production increases in other regions especially Canada, the US, Iceland and the Middle East, driven primarily by access to low cost power and proximity to import markets[60].

Exhibit 21: Silicon production increase by region[61]
(Kt)



In 2016, more than 50% of the global silicon demand was met by imports[62]. Excluding Chinese demand, the corresponding figure is in the range of 80-85%. In Europe, the interregional imports covered 53% of total silicon demand in 2016, with approximately 41% of imports in the region originating from China. In the US, approximately 49% of total silicon in 2016 was satisfied by imports, with the vast majority coming from Brazil, Canada, Australia, South Africa and Norway[63]. As of 2016, Norway has surpassed Brazil becoming the world's second largest silicon exporter behind China[64].

The European Union, the US, Canada and Australia have instituted trade restrictions to protect their domestic markets from imports of silicon from China:

- The European Union has had anti-dumping duties on imported Chinese silicon since 1990. In mid-2016 the EU anti-dumping duty on silicon of Chinese origin was extended to hold for another five year period. The previous level at 19% was reduced to 16.3% for Datong Jinneng Industrial Silicon Co., Pingwang Industry Garden, Datonga and Shanxi and to 16.8% for all other companies. The Chinese anti-dumping duties also apply to South Korea and Taiwan as a result of circumvention cases.
- The U.S. has implemented a similar anti-dumping scheme for silicon imports from China and Russia that remained effective until 20 April 2017. The anti-dumping duties in the U.S. were 139.49% for silicon produced in China, and in the range of 60% to 90% for silicon produced in Russia. In June 2017 US ITC voted to conduct a full five-year "sunset" review on whether to extend these duties presenting the outcome in April 2018. The U.S. has had anti-dumping duties since 1998.

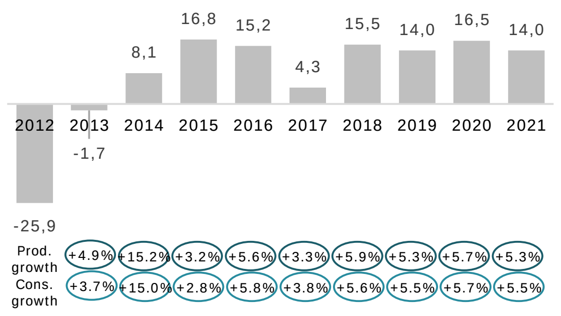
[58] Silicon Metal Market Outlook (CRU, October 2017).
[59] Silicon Metal Market Outlook (CRU, October 2017).
[60] Silicon Metal Market Outlook (CRU, October 2017).
[61] Silicon Metal Market Outlook (CRU, October 2017).
[62] Silicon Metal Market Outlook (CRU, October 2017).
[63] Silicon Metal Market Outlook (CRU, October 2017).
[64] Silicon Metal Market Outlook (CRU, October 2017).

- Canada implemented anti-dumping duties on Chinese silicon imports on 21 October 2013. The anti-dumping duties, which will be valid for at least five years, range from 47% to 235%.
- Australia imposed, in June 2015, anti-dumping and countervailing duties of 18.3% to 58.3% on imports of silicon from China, which will be valid for five years.

Japan and South Korea, the largest markets for silicon in Asia outside China, are completely dependent on imports, as are India, Taiwan and Indonesia; all of these markets are supplied principally by China[65]. Below, the global supply/demand net balance is shown, including and excluding China.

Exhibit 22: Global world supply / demand balance (net) (2012A-2021E)

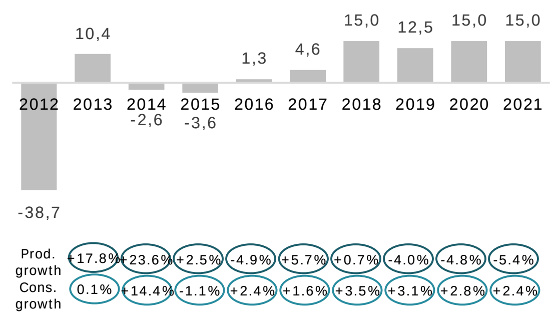
Kt



Source: CRU

Exhibit 23: Global world supply / demand balance excl. China / CIS (net) (2012A-2021E)

Kt

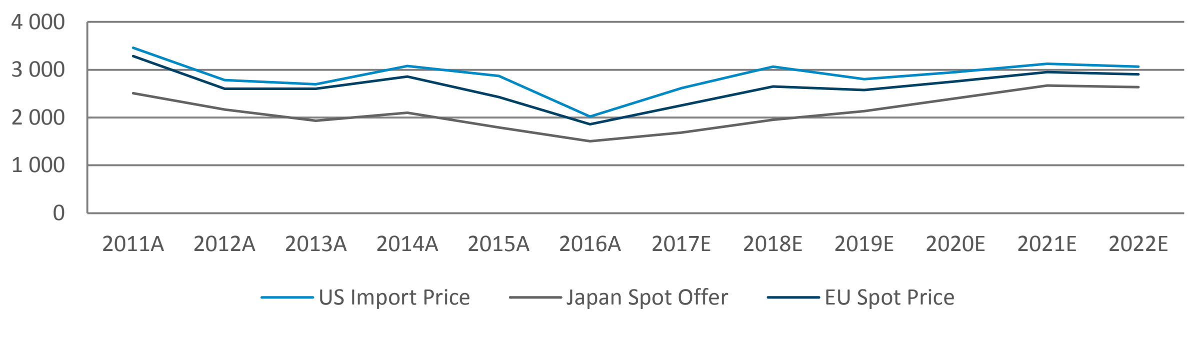


Source: CRU

8.3.4 Pricing environment

The effects of trade actions in the US and Canada, an increase in Chinese production costs and a weakened US Dollar, contributed to the sharp rise in silicon prices witnessed from 2016 to date. In the US and the EU, this increase is expected to continue into early 2018, while Chinese prices are expected to decrease slightly, offset by increasing production costs. From 2018 and into 2019, these effects are expected to diminish, and the silicon price is therefore believed to decrease moderately[66].

Exhibit 24: Silicon metal prices[67]
USD/t



From 2019 to 2021, silicon prices are expected to rise as a result of increased capacity utilization, weakening of the US Dollar and upward pressure on electricity rates. The growth in demand from the silicone segment, expected at above 4% per year, coupled with close to double-digit growth in solar-related demand, will yield the need for a steady expansion in silicon production capacity. Furthermore, new capacity will be necessary to replace Chinese supply. This is mainly due to replacement of high-cost production facilities and a retreat in exports, as domestic demand absorbs a progressively larger proportion of local production in China. To support this expansion in silicon supply, namely

[65] Silicon Metal Market Outlook (CRU, October 2017).
[66] Silicon Metal Market Outlook (CRU, October 2017).
[67] Silicon Metal Market Outlook (CRU, October 2017).

facilitate investment in greenfield capacity through sufficient remuneration of capital costs, silicon prices are expected to increase gradually[68].

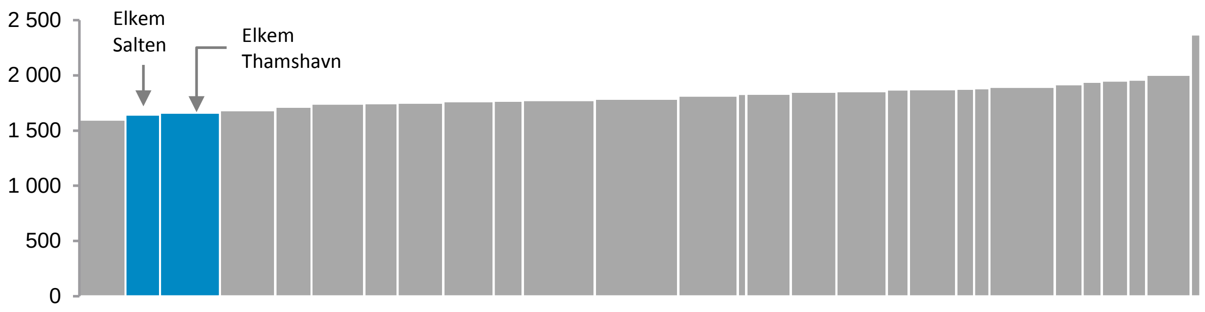
Chinese silicon prices are expected to increase at a higher rate than in other markets, due to higher production costs. This is partly due to strengthening of the RMB, but also a consequence of the increase in government policies attempting to reduce pollution and limit the expansion of power-intensive industries.

8.3.5 Cost position

The cost of production is a key determinant of operating margins and profitability. In addition to technology, operational know-how and efficiency, the major drivers of silicon production costs include power, access to raw materials, labour and foreign exchange. Furthermore, operational performance such as uptime, silicon yield and power consumption are important factors in determining production cost.

Benchmarking silicon smelters based on expected 2017 net operating costs, CRU estimates that Elkem's silicon plants, Salten and Thamshavn, are amongst the lowest globally. In Norway, access to abundant low cost hydro power, captive quartz sources and, more recently, the weakening of the Norwegian kroner versus the U.S. dollar, make it one of the most competitive locations in the world for silicon production.

Exhibit 25: Silicon production cost curve (2017E)[69][70]
Net Operating Cost (USD/t)



Chinese producers are principally high cost producers, due to the large number of inefficient small scale operations, seasonal power availability and pricing, higher logistics costs to consumers in the international market and environmental management pressures from the government. As a result, silicon producers in China are generally less profitable than other producers, especially producers in Norway, Canada and the U.S. However, Chinese operations have over time migrated westward, towards Sichuan, Yunnan and Xinjiang, where there is access to cheaper energy. In recent years, this migration has shifted predominantly towards Xinjiang, where power generation is based on coal and electricity prices do not fluctuate during the year. Furthermore, increased scale of recent Chinese silicon plants contribute to drive down costs.

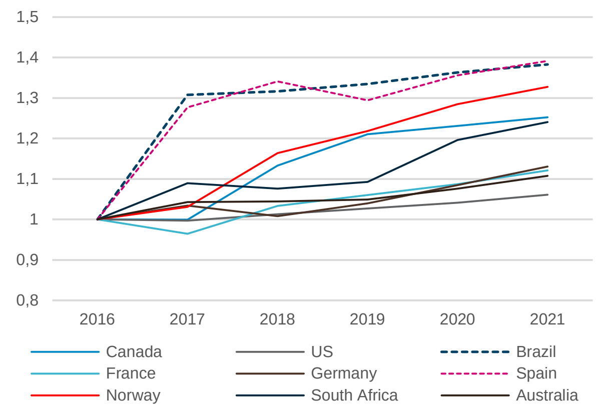
Average operating costs at smelters outside China and the CIS fell by 26% in US Dollar terms from 2011 to 2016[71]. This fall reflects the lower raw materials prices and exchange rate movements. Both inside and outside China, production costs have increased substantially since the all-time low in 2016. This can partly be attributed to the US Dollar depreciation against other silicon-producing countries and rising electrode prices. From 2017, costs are expected to rise as a result of weakening US Dollar and a jump in electrode costs, expected to hit in 2018.

The power rate is an important input factor to the production cost of silicon plants. In Brazil, 2017 has seen rising prices. With reservoir levels consistently lower than 12 months ago, spot electricity prices are not expected to drop in the near future.

[68] Silicon Metal Market Outlook (CRU, October 2017).
[69] Silicon Cost Data Service (CRU, November 2017).
[70] CRU estimates operating costs by smelter based on publically available information, primary research such as site visits to plants and interviews with producers and raw material suppliers and unit cost estimates and forecast provided by CRU Economics, an inhouse team of dedicated economists. Because of the large number of smelters, CRU agglomerates production and provides cost estimates for representative plants by province in China.
[71] Silicon Metal Market Outlook (CRU, October 2017).

Exhibit 26: Indexed forecast of power rates for key countries [72][73]

In Local Currency — 2016 = 1



Source: CRU

8.4 Foundry Products

8.4.1 Description

The market for foundry products can be divided into two segments: (i) Ferrosilicon ("FeSi") used in the steel industry, notably in electrical and engineering steels and stainless steel and (ii) the Foundry Alloys segment (nodularizers and inoculants) used in the iron foundry industry.

FeSi is an alloy of iron and silicon, with silicon content ranging from 45% to 90%. It is produced in an electric arc furnace similar to silicon, where quartz or quartzite is reduced by carbon, normally in the form of coal and other reductants. In contrast to the production of silicon, scrap iron, millscale or other sources of iron are added into the furnace. FeSi is mainly used in the steel industry where it is generally used to remove oxygen from the steel and as an alloying element to enhance certain qualities of steel. FeSi increases steel's strength, wear resistance, elasticity and scale resistance, and lowers the electrical conductivity and magnetostriction of steel. Specialty FeSi, such as low aluminium, low carbon, and high purity FeSi, are generally used in the production of specialty steels, which are used in a number of high end applications including transformers/motors, ball bearings and shock absorbers, tyre cord steel and stainless steel.

Foundry alloys (nodularisers and inoculants) are specialty alloys based on FeSi with a specific addition of other active elements. These elements are most often added in the ladle after the smelting process to achieve the desired properties. Foundry alloys are mainly used in the production of iron castings to improve their properties such as tensile strength, ductility and impact properties, and to refine the homogeneity of the iron foundry structure.

[72] Chinese power forecasts are an estimate of wholesale power in China. For all other countries, CRU produces forecasts specific to the silicon industry, using its understanding of individual smelters.
[73] Silicon Metal Market Outlook (CRU, October 2017).

Exhibit 27: Type of ferrosilicon consumed by different steels[74]

Steel type	Typical grade of ferrosilicon
Grain-oriented electrical	High purity (low Titanium etc.)
Silicon non-oriented electrical	Mainly low Aluminium; some high purity
Stainless	Mainly low Carbon variants of standard; some low-volume grades use low Aluminium
Bearing	Low Aluminium
Spring	Low Aluminium
Tyre cord wire rod	Mainly high purity (low Titanium etc.), some low Aluminium
All other	Mainly standard
Data: CRU	

8.4.2 Demand overview

Given that foundry alloys and specialty ferrosilicon are utilised in the production of cast iron and specialty steels, these end-uses can be viewed as key demand drivers.

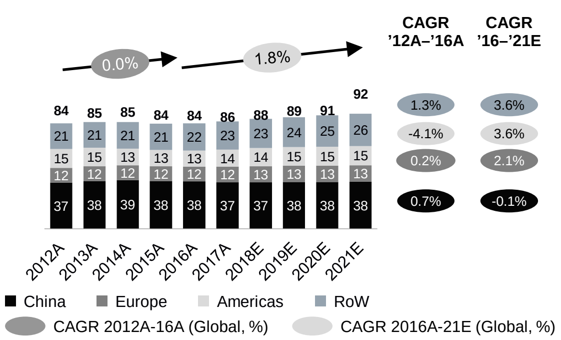
Cast iron production is forecasted by CRU to grow at a CAGR of 1.8% from 2017 to 2021, with an increase in output from 86 MMt to 92 MMt. With auto production being a key driver of cast iron demand, growth in foundries / cast iron production tends to reflect the automotive production growth profile, less some substitution in favour of aluminium.

As per CRU, light vehicle output growth in 2017 is forecasted to decrease as a result of slower growth in the U.S. and China. It is expected that this growth slows from around 4% in 2017 to around 3% in 2021[75].

China is the largest producer of cast iron growing at a CAGR of approximately 0.7% from 2012 to 2016 and accounting for a 45.1% share of total cast iron production in 2016. However, the majority of growth in the future is forecasted to come from other countries[76].

Exhibit 28: Production of cast iron[77]

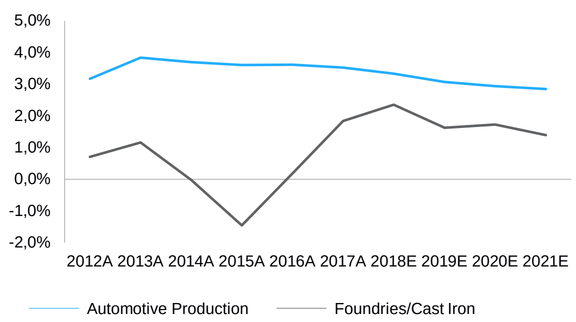
MMt



Source: CRU

Exhibit 29: Automotive production growth[78]

Year-on-year (%)



Source: CRU

Low carbon and specialty FeSi is primarily used in the production of electrical (grain oriented and non-grain oriented), engineering and stainless steel. Electrical steel is used in transformers, generators, power distribution units and the stator and rotor parts of electric motors. Demand for grain-oriented electrical steel (GOES) is primarily driven by demand for new power transformers in power and distribution transformers in power transmission, whereas demand

[74] CRU industry report (CRU, September 2015).
[75] CRU Elkem IPO Support (CRU, January 2017).
[76] CRU Elkem IPO Support (CRU, January 2017).
[77] CRU Elkem IPO Support (CRU, January 2017). Proxy for foundry products demand.
[78] CRU Elkem IPO Support (CRU, January 2017).

for non-grain oriented steel (NOES) is primarily driven by demand for industrial motors, generators and ignition coils. The silicon content in such steel ranges from 2% to 3.5% and improves electrical resistivity[79].

Continued investment is projected in the Chinese power sector until 2019, both in generation and transmission. Globally, power generation capacity and associated infrastructure is projected by CRU to grow at around 2.5% per year from 2017 to 2021, predominantly driven by new plants and power infrastructure projects in developing countries.

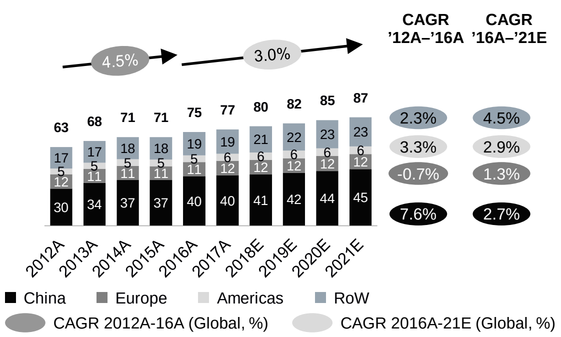
Engineering steel includes bearing steel, spring steel and tyre wire rod, all of which are essentially designed for mechanical and related engineering applications. Production of engineering steel is projected by CRU to grow at a modest rate, increasing at a CAGR of 1.7% from 2016 to 2021[80].

FeSi demand is also driven by stainless steel used in diversified end markets. Major end uses are catering and appliances, industrial equipment and processing, construction and transport. Globally, stainless steel production is forecasted by CRU to grow at a CAGR of 3.5% from 2016 to 2021[81]. Key drivers for the production of stainless steel includes world GDP, mechanical engineering IP and construction[82].

Overall, China is the largest producer of specialty steel globally capturing over 53% of global production in 2016. The global production is forecasted by CRU to grow steadily at a CAGR of 3.0% from 2016 to 2021. While the Chinese production levels are expected to lie stable, the CAGR in the Americas is expected be 2.9%[83].

Exhibit 30: Specialty steel demand[84]

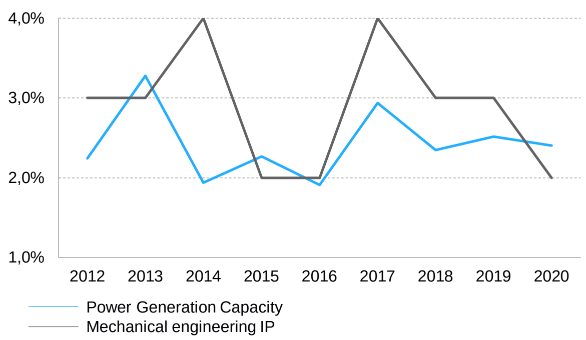
MMt



Source: CRU

Exhibit 31: Growth in mechanical engineering industrial production and power generation capacity

Year-on-year (%)



Source: CRU

8.4.3 *Pricing environment*

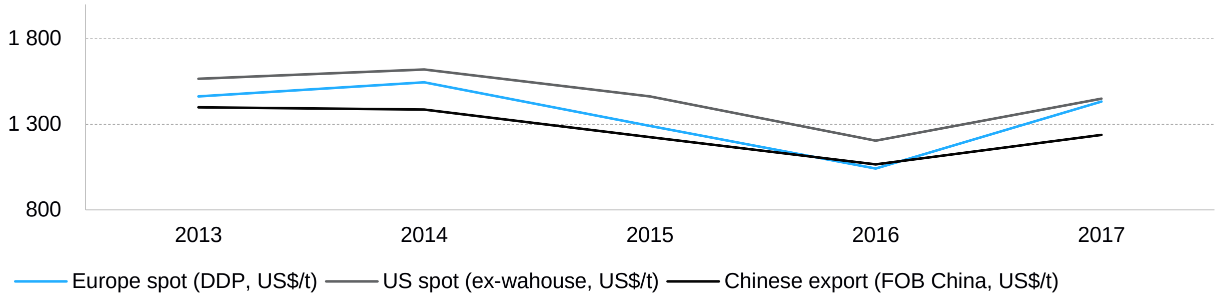
Foundry alloys and specialty ferrosilicon are specialised products and there is no specific industry index that track the price development for these products. In general the price is less subject to market movements than the price for standard ferrosilicon. Standard ferrosilicon is a commoditized product and is tracked by price indexes such as CRU.

FeSi prices are supported by global steel production and are driven by silicon intensive steel alloys. In the period 2017 to 2022, the demand for FeSi is expected to grow in mature markets such as North America, Europa and North East Asia[85]. For these markets, the CAGR is expected to lie between 1.4% and 2.2%, adding a total of 133 kt demand over the period. On the other hand, no growth is forecasted in the Chinese market where falling unit consumption is expected to counter increased demand from rising steel production. During 2017, environmental inspections and closures due to air quality in China has led to a recovery of the prices observed in 2016. This is expected to trigger a

[79] CRU industry report (CRU, September 2015).
[80] CRU Elkem IPO Support (CRU, January 2017).
[81] CRU Elkem IPO Support (CRU, January 2017).
[82] CRU Elkem IPO Support (CRU, January 2017).
[83] CRU Elkem IPO Support (CRU, January 2017).
[84] CRU Elkem IPO Support (CRU, January 2017); includes grain oriented and non-oriented electrical steel production, engineering steel and stainless steel production.
[85] CRU Elkem IPO Support (CRU, January 2017).

supply-side overshoot in 2019, leading to a slow down in price in price growth. From 2019 to 2021, prices are forecasted to convey gradual growth as a consequence of higher production costs. In 2022, new production capacity in Canada and Paraguay is expected to lead to a slight fall in prices.

Exhibit 32: Ferrosilicon metal prices[86]
USD/t



The EU has imposed anti-dumping duties on ferrosilicon from China, Russia and certain other countries with effect from 2008. The duty was set to 31.2% for the majority of Chinese suppliers and 22.7% for the majority of Russian suppliers. The duties were initially set to expire in February 2013, but in April 2014, the EU implemented definitive anti-dumping measures in respect of ferrosilicon from China and Russia, extending the anti-dumping duties set in 2008 until 10 April 2019. Current anti-dumping duties are 15.6% for Erdos, 29% for Lanzhou Good Land and 32.1% for other Chinese suppliers. For Russia, the anti-dumping duty is 17.8% for Bratsk and 22.7% for other Russian suppliers.

Even though the effect of the anti-dumping duties on ferrosilicon in the EU is currently limited as the ferrosilicon market is balanced without significant imports from China and Russia, the price of ferrosilicon in the EU would most likely be lower in the absence of anti-dumping duties.

8.4.4 Supply overview

Foundry alloys is a consolidated industry with the top five market participants accounting for 54%[87] of global production in 2016. Top companies, in addition to Elkem, include FerroGlobe, Osaka Steel, Zhufeng and Toyo Metallurgical Limited.

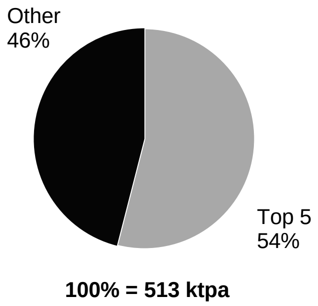
The foundry alloys market was 513 kt in size in 2016 and the producers have rational capacity addition strategies.

[86] CRU Elkem IPO Support (Cru, January 2017).

[87] Company estimate, based estimates of the total size of the market, knowledge of own production, and estimates of the production of other players in the market.

Exhibit 33: Global 2016 foundry alloy production by producers [88]

MMt



Source: CRU

Year-on-year (%)

Source: CRU

8.5 Carbon

8.5.1 Description

Carbon products, such as electrodes, are used in electric arc furnaces in the production of silicon metal/ferrosilicon and various ferroalloys. Carbon products are also used by the aluminium and iron foundries industries.

Carbon based products include Søderberg electrode paste, pre-baked carbon electrodes, carbon and graphite materials (recarburisers), cathode ramming paste, coal tar products (spheroidal pitch, anthracene oils) and furnace lining paste.

- Søderberg electrode paste is the most common electrode system used in submerged arc furnaces to ensure that the raw material reaches the required process temperatures. It is used by producers of silicon, ferrosilicon, ferrochromium, ferronickel, ferromanganese, silicomanganese, calcium carbide and copper and platinum matte.
- Recarburisers are carbon additives that are added to the furnace during smelting to allow for increased use of scrap in the raw materials mix or to achieve certain required properties in final casting parts.
- Cathode ramming paste and high-density cathode blocks are used in the aluminium industry and contribute to extended pot life and stable operation. Their main function is to ensure the tightness of the cathodic container to prevent any infiltration of bath and metal.
- Coal tar pitch is mainly used as a binder in the production of anodes for the primary aluminium industry, but also in other products such as søderberg electrode paste. Spheroidal pitch is used in the manufacturing of refractory materials. Anthracene oils are mainly used in the production of carbon black, traditionally used as a reinforcing agent in tires.
- Furnace lining paste is used in the lining of the submerged arc furnace, which is essential for the long life of furnace lining.

8.5.2 Demand overview

Carbon and carbon based products are key ingredients for the steel, foundries, silicon, aluminium and chemical industries. Demand for such products generally follows the trends in these industries.

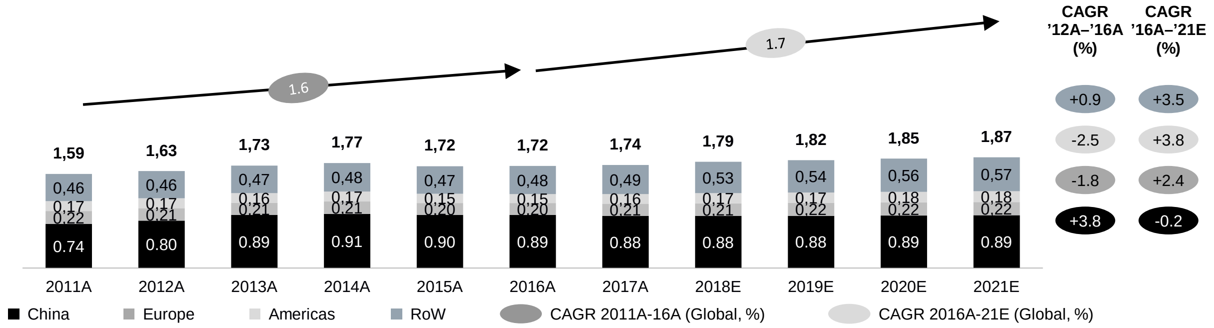
The steel and aluminium industries account for a significant portion of non-energy carbon end-use applications and as a result, drive the demand dynamics in the sector.

Growth in the steel industry between 2011 and 2016 was led by China, with the industry growing at a CAGR of 3.8% during this period. Going forward, growth is forecasted to be led by an improved outlook for the construction industry,

[88] Company estimate, based estimates of the total size of the market, knowledge of own production, and estimates of the production of other players in the market.

strong auto demand, rising demand in power transformers and distribution transformers in power generation and transmission and the production of electrical machines (components for electric motors and generators)[89].

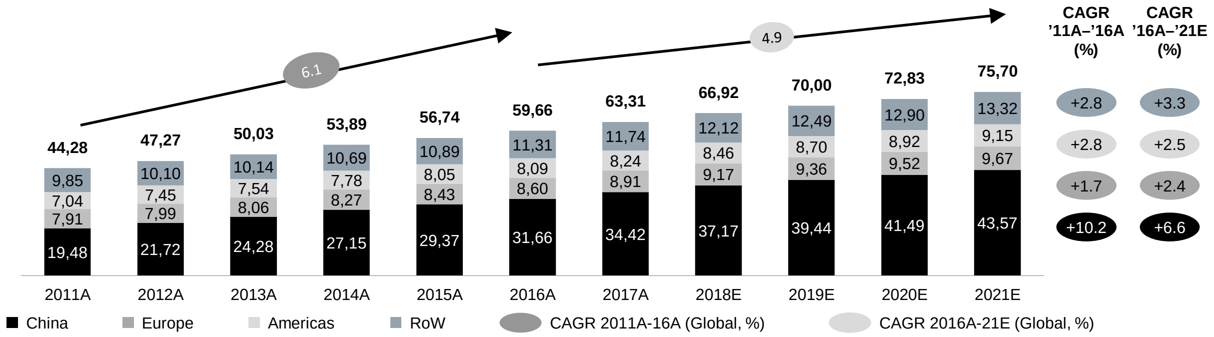
Exhibit 34: Total steel production by geography (BNt)[90]



Source: CRU

Outlook for long-term primary aluminium demand remains stable at a CAGR of 4.9% from 2016 to 2021, propelled by rising end-use unit demand and increased use in the transport sector. Demand prospects in developed markets, such as Europe, North America and Japan, are forecasted to be mixed on an end-use by end-use basis according to CRU. Positive demographic trends, together with increased household formation and investment, are projected to drive growth in the developing world.

Exhibit 35: Primary aluminium production by geography[91]

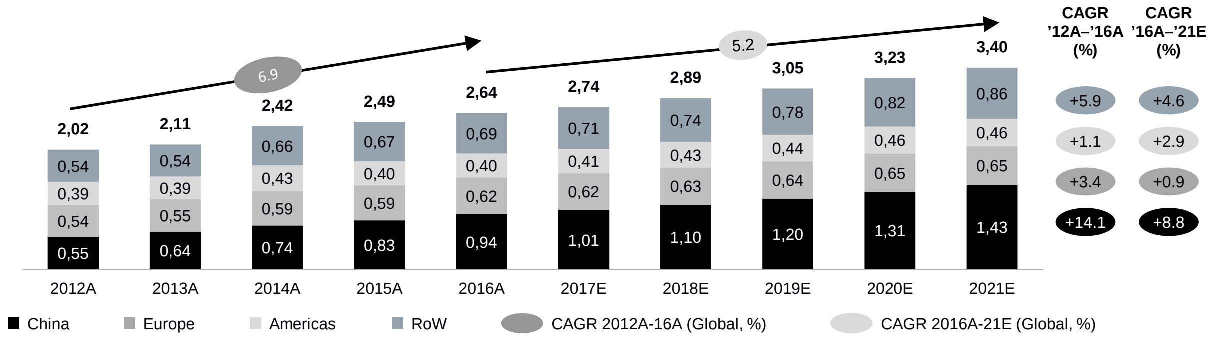


Source: CRU

The demand outlook for carbon products used in the metallurgical smelting process of silicon and ferrosilicon based alloys is forecasted to be driven by demand of silicon metal. Silicon metal is forecasted to grow at a CAGR of 5.2% between 2016 and 2021[92]. China has historically been the largest contributor to this growth and is forecasted to continue to be so.

[89] CRU (2017).
[2] CRU (2017).
[91] WoodMackenzie (2017).
[92] CRU (2017).

Exhibit 36: Silicon demand by geography (MMt)[93]



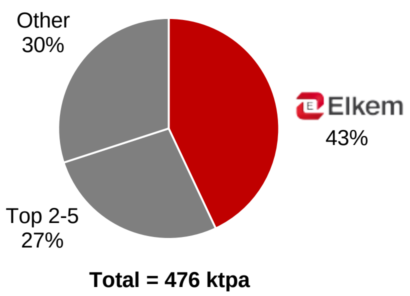
Source: CRU

8.5.3 Supply overview

The global Søderberg electrode paste market was 476ktpa[94] in 2016 (excluding China). Elkem is the market leader in the industry (excluding China) with a global reach and a market share of 43% (excluding China) in 2016. The remaining top five producers are regional players who together accounted for 27% of the market share (excluding China) in 2016.

Exhibit 37: Global share of electrode paste production (2016A, ex-China)[95, 96]

MMt



Source: Company information

Exhibit 38: Top individual producers in each region (2016A)[97]

Year-on-year (%)

Source: Company information

[93] CRU (2017).
[94] Excluding production by Chinese producers for domestic market.
[95] Company estimate, based on estimates of the total size of the market, knowledge of own production, and estimates of the production of other players in the market.
[96] Excl. China as it is a large and fragmented market with the domination of domestic smaller players.
[97] Company estimate, based on estimates of the total size of the market, knowledge of own production, and estimates of the production of other players in the market.

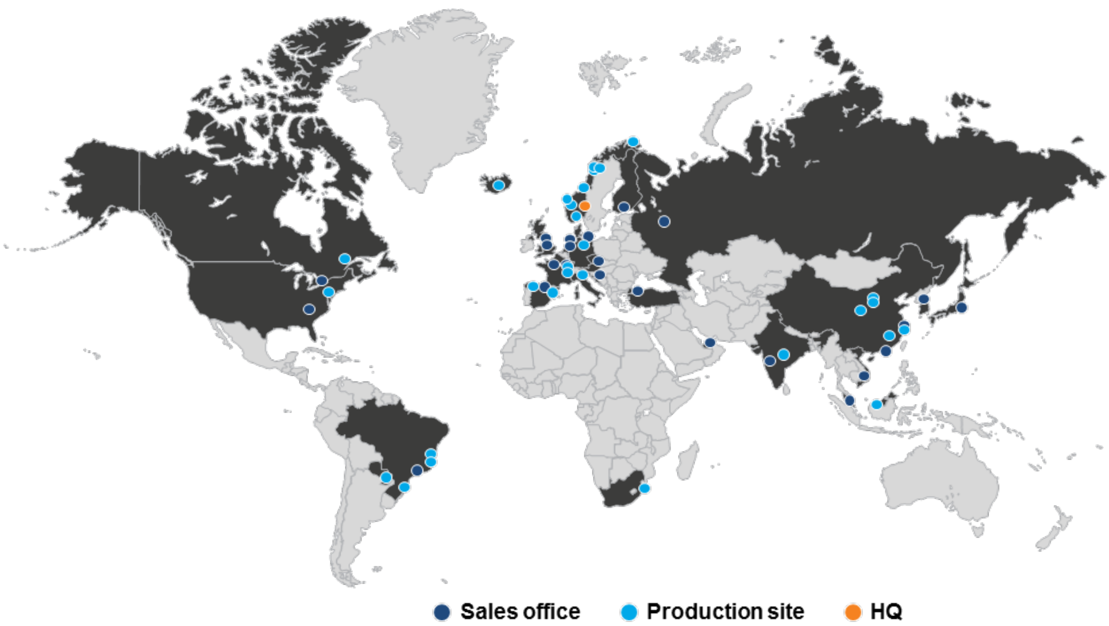
9 BUSINESS OF THE GROUP

9.1 Introduction

Elkem is a market leader in the production of silicon-based advanced materials with a global portfolio and history of more than 110 years of technology driven growth. Elkem is a fully integrated producer with operations throughout the silicon value chain from quartz to silicon and downstream silicone specialties as well as specialty ferrosilicon alloys and carbon materials.

Elkem operates its business in four divisions: Silicones, Silicon Materials, Foundry Products and Carbon. In addition to its operating divisions, Elkem has a technology division conducting research and development projects for all parts of the Group's value chain.[98] Elkem's research strategy builds on close cooperation between the operational divisions and the research teams. Elkem's business is operated under the EBS (as defined below), which is a concept of lean manufacturing and targets efficient operational processes throughout the manufacturing process.

Elkem has a strong global footprint with thirteen production facilities in Europe, seven production facilities in Asia, six production facilities in the Americas (one of which is under construction in Paraguay) and one production facility in Africa. Elkem also operates two quartz mines in Norway and four quartz mines in Spain. Elkem's global footprint ensures competitive strengths such as economies of scale, production cost optimisation and production flexibility across the world. In addition, Elkem has an extensive network of more than twenty sales offices and agents covering Elkem's most important markets. Having production facilities on each of the main industrial continents enables Elkem to respond quickly and effectively to customer needs on a global basis. The map below sets out Elkem's presence worldwide:



Since 2011, Elkem has been under common control with Bluestar and Bluestar Silicones International S.à r.l. ("**BSI**"), one of the foremost fully integrated global silicone manufacturers in the world. Following a three year gradual integration process, Bluestar formally decided in June 2015 to combine Elkem and BSI into one group. As early as in 2013, a silicon smelting furnace at Elkem's plant in Salten was dedicated to production for intra-group sales to BSI which, combined with several strategic integration initiatives, have resulted in significant cost savings creating a financially robust entity positioned to grow across Elkem's divisions. In June 2017, the former Bluestar silicones division of Elkem changed its name to Elkem Silicones, or "**ESi**". The main purpose of the integration was to take advantage of operational and market synergies and to create a financially robust company with the ability to grow profitably across all of Elkem's business segments, while maintaining the expertise and market driven organisations that have been the basis for its historic success.

Since 2015, Elkem's operations have developed significantly and today Elkem is more specialised and has transitioned into a predominantly chemical company with the majority of its total operating income from silicones. As of 31

[98] The technology division is, from a financial reporting perspective, a part of the "other" segment. See Section 12.2 "Operating divisions and reporting segments".

December 2017, Elkem's Silicones and Silicon Materials divisions accounted for 77% of Elkem's combined total operating income, including intragroup sales. In addition to the combination of Elkem and ESi, this development will be further supported by ongoing the integration of Xinghuo Silicones and Yongdeng Silicon Materials, two plants previously directly owned by Elkem's ultimate parent, China National Bluestar. Elkem's plan to integrate Xinghuo Silicones and Yongdeng Silicon Materials was announced by Elkem on 30 June 2017 and upon completion of this process Elkem intends to assume full responsibility of and to integrate these plants in order to establish itself as a significant global manufacturing company of silicon-based advanced materials. Elkem has worked closely with these plants since 2011 and the integration of Xinghuo Silicones and Yongdeng Silicon Materials will be a result of a long term process which aims to enhance Elkem's integrated position in the silicon value chain, from upstream quartz mining to silicon, silicones and downstream silicones specialities, and to strengthen Elkem's position in the attractive and fast-growing Chinese market. Elkem has a clear ambition of fortressing and building its position within silicones through the integration of Xinghuo Silicones, the largest silicones plant in China in terms of capacity, targeting to become one of the largest producers worldwide. Furthermore, Elkem will maintain the highly regarded expertise and marketing competencies that have been the key pillars for its historic success. In relation to the IPO, Elkem has entered into an agreement to acquire Xinghuo Silicones and Yongdeng Silicon Materials from Bluestar, which acquisitions are expected to close contemporaneously with the Listing and are conditional upon completion of the IPO. See Section 6 "Reorganisation" for further information.

In recent years, Elkem has also undertaken other strategic measures to solidify its global position. In December 2016, Elkem announced the acquisition of the iron foundry division of Minex Metallurgical Co. Ltd ("**Minex**"), a leading[99] provider of speciality alloys. With this acquisition Elkem has strengthened its leading position[100] within the cast iron industry and production of high quality ferrosilicon to the steel industry. Further, in December 2016 Elkem acquired Fesil Rana Metall AS ("**Fesil Rana**"), which operates a low cost production plant of specialty and standard grades of ferrosilicon in Norway. The acquisition of Fesil Rana has contributed to the process of optimization of the Group's production structure, and further enhanced Elkem's strategy to actively focus on development, production and sale of speciality products. Through the acquisition of Fesil Rana, Elkem also obtained full ownership of Nor-Kvarts A/S. Finally, in September 2017 Elkem bought out its co-investors, Grupo Andreani and Grupo Araujo, in the Paraguayan ferrosilicon plant, which was initially established as a joint venture, to obtain a strategic foothold in South America.

In addition to these acquisitions, Elkem has also completed several construction projects including phase one of a new carbon plant in Sarawak, Malaysia, which increases the Carbon division's production capacity in a strategically important market. In March 2018, Elkem will start production at its new plant in Paraguay, which will increase the Group's production of ferrosilicon. The plant in Paraguay will be an important local source of foundry alloys in the South American market and play an important role in Elkem's development in this market. Elkem's intention is that the plant in the first year will supply standard ferrosilicon, but from 2019 it is also intended that it will supply magnesium ferrosilicon and inoculants. The plant will have one reduction furnace in the first phase, but can later be expanded by installing one or two additional furnaces. The plant aim to rely on renewable hydropower, local quartz and iron, and 100% biocarbon (charcoal and woodchips).

On a combined basis, the Group had a total operating income of NOK 21,368.2 million and Operating EBITDA of NOK 3,153.6 million as of 31 December 2017. As of 31 December 2017[101], the Group had 6,114 employees worldwide, of which 2,171 are employees of Xinghuo Silicones and Yongdeng Silicon Materials.

Elkem's four operating divisions are:

- The **Silicones** division which produces siloxanes and a comprehensive range of silicones, which are a family of specialty, high performance products and materials, as well as commoditized products produced by reacting silicon with methyl chloride through various chemical reactions and formulations. The division, which is the largest within the Group, had a total combined operating income[102] of NOK 10,025.8 million

[99] Company estimate based on market share in relevant markets and production capacity.

[100] Company estimate based on the total market size, knowledge of own production, and estimates of the production of other players in the market place.

[101] See Section 14.8 "Employees" for an overview of the number of employees per operating division and percentage of geographical location per 31 December 2017 on a combined basis.

[102] Total operating income of the Silicones division including intra group revenues.

(47% of the Group's total combined operating income) and combined Operating EBITDA of NOK 1,515.4 million (48% of the Group's combined Operating EBITDA) in 2017.[103]

- The **Silicon Materials** division manufactures and sells silicon and microsilica for a large number of applications, including for the production of silicones. Silicon is produced from quartz or quartzite, which consists of silicon and oxygen. Elkem mainly obtains quartz from its own mines, which ensures that it has control of the quality of the quartz it uses. The Silicon Materials division delivers products to customers in the chemical, solar, electronics, aluminium, construction, refractory, oil and gas industries worldwide. The division had a total combined operating income[104] of NOK 6,412.3 million (30% of the Group's total combined operating income) and combined Operating EBITDA of NOK 804.0 million (25% of the Group's combined Operating EBITDA[105]) in 2017.[106]

- The **Foundry Products** division provides metal treatment solutions to iron foundries and is a supplier of high quality speciality ferrosilicon to the steel industry. Foundry alloys and ferrosilicon, both of which are alloys of iron and silicon, are produced with raw materials containing iron and other materials added in the smelting furnace. The automotive, engineering, pipe and steel industries are important markets for the division. The division had a total combined operating income[107] of NOK 4,247.3 million (20% of the Group's total combined operating income) and combined Operating EBITDA of NOK 707.4 million (22% of the Group's combined Operating EBITDA) in 2017.[108]

- The **Carbon** division produces carbon materials used in the production of silicon and ferroalloys. The Carbon division supplies third parties across the globe in addition to Elkem's own silicon and ferrosilicon plants. The main products are Søderberg electrode paste, lining materials, pre-baked electrodes and specialty carbon products for various metallurgical smelting processes and primary aluminium industries. The division had a total combined operating income[109] of NOK 1,576.7 million (7% of the Group's total combined operating income) and combined Operating EBITDA of NOK 273.7 million (9% of the Group's combined Operating EBITDA) in 2017.[110]

9.2 Key strengths

Leader in fundamentally attractive markets with strong future demand growth expectations

Elkem has a strong position within the silicon industry and attractive exposure towards key megatrends which are expected to drive demand for its products going forward. Increased focus on sustainability (such as lightweight aluminium and steel in cars, greater fuel efficiency, electrification and reduced emissions) and growing energy demand from environmentally friendly sources of energy (such as solar, wind power and energy storage) are expected to lead to an increase in demand for the Elkem's products. Further, Elkem believes that the increased standard of living will fuel demand for silicon, and that the strong trend in rapid urbanisation is expected to drive the demand for innovative, resilient and lightweight building materials, which are based on silicon, foundry alloys and microsilica. In addition, a growing and aging population is expected to materialise in increased demand for Elkem's products, such as silicones used in products for the personal care, health care and cosmetics industry. Furthermore, digitalisation and increasing demand for connectivity is expected to continue to drive the demand for specialised electronic equipment, which is a key market for Elkem's Silicones division.

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[103] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%, see Section 12.2 "Operating divisions and reporting segments".

[104] Total operating income of the Silicon Materials division including intra group revenues.

[105] See section 12.7.6 "Gross operating profit (loss)/Operating EBITDA" for further details and explanation regarding Elkem's divisions' portions of the Group's Operating EBITDA.

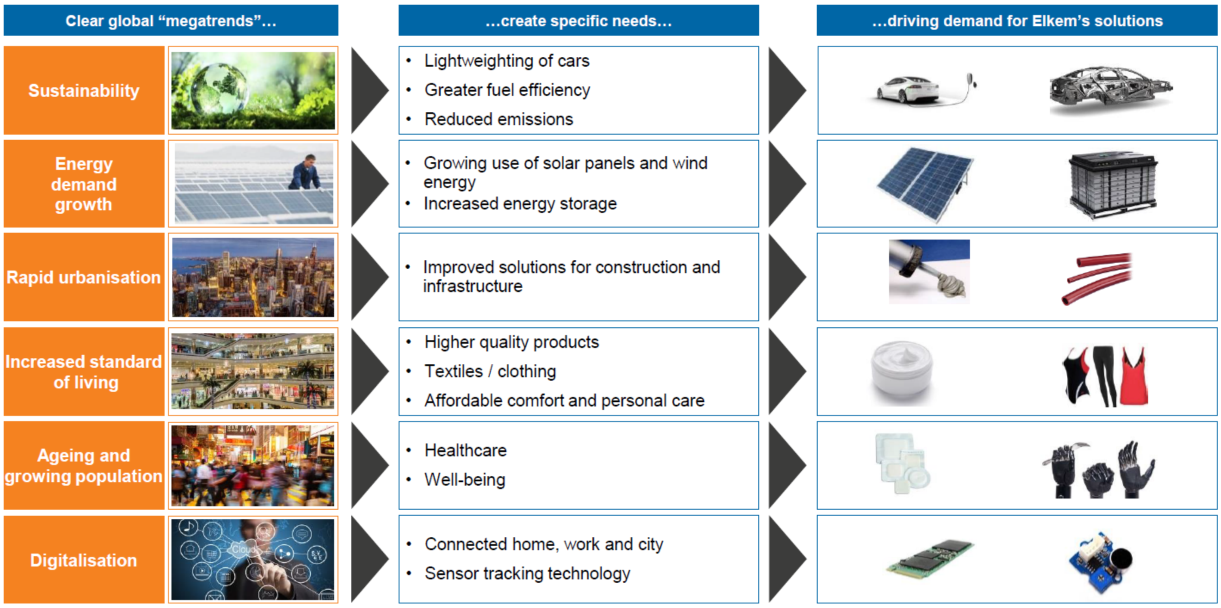
[106] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".

[107] Total operating income of the Foundry Products division including intra group revenues.

[108] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".

[109] Total operating income of the Carbon division including intra group revenues.

[110] The percentage of total operating income and Operating EBITDA also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".



Demand for silicon is projected to grow by 5.2% between 2016 and 2021, fairly in line with the growth that occurred between 2012 and 2016, according to CRU[111]. Demand for silicones is projected to grow by 5.1% between 2016 and 2021 according to Freedonia's projections[112], which is significantly higher compared to the period between 2011 and 2012. The Chinese economy is expected to contribute significantly to the demand growth as it is undergoing a major structural shift moving from the largest market in volume to the largest market in value. Demand for the Foundry Products division's alloys and other products is, according to CRU, projected to grow, mainly driven by growth in steel and iron foundry industries. For the Carbon division's products, demand is driven by end markets such as steel, aluminium and silicon, where independent market analysts such as CRU project overall growth in the coming years[113]. In combination, the projected growing demand across Elkem's product is expected to enable Elkem to benefit from increased volumes, effectively resulting in higher prices as well as improved Operating EBITDA margins. For 2018, Elkem expects that continued focus on efficiency improvements, effect of operational improvements at Fesil Rana and achieved benefits of operational leverage from its expected growth are some of the factors that will lead to an improved Operating EBITDA margin and is targeting Operating EBITDA margin improvements for 2018 in the area of 1.5 – 2.0 percentage points compared to 2017 levels. In the medium term, Elkem expects Operating EBITDA margins to gradually increase through specialisation and continued focus on efficiency improvements.

All four of Elkem's operating divisions operate globally and have leading market positions[114] in their respective key market segments due to its strong position throughout the value chain, and as such Elkem believes it is well positioned to capture the growing market demand. According to IHS, Elkem is the third largest company in the silicones industry based on capacity, with 11% market share as of 2016 in a highly disciplined market with the five largest producers representing approximately 67% of the total global capacity[115]. Furthermore, in terms of capacity, Elkem is the largest producer in China through the acquisition of Xinghuo Silicones[116]. Elkem estimates that its Silicones division is the leading[117] producer of silicone liners for labels, the second largest producer of airbag coatings in China and Asia, and in Europe, the second largest supplier of heat cure elastomers, resulting in a large fraction of sales originating from global or regional leadership positions. Through the integration of Xinghuo Silicones, Elkem will generate approximately 50% of its Silicones business in China, where CRU expects market growth to be strongest in the coming years. For Silicon Materials, Elkem is the second largest merchant producer of silicon metal globally (excluding China) with a market share of 29% in 2016, according to CRU[118], as well as being a leading producer of high-value microsilica-related products. In Foundry Products, Elkem estimates that it is the leading supplier of Foundry Alloys

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[111] Silicon Metal Market Outlook (CRU, October 2017).
[112] World Silicones Industry Study (Freedonia, May 2017) (payable source).
[113] Silicon Metal Market Outlook (CRU, October 2017).
[114] Company estimate based on the total market size, knowledge of own production, and estimates of the production of other players in the market place.
[115] IHS Chemical Economics Handbook 28 April 2017.
[116] SAGSI October Report 2017. Xinghuo Silicones has a capacity of 400 tonnes per annum.
[117] Company estimate based on market share.
[118] Silicon Metal Market Outlook (CRU, October 2017). Excludes Dow Corning which does not participate in the Merchant's market.

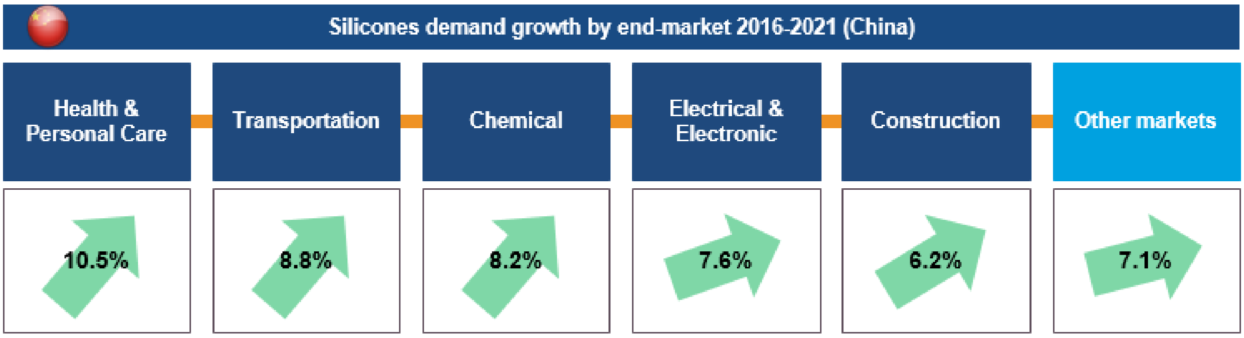
globally with a market share of 23% for 2016[119], while its Carbon division is estimated to be the largest supplier of electrode paste to the ferroalloy industry globally (excluding China)[120].

Based on the underlying megatrends described above and Elkem's leading market positions[121], the Group expects generally growing demand for its products.

Material presence in the fast-growing Chinese market

Elkem has significantly increased its presence in the Asia-Pacific region through the ongoing integration of Xinghuo Silicones and Yongdeng Silicon Materials. Since the acquisition of Elkem by Bluestar in 2011, Elkem and its Management have worked closely with these plants, and were involved in the gradual start-up of the new upstream and downstream units at Xinghuo Silicones in 2012. Elkem believes that upgrading Xinghuo Silicones and Yongdeng Silicon Materials management and best-practice processes and procedures from its knowledge base, including the EBS, will continue to drive the strong development in financial performance of these plants. The close collaboration with these plants has allowed Elkem to gradually pursue the opportunity of integrating Xinghuo Silicones and Yongdeng Silicon Materials without committing capital substantial resources and capital prior to optimising and streamlining the facilities.

As Xinghuo Silicones has developed a significant capacity reservoir (being the largest player in terms of capacity[122]), Elkem has been able to obtain strong exposure to the Chinese market. According to Freedonia, the silicones market in China is expected to grow at a CAGR of 7.4% from 2016 to 2021, which is significantly in excess of the demand growth in Europe and the Americas at 3.5% and 4.4%, respectively[123]. The growth in China is expected to be fuelled by several trends. Specifically, China is undergoing a structural shift moving from the largest market in terms of volume to the largest market in terms of value. For example, rising living standards will spur demand in a number of end-markets, with particularly strong implications for the health and personal care markets expected to grow at a double-digit rate between 2016 and 2021[124], in which Elkem's products have a wide range of applications. Furthermore, Elkem expects to be well positioned to capture growth within transportation as China moves to larger and more complex vehicles, with demand further stimulated by the increasing production of solar panels (China is the global leader in terms of production) where Elkem delivers e.g. Silgrain for polysilicon. Elkem believes it will be able to capture the growth against limited capital investments going forward due to its fully invested platform.



Source: Freedonia

True global operating footprint serves as a competitive backbone

Elkem produces its products from a global, diversified asset base allowing for inter alia significant scale, production optimisation/flexibility and strategic proximity to customers. Production facilities, 27 in total (with the Paraguay plant under construction), are located in Europe, Asia, North America, South America and Africa, while sales offices for the various divisions are located across multiple countries to ensure a strong and local sales network. As a result of the global footprint and local presence, each of Elkem's divisions are able to maintain long-lasting customer relationships through high product quality, production flexibility, strong innovative capabilities, technical customer services and local

[119] Company estimate, based on the total size of the market, knowledge of own production and estimates of the production of other companies in the market place.
[120] Company estimate, based on the total size of the market, knowledge of own production and estimates of the production of other companies in the market place. Excludes China as the Chinese market is highly fragmented and includes mostly domestic suppliers.
[121] Company estimate, based on the total size of the market, knowledge of own production and estimates of the production of other companies in the market place.
[122] SAGSI October Report 2017.
[123] World Silicones Industry Study (Freedonia, May 2017) (payable source).
[124] World Silicones Industry Study (Freedonia, May 2017) (payable source).

knowledge with regards to e.g. design, regulations and customisation. The nature of several of Elkem's products within Silicones, Foundry Products and Carbon divisions, constituting a small portion of the overall product cost for the customer, but being mission critical, enhances customer captivity and grants pricing power. Combined with the ability to deliver the same high quality specifications for products globally, which reduces production risk, customers have limited incentives to switch suppliers. Elkem's strong customer relationships create high barriers to entry for potential competitors. Furthermore, many of its customers also operate on a global scale, and thus Elkem's worldwide presence serves as a competitive advantage as it enables it to serve those customers across their footprint. As a consequence of its global footprint and multiple end-markets, its customer base is highly diversified, with no customer representing more than 5% of Elkem's total operating revenue.

Furthermore, Elkem's global presence has been vital in allowing the Group to realise various operational advantages resulting from economies of scale as exemplified by the successful track record of integration comprising BSI, Fesil Rana (Norway) and Minex (India). Elkem expects further realisation of significant synergies and costs savings going forward as result of the on-going integration of Xinghuo Silicones and Yongdeng Silicon Materials. Additionally, the global footprint has enabled Elkem to take advantage of projects and opportunities when and where they occur. As an example, Elkem's pre-existing relationships in Asia and America simplified the assessment of market opportunities and operating environment when considering its greenfield projects in Malaysia and Paraguay. Elkem has currently not identified any significant investment projects and the Management believes that for 2018, the Group's current asset base is largely sufficient to deliver Elkem's revenue growth targets, see Section 6.1.2 "Background for the Reorganisation". For 2018, Elkem expects its capital expenditure for reinvestments to be slightly higher than for 2017 and its strategic investments to be somewhat higher than in 2017 (see Section 12.11.5 "Capital expenditures" for further information).

Leading R&D capabilities for further specialisation

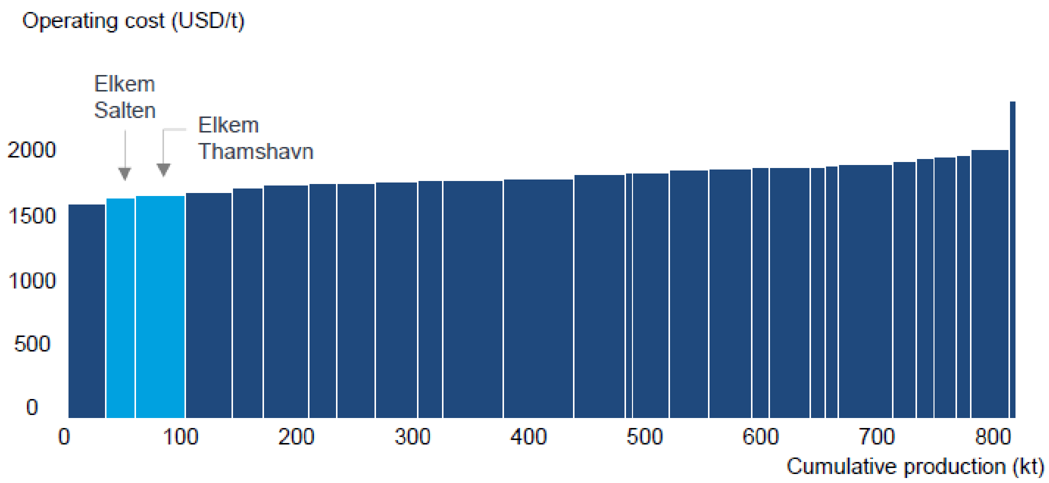
Elkem believes that technology and R&D is crucial for (i) improving existing products and production processes (ii) developing new products and new production processes to capture growth opportunities (iii) enhance customer satisfaction and contribute to strengthening customer relations, the brand, as well as financial performance. Elkem's history builds on several decades of technological developments, with an embedded culture within the Group through 13 research and development centres, staffed by approximately 500 researchers who together produce approximately 25 new patents annually, of which approximately 20 are silicones patents. Elkem has registered more than 1,700 patents in its IP portfolio. Recent new products include seals for aeronautics, adhesives for electronics UV system for high performance coatings, antifoam for chemicals, textile coatings for airbags and pressed preconditioner. Elkem's researchers have also engineered Elkem's energy recovery systems and created several cost effective processes for the production of foundry alloys.

Elkem divides its product portfolio into commodities, volume specialties and value specialties with the degree of specialisation increasing from commodities to value specialties. The commodities portfolio comprises certain core products (such as Si99), and are typically characterized by large volumes and commodity-price exposure. This product segment is typically less R&D-intensive, while key success factors typically consist of low cost position, operational excellence, and cost optimization across the footprint. The Volume Specialties portfolio comprises differentiated and scalable value-add products (such as airbag coating, silgrain for polysilicon and inoculants for brake-discs), which due to their properties have more stable prices. These products require higher R&D and formulation expertise, technical service and security of supply, in addition to critical size and cost competitiveness. Lastly, the Value Specialties portfolio consists of tailor-made products with high value and lower volumes (such as wound dressing and e-Si for batteries), and requires high R&D competence, customisation and marketing expertise. Both the Volume Specialties and Value Specialties products, in increasing order, have typically higher margins, lower cyclicality, grant higher pricing power and increase diversification compared to the Commodities products.

Elkem has for several years focused its strategy on shifting the portfolio towards more specialised products. By investing in R&D, Elkem is able to focus on less commoditised, higher margin products within all of the markets in which it operates. The results of continuous innovation are reflected through the increased share of revenue from specialised products. Furthermore, Elkem employs its R&D teams to provide technology support to its customers in their use of Elkem's products. The knowhow Elkem has developed allows it to have a deep understanding of its customers' processes, while at the same time, understanding how its products fit into these processes. Elkem's iterative approach to customer care (including by being engaged early in the product life-cycle, and producing customized products to match specific customers' needs) enhances customer captivity.

Low cost integrated position

Elkem has an industry-leading cost position[125], which ensures robust profitability throughout the business cycle. With Elkem's business being energy intensive, Elkem's plants have been strategically established around the globe in locations with access to low cost power, largely based on hydro power, which is of particular benefit to the Silicon Materials and Foundry Products divisions. Elkem also has significant in-house access to captive raw material sources (e.g. quartz), which is cost reducing. Furthermore, Elkem's advanced energy recovery systems helps further reducing power costs. The low power costs, together with Elkem's streamlined business model (EBS) and focus on achieving incremental cost savings (both through operational improvements and through technological advancements), have made its silicon plants at Salten and Thamshavn among the lowest cost producing plants of silicon globally, according to CRU. The chart below reflects CRU's estimate of the silicon cost curve and Elkem's plants position thereon for 2017.



As silicon is one of the primary cost inputs for silicones and as Elkem continues to integrate, internalise and optimize its entire production cycle, its Silicones division benefits from steady and integrated supply of silicon. Similarly, Elkem believes that the same advantages that lead to its top quartile production cost of silicon (accessible low cost power, in-house raw materials, constant focus on operational cost improvement and historic investment in technology improvements, including energy recovery systems, to reduce costs) also support its Foundry Products division, which is one of the lowest cost producers globally.

Through a variety of processes and procedures, including the EBS model, the Group works to reduce costs via various small to medium sized projects. For example, Elkem reduced Silgrain costs by 24% from 2012 to 2014 through a systematic approach based on the EBS. Additionally, aggressive use of inter-plant benchmarking has enabled it to draw upon operational knowhow in one plant and apply it to others throughout the Group. For example, its Carbon division was able to improve its calciner output in Brazil by 25% to 30% within six months as a direct result of intra-plant benchmarking.

Elkem believes that the ongoing integration of Xinghuo Silicones and Yongdeng Silicon Materials offers the opportunity for further significantly increase annual cost savings over the next several years. In addition, Elkem expects further value chain integration within the current platform to drive cost savings. Elkem expects cost savings to originate from optimisation of production costs and material flow along the silicon value chain, and these savings are expected to occur both in the upstream and downstream portions of the Group. Furthermore, Elkem expects the continued adoption of its streamlined business processes in the Silicones division to drive production efficiencies across the asset base.

Enhanced financial performance and robust outlook

Elkem has demonstrated a strong history of financial performance throughout the business cycle. In the period from 2012, which represented a low point in the business cycle of Elkem's industry, to 2015, Elkem delivered stable growth in total operating income combined with improving margins across all four operating segments driven by strong industry fundamentals, increasing prices and operational improvements. In 2016, Elkem delivered softer performance, predominantly driven by weaker industry fundamentals and declining silicon prices. However, given its focus on higher margin specialty products, attractive position on the supply cost curve, and ability to execute on cost improvements, Elkem was able to ensure solid profitability through the temporary downturn. In addition, the structural hedge through vertical integration between the Silicon Materials and Silicones segments contributed to reducing the effect from lower

[125] Company estimate based on global major silicon smelters' cost curve for 2017, excl. China.

prices. Since 2016, the industry experienced increased prices, and coupled with continued strong demand, Elkem has delivered strong financial performance across all four segments, which was further amplified by its increased exposure towards the fast-growing Chinese market through Xinghuo Silicones and Yongdeng Silicon Materials.

Over the three year period ended 31 December 2017, the Group's total operating income grew at a CAGR of 21.3% and its Operating EBITDA grew at a CAGR of 19.5%, and the Group's Operating EBITDA margins have improved from 9% for the year ended 31 December 2016 to 15% as of 31 December 2017 on a combined basis. The Silicones division's total operating income[126] and Operating EBITDA margin increased from NOK 7,619.4 million and 5% in 2016 to NOK 10,025.8 million and 15% as of 31 December 2017. The Silicon Materials division's total operating income[127] and Operating EBITDA margin increased from NOK 5,269.1 million and 11% in 2016 to NOK 6,412.3 million and 13% as of 31 December 2017. The Foundry Products division's total operating income[128] and Operating EBITDA margin improved from NOK 3,642.0 million and 14% in 2016 to NOK 4,247.3 million and 17% as of 31 December 2017. The Carbon products division's total operating income[129] improved from NOK 1,375.1 million in 2016 to NOK 1,576.7 as of 31 December 2017 whilst the Operating EBITDA margin decreased from 20% in 2016 to 17% as of 31 December 2017.

Experienced and proven management team with long-term shareholder support

Elkem's international senior Management team has, on average, approximately 18 years of experience working for Elkem. The CEO and CFO have been part of Elkem for 28 and 17 years, respectively. Elkem has a highly skilled international senior Management team with a broad range of relevant international, industry and functional knowledge and experience. The strength of Elkem's Management team is demonstrated by the Group's track record in terms of performance and growth. Elkem believes that the members of its organization share Elkem's focus on ambition, strategy and operational standards.

In addition, Elkem's largest shareholder, Bluestar, has been an owner of Elkem since 2011 and BSI since 2007. Elkem believes that Bluestar will continue to remain a supportive shareholder for the Group going forward, and understands that Bluestar intends to remain a majority shareholder for the long-term.

9.3 Strategy

Elkem's strategy is to continue transition into a more specialty chemical company. Key objectives include to grow the silicones business, increase specialisation, develop new materials serving fast-growing end markets and leverage production and historically leading low cost position.

Improve operational efficiencies across the Group and synergies between Silicones and Silicon Materials

Based on Elkem's significant experience with the industry and its track record as leading low cost producer, the continuous improvements in operational efficiencies and synergies across the group will be a key pillar in the Group's strategy going forward. The Elkem Business System together with operational excellence, economies of scale, low cost power, integrated value chain from raw materials to end-products and advanced energy recovery systems, will continue to be fundamental for cost improvements. Additionally, continued investment in research and development should ensure technological improvements that reduce costs and improve production efficiencies as well as the development of new products and applications. Furthermore, Elkem has strong focus on sustainability and will continue to dedicated resources and leverage its robust technological backbone to remain at the forefront of delivering sustainable production processes and solutions. Elkem will continue to pursue operational excellence by utilizing its internal "cost roadmap" program to identify and support cost reduction projects in a standardized manner throughout the Group and actively implement intra-plant benchmarking activities to transfer best practices, process expertise and technological competence across its operational footprint.

Elkem has secured strategic benefits and synergies from the integration of the Silicones units into the silicon value chain improving productivity, efficiency and yield, in addition to reducing waste, costs and accelerating product development. Elkem continuously works to optimise the overall benefit to the Group between selling its silicon externally and providing it to the Silicones division. The Group expects significant synergies along the same axes in relation to the integration of Xinghuo Silicones and Yongdeng Silicon Materials. More specifically, Elkem aims to continue value chain optimisation through upstream integration with two siloxane plants in Asia and Europe and further optimisation of the value chain process from quartz to siloxane. In addition, Elkem will continue to entrench its

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[126] Total operating income of the division including intra group revenues.
[127] Total operating income of the division including intra group revenues.
[128] Total operating income of the division including intra group revenues.
[129] Total operating income of the division including intra group revenues.

production culture that focuses on continual improvements to enhance production efficiencies and lower its cost base within the Silicones division through e.g. technological integration and productivity increases across the asset base.

Elkem continuously focuses on strategic raw material sourcing in order to remain a fully integrated low cost producer by further investing in high purity quartz mines to secure sufficient reserves.

Finally, Elkem expects to achieve further synergies through the implementation of several processes such as integrating the division's sales organisations, improving sales in niche markets and reducing wastage in its production processes.

Focus on delivering organic and acquisitive growth as well as improving the sales mix of specialty products

Elkem continuously evaluates attractive options for growth, particularly through capacity expansion in underserved or growing regions, and will actively continue to pursue these opportunities. Capacity expansions are aimed at driving revenues and allows Elkem to capture market shares, especially within the Silicones division, while at the same time utilising the advantages that come from an integrated value chain, significant scale, global footprint and top quartile cost position in the production of silicon. Elkem has a significant platform in China through Xinghuo Silicones, which provides low-investment de-bottlenecking opportunities allowing for downstream capacity expansion, allowing the Group to continue its overarching strategy to transition into a specialty chemicals company by growing Silicones and increasing specialisation. Furthermore, a highly cost competitive greenfield foundry alloys plant is under construction in Paraguay and will supply a growing market for specialty foundry products in South America. Elkem has also successfully built its Carbon products facility, from greenfield stage, in Sarawak (Malaysia) to serve customers in an industry cluster locally as well as throughout South East Asia.

In addition, Elkem intends to pursue selected bolt-on acquisitions as it believes there are potential opportunities for capacity expansion and entrance into new product sub-segments. Elkem's size and geographic reach, combined with its broad skill and resource base, render it well positioned to capitalize on these growth opportunities. Elkem actively tracks potential acquisition candidates and pursues opportunities once a sound business case has been established for such acquisitions, as manifested through the successful acquisitions of Minex and Fesil Rana in 2016. Currently, Elkem focuses on potential bolt-on acquisitions to gain market access, add complementing technologies enhancing its current position, and enable further cost reduction or product development, with focus on the Silicones division (increased presence in the most attractive end-markets e.g. health and personal care and electric vehicles). The Group will focus on covering whitespace within its footprint, targeting both Asia and North America. Additionally, the Group explores opportunities to gain attractive market shares for its Silicon Materials division, and producers of Foundry Products (particularly the ones that would support increased market presence in Asia). In relation to this, Elkem will capitalise on its recent successful track-record and experience of integration relating to BSI (France), Rana (Norway) and Minex (India), which is expected to help Elkem significantly with the on-going integration of Xinghuo Silicones and Yongdeng Silicon Materials.

Elkem continues to focus on improving the sales mix towards specialty silicones products rather than commodities in order to increase margins and reduce cyclicality which has been manifested by the integration of Xinghuo Silicones in China. The focus on attractive specialty segments is particularly important for the Silicones and Foundry Products divisions and Elkem intends to focus on the most attractive end-markets and not be present across all end-markets like some of its competitors. The Group intends to pursue its specialty strategy through building on its long-term customer relationships and extensive product focused research and development knowledge base, which integrates into both the production and sales processes, to continue to increase higher-margin specialty products sales across each division.

As part of the Group strategy to strengthen its global sales and marketing organization, Elkem will in addition to its continuous Group activities specifically focus on China through building customer application knowledge and technical customer support. Elkem believes this will amplify its capabilities in optimizing products for the local needs, responding quickly to customer requirements and avoiding trade barriers, all contributing to increased customer captivity.

Access to new market opportunities and China through the integration of Xinghuo Silicones and Yongdeng Silicon Materials

Elkem believes that there is substantial room for further increased penetration in specialty products segment in China supported by the significant presence in the region through Xinghuo Silicones, which has significant siloxane capacity reservoirs to support increased production volumes without need for incremental capital expenditure. Specifically, Elkem envisages selected growth opportunities to among others comprise sealing and bondings for electric vehicle batteries, textile coating for airbags and rubber for high-performance electrical cables in electric vehicles to the transportation industry. In addition, the Group intends to continue efforts to drive specialty volumes through investments, CRM tools, sales and marketing efforts and addressing new market opportunities e.g. implants, 3D printing, robots and electric vehicles.

Elkem has for several years held an attractive position in the Chinese foundry alloys market, especially within the automotive and wind mill industries. Additionally, Elkem believes that its Silicones division is the largest producer of silicones for automotive airbags both in China and in Asia. Elkem intends to build its existing positions in China, which will be further strengthened through the integration of Xinghuo Silicones and Yongdeng Silicon Materials, the fastest growing market in Elkem's portfolio.

For Xinghuo Silicones, Elkem will continue the process of benchmarking towards its highly advanced Silicones facilities, Roussillon and St. Fons, located in France. For example, management will focus on further technology transfer to Xinghuo Silicones, and over time targets to enhance the R&D platform located in China

9.4 History and important events

The Company was founded in 1904 by Sam Eyde, brothers Magnus and Knut Wallenberg and Knut Tillberg, with the aim of creating an internationally-oriented industrial company based on Norway's natural resources, Norwegian hydropower and know-how. Elkem's invention of the Söderberg electrode in 1917 was its springboard to success. This technique allowed for continuous smelting of a wide variety of metals at high temperatures. From 1945 Elkem developed into a growing engineering venture for electric smelting, selling more than 400 furnaces globally.

Elkem gradually became a major global producer of aluminium, ferroalloys and silicon metals. After the formation of a business alliance with Alcoa in 1963 and following the merger with Christiania Spikerverk in 1972, Elkem became Norway's largest industrial company. Elkem continued to expand internationally and acquired seven ferrosilicon plants in Norway, the United States and Canada in the period from 1970 to 1980, becoming the world's largest producer of ferroalloys. In the 1990s and 2000s, Elkem's Carbon division expanded globally through a number of strategic acquisitions and Elkem Solar was established. From 2006, Elkem's previous owner, Orkla, radically changed the business of Elkem by swapping its 50% share in two aluminium plants for 100% ownership of the Swedish metal processing company SAPA and selling Elkem's power production business, thereby reducing the size of the company substantially. After being acquired by China National Bluestar in 2011, Elkem returned its main focus to the business areas that started with the invention of the Söderberg electrode.

In 2015, Elkem divested its solar business and combined with ESi, which now constitutes the Silicones division of Elkem. From 2015 and onwards Elkem has continued to grow its business through a series of domestic and international strategic acquisitions, expansions and partnerships. Key initiatives during this period are the acquisition of Fesil Rana as well as the acquisition of Minex. Elkem has also completed the construction of a new plant in Sarawak, Malaysia and is currently constructing a ferrosilicon plant in Paraguay.

Following a gradual integration process since 2011, Elkem will through the completion of the integration of Xinghuo Silicones and Yongdeng Silicon Materials take significant next steps in becoming one of the largest producers worldwide of silicon-based advanced materials and direct is focus towards specialty products. The acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials Silicone Materials will also allow Elkem to take foothold and seek opportunities in emerging markets and China in particular.

The table below provides an overview of key events in the history of Elkem:

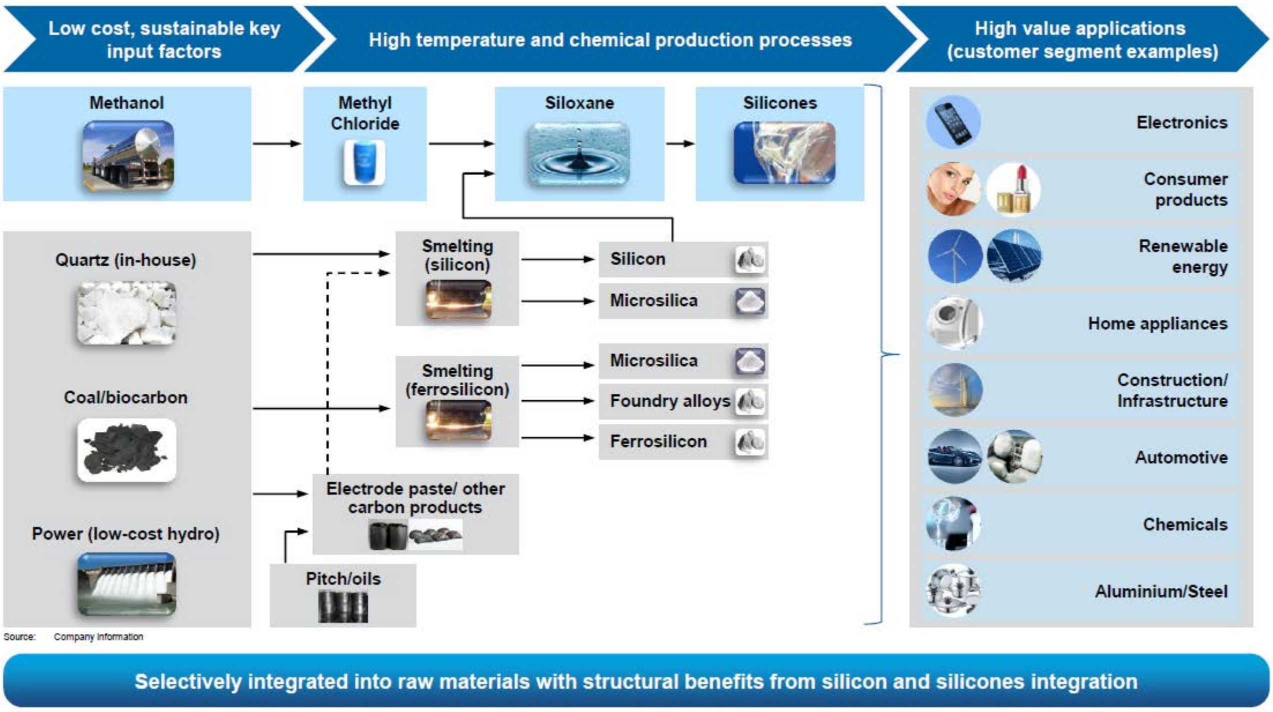
Year	Event
1904	Elkem is founded by Sam Eyde, brothers Magnus and Knut Wallenberg and Knut Tillberg.
1917	Elkem purchases its first ferroalloy plant. Elkem patents the Søderberg electrode, which is still in use in about 75% of the world's smelting plants.
1970s.............	Elkem merges with Christiania Spikerverk and becomes Norway's largest industrial company. Elkem also expands internationally within the steel and ferroalloy business.
1980s.............	Elkem buys seven ferrosilicon plants in Norway, the United States and Canada, and becomes the world's largest producer of ferroalloys. Elkem acquires the plants in Thamshavn and Bjølvefossen. Christiania Spikerverk is divested from Elkem.
1990s.............	Elkem sells manganese business to Eramet SA. Elkem acquires Icelandic alloys plant.
2000s.............	Elkem's carbon division expands globally through several acquisitions.

Year	Event
2005	Elkem acquires SAPA, the aluminium profiles company with approx. 14,000 employees.
2005	Elkem was acquired by Orkla ASA and Elkem was subsequently delisted from the Oslo Stock Exchange.
2010	SAPA and the hydropower business are divested from Elkem
2011	China National Bluestar buys Elkem from Orkla ASA.
2015	Elkem Solar business is divested and Elkem is combined with BSI.
2016	Elkem acquires Fesil Rana and Minex, and continue expanding its operations through construction of new facilities.
2017 - 2018.....	Elkem completes the integration of Xinghuo Silicones and Yongdeng Silicon Materials. Elkem completes the construction of a new plant in Paraguay and a new foundry plant in China.

9.5 Overview of the Group's operations

9.5.1 Overview of the production process

The figure below illustrates the Group's production processes across its four operating divisions:



Elkem's four operating divisions are also the Group's operating segments. The divisions are all separately managed business areas with both commodity products and products tailor-made to the customer's needs.

Each individual division sells a range of similar products which stem from similar production processes, similar raw materials and covers similar customer needs. As a result of these production processes, a variety of products are produced at a divisional level, which are of greater or lesser purity, or with varying degrees of additives included in the mix. However, the production process of these different products within each division are based on similar, procedures and production techniques, and the production includes a high level of interdependency. It is not possible to isolate production of many of the products, as the production process of certain products within an operating segment yield by-products.

9.5.2 Silicones

9.5.2.1 Introduction

The Silicones division produces and sells a range of silicone based products across various sub-sectors including release coatings, engineered elastomers, healthcare products, specialty fluids, emulsions and resins, all of which Elkem defines as a group of similar products.

The Silicones division is Elkem's largest division and a global producer of siloxanes, mostly for captive use, and silicones. Silicon, which is a key ingredient in the production of siloxanes, is partially (more than 80% in 2017) supplied from the Silicon Materials division to the Silicones division's two upstream manufacturing sites, the Xinghuo Silicones facility in China and the Roussillon facility in France. The Silicones division generated 47% of Elkem's combined operating income in the year ended 31 December 2017.[130]

Xinghuo Silicones produces organic silicone with both upstream and downstream capacity and will be the Silicones division's major facility for the manufacturing or organic silicone monomer and organic silicone-related downstream products for its core markets. Elkem's second largest facility is located in Roussillon and more than 90% of its production is taken to the plant in Saint-Fons France for further processing into silicones either as a fluid or an elastomer, a family of specialty, high performance materials, while the remaining siloxanes are delivered directly to other ESi plants. The plant in Saint-Fons sells silicones directly to customers and transfers products to the Silicones division's other plants for further processing before they are sold to customers.

The Silicones division has a total annual upstream production capacity of more than 300,000 tonnes of siloxane in addition to its downstream silicones processing capacities. The Silicones division comprises in total nine plants for production of both commodity and speciality silicones globally.[131]

The Silicones division's external operating income by geography for the year ended 31 December 2017 is as follows: Europe (30%), Asia (57%), America (13%), Africa (0%) and the rest of the world (0%).

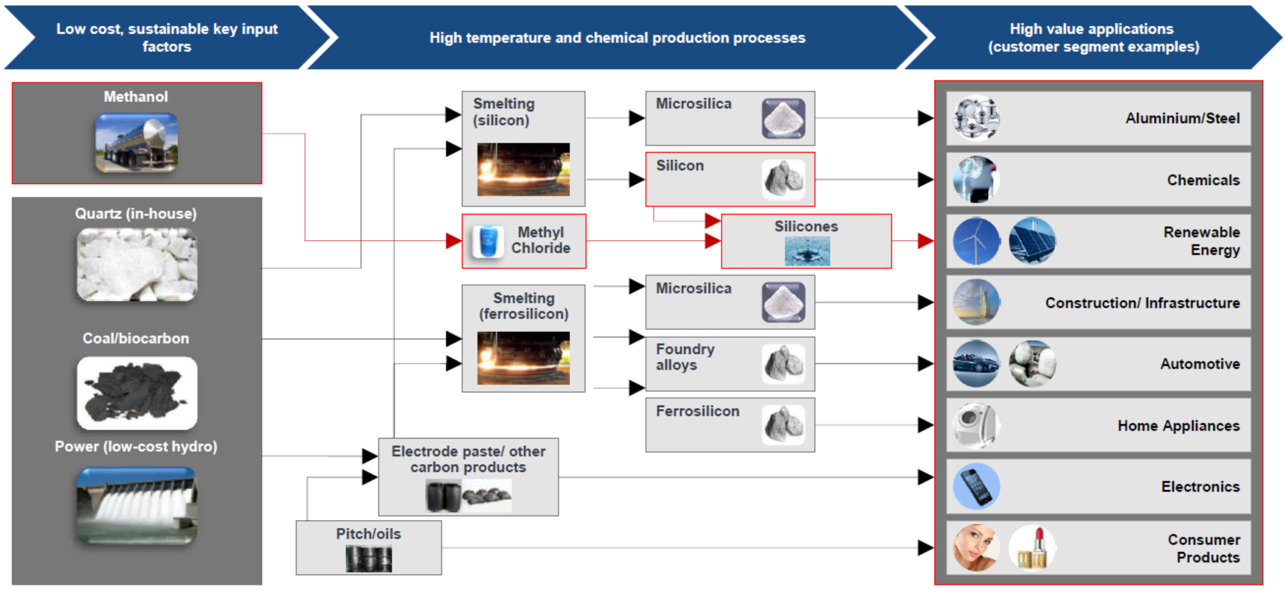
The Silicones division's input factors as percentage of production costs (energy and raw materials) are as follows[132]: other, mainly secondary raw materials, packaging and sub-contracting when the cost is proportional to production) (approximately 40 to 45%), silicon (approximately 25%), platinum (10 to 15%), methanol (approximately 10%) and utilities such as gas, electricity and water (approximately 10%).

The figure below illustrates the Silicones division's value chain:

[130] The percentage of total operating income also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".

[131] The finished silicones products can have a wide range of silicones content in them. The silicones production capacity will accordingly depend on the product mix, which can vary extensively from year to year.

[132] Based on cost of goods sold in 2017 for ESi.



Source: Company information

Backwards integrated silicones producer with focus on specialization and high value end-markets

9.5.2.2 Products

Silicones are defined either as specialty products or commodities based on their contribution margin and their differentiation factors, and hence there are both specialties and commodities for different markets. All Silicones are derived from the same production process, where Siloxane is the common basis for the silicones following which they are processed in several ways and formulated with various input factors to constitute a highly diversified portfolio of downstream products.

Due to their molecular structure, silicones can be manufactured in many forms including solids, liquids, semi-viscous pastes, greases, oils and rubber. Silicones have an exceptional breadth of chemical and physical properties. Silicones are flexible and resist moisture, chemicals, heat, cold and ultraviolet radiation. Products made with silicones take on these and other important properties so they are more stable, more aesthetically pleasing, easier to use or apply and last longer.

The main categories of silicones products sold by the Silicones division are:

Core products and core intermediates

Fluids can be categorised as either core products or as core intermediates which are silicone fluids, where core products are standard silicone-based commodity products, meaning that they have not been subject to any modification or formulations. Core products are used when there is less demand for specific properties, such as lubrication or water-repellence. Silicone fluids are modified and/or formulated silicones which make up the specialty products. These specialty products consist of fluids and coatings ("**Surface**") or elastomers and adhesives ("**eXtensio**"). These Surface fluids are highly differentiated and designed for specific and highly demanding applications or processes, such as intensified processes, high temperatures or high pressure processes. Silicone fluids are mainly used as coatings to enhance the performance of a substrate, whether it is paper, film, textile, skin, hair and stone and as process aids to improve manufacturing processes such as defoamers, lubricants or water repellents.

Silicone elastomers

Silicone elastomers are viscous silicones that, following customers' treatment, take on solid form and are produced by introducing crosslinking between silicone fluids. Silicone elastomers exhibit a wide range of properties and heat cured rubber (HCR) is the most basic silicone elastomer. When the HCR elastomer is heated by the customer, the result is a hard rubber material with excellent mechanical strength, which is typically used for moulded rubber goods such as gaskets, seals, hoses, tubing, and connectors.

Room temperature vulcanizing (RTV) elastomers are another common type of silicones. RTV elastomers can come in two-component (RTV-2) or one-component (RTV-1) cure formulations. The two-component products are mixed by the customers and applications for RTV-2 include pressure sensitive adhesives, medical products, electronic products and silicone moulds. RTV-1 systems form an elastomer when exposed to moisture in the air. This makes RTV-1 elastomers ideal for use as sealants, adhesives and coatings in a wide variety of industries, including the automotive, the aeronautics and the construction industries.

9.5.2.3 Applications and customers

Silicones have thousands of applications which improve the performance and reliability of millions of modern products. Silicone is found in a large variety of products used in daily life and the silicones produced by the Silicones division are found in products that are directly linked to the relevant trends in the end-market, such as construction, automotive, electronics, transportation, health and personal care, chemicals and consumer goods.

Core products are mainly used as lubricants, solvents, defoamers and water repellents. Silicone fluids are used as a thin substrate which can protect all kinds of adhesive materials. Silicone fluids are, for example, used for airbag coating where the silicone is coated on the inner part of the bag to give long lasting thermal protection to the bag. The Silicones division is one of the leading providers of airbag coatings. The Silicones division is also a leading supplier to specialty markets where silicones fluids are used as process aids such as defoamers or lubricants in many demanding industries (agrochemicals, oil fields, pulp and paper and tyre de-moulding industries). The Silicones division also produces a limited range of silicone fluids for the home and personal care industries. Elastomers are mainly used as gaskets, sealants and technical parts, such as in tubes, catheters and cables.

The customer base of the Silicones division generally consists of a large number of low volume customers. The Silicones division often enters into long-term contracts with its customers, but also enters into contracts with a shorter duration, as well as single purchase orders. The price is usually negotiated with each customer and fixed for the term of the contract, but the price may also be linked to applicable index prices. The Silicones division also frequently enters into partnership agreements with customers in order to develop a customised product, mainly with customers in the high-margin segments of the Silicones division such as the aeronautics and oilfield industries.

The top ten customers by sales revenue of the Silicones division accounted for 5% of Elkem’s total operating income and 11% of the total operating income of the Silicones division for the year ended 31 December 2017.

9.5.2.4 Production facilities

The table below sets out certain key information about the Silicones division's production facilities:

Plant	**Country**	**Owned / leased**	**M^2**	**Production capacity[1]**
Xinghuo Silicones	China	Owned	7,000,000	220,000 tonnes
Roussillon	France	Owned	75,000	100,000 tonnes
Saint-Fons	France	Owned	250,000	200,000 tonnes
Caronno	Italy	Owned	9,000	5,000 tonnes
Lubeck	Germany	Owned	8,000	1,500 tonnes
Santa Perpetua	Spain	Owned	25,500	15,000 tonnes
Joinville	Brazil	Leased	7,000	12,000 tonnes
Shanghai	China	Leased	29,000	15,000 tonnes
York	USA	Owned	80,000	20,000 tonnes

1 The table presented above is only for illustrative purposes. For capacity utilisation, it is difficult to provide an accurate number due to the product mix produced at Elkem's plants. The capacity at most of Elkem's plants depends on the product mix which varies extensively from year to year. For an overview of the production volumes produced at Elkem's plants, please refer to Section 12.3.2 “Sales volumes” in connection with the production capacity provided for each plant.

Xinghuo Silicones, China

The production facility is located in Yongxiu, Jiujiang City, Jiangxi Provinance, China and is the Silicones division's major upstream facility, producing organic silicone monomer and organic silicone-related downstream products. The facility has an annual production capacity of approximately 220,000 tonnes of siloxane and 120,000 tonnes downstream production capacity. The plant employed 1,649 employees as of 31 December 2017.

Roussillon, France

The plant located in Roussillon, France is the Silicones division’s second upstream facility, producing siloxane. The plant has an annual production capacity of 100,000 tonnes of siloxane and employed 143 employees as of 31 December 2017.

Saint-Fons, France

The production facility located in Saint-Fons, France manufactures silicones. The annual production capacity is 150,000 tonnes of intermediates and 80,000 tonnes of silicones per year. The plant employed 385 employees as of 31 December 2017.

Caronno, Italy

The production facility located in Caronno, Italy mainly produces heat cured elastomers, so-called ready to use solutions ("**RTUs**"), two component liquid elastomers (RTV2), and elastomers in the form of foams, greases, gels, and antifoam to serve the electrical, healthcare, textile, paper and mold-making industries. Caronno is also a worldwide dental R&D solution provider. It has an annual production capacity of 6,500 tonnes of silicones. The plant employed 46 employees as of 31 December 2017.

Lubeck, Germany

The production facility located in Lubeck, Germany mainly produces high value elastomers (RTV2) and liquid silicones rubber (an elastomer formulation) for the healthcare, sealing and bounding and electronic industries. It has an annual production capacity of 1,500 tonnes of silicones. The plant employed 11 employees as of 31 December 2017.

Santa Perpetua, Spain

The production facility located in Santa Perpetua, Spain mainly produces RTUs and a number of silicones fluids (emulsion specialities, high viscosity oils and aminos fluids). It has an annual production capacity of 19,000 tonnes of silicones. The plant employed 45 employees as of 31 December 2017.

Joinville, Brazil

The production facility located in Joinville, Brazil mainly produces silicones fluids (standard oils and resins, emulsion specialities, sealants and antifoams) for the oil and gas drilling industries. It has a production capacity of 15,000 tonnes of silicones per year. The plant employed 9 employees as of 31 December 2017.

Shanghai, China

The production facility located in Shanghai, China produces silicones fluids (emulsion specialities, adhesive specialities and emulsions) for release coatings, sealants, RTUs and RTV2 formulations (elastomers used for textile coating systems) for the use in airbags. It has a production capacity of 20,000 tonnes of silicones per year and it employed 89 employees as of 31 December 2017.

York, USA

The production facility located in York in the state of South Carolina in the United States produces release coating and a number of silicones fluids such as tire de-moulding emulsions, TCS for airbags in the automotive industry, RTV2 for the healthcare, oil drilling and aerospace industries, and LSR base and LSR formulated products for the healthcare industry. It has a production capacity of 24,000 tonnes of silicones per year and employed 67 employees as of 31 December 2017.

9.5.2.5 Markets and competition

The Silicones division is considered to be the third largest silicones producer globally and the Chinas largest silicones producer based on capacity, with a market share of approximately 11% globally and 14% in China according to SAGSI. The division's largest competitors are Wacker Chemie AG and Dow Corning.

9.5.3 Silicon Materials

9.5.3.1 Introduction

The Silicon Materials division manufactures and sells various grades of metallurgical silicon, microsilica and related products for use in a wide range of end applications, all of which Elkem defines as a group of similar products. The Silicon Materials division has a total production capacity of approximately 215,000 tonnes of silicon and 80,000 tonnes ferrosilicon per year.[133] The Silicon Materials division manufacturers microsilica and related products and had an annual production volume in 2017 of approximately 300,000 tonnes (including third party external sourcing and production volumes from Yongdeng Silicon Materials). From 2015 to 2017, revenues from sales of microsilica were

[133] The capacity will ultimately depend on the current product mix which easily can be adjusted based on market demand.

stable at approximately NOK 1,300 million and Elkem expects this to be stable during 2018. The Silicon Materials division generated 30% of Elkem's combined operating income for the year ended 31 December 2017.[134]

The Silicon Materials division operates four silicon and one ferrosilicon plant in Norway and China, two centres for research and development, three units for quartz production (see Section 9.10 "Sourcing of raw materials"), several units for further processing of the plants' products and an extensive global sales network. Approximately 35% to 40% of the division's silicon production is currently sold within the Group to the Silicones division and Elkem expects this to remain stable during 2018.

The Silicon Materials division's external operating income by geography for the year ended 31 December 2017 is as follows: Europe (63%), Asia (28%), America (8%), Africa (1%) and the rest of the world (0%).

The Silicon Materials division's input factors as percentage of production costs (energy and raw materials) are as follows[135]: Coal/biocarbon (approximately 40 to 45%), energy (approximately 35 to 40%), quartz (approximately 10 to 15%) and electrodes (approximately 5 to 10%).

9.5.3.2 Products

The key products of the Silicon Materials division are silicon and microsilica related products:

Silicon

Silicon can be produced in different grades which have different areas off application. The main difference in the various grades of silicon is the silicon content, level of impurities and sizing. The products can to a certain degree be substituted, e.g. customers within the aluminium business can use both Si99 and Silloy® and Silgrain®. All significant products in the Silicon Materials segment come from the same production process, either as a primary product or a by-product. The Silicon Materials division produces the following grades of silicon:

- Silicon 99 ("**Si99**") is silicon of minimum 99% purity. Si99 has a wide range of uses, and over the years several qualities have been tailored to fit the needs of very different processes. Si99 is mainly used as an alloying material in aluminium metal and as a raw material in both silicone production and production of polysilicon (solar and electronic) as well as other industrial applications.

- ("**Silloy®**") is silicon of minimum 96-97% purity. Silloy® is highly versatile and is used as an alloying element with aluminium metal for high-pressure die-casting alloys and for production of fumed silica.

- "**Silgrain®**" is a silicon powder containing minimum 99% silicon and is produced by a chemical purification process of the silicon. Silgrain® is mainly used in the production of polysilicon used in the electronic and solar industries and as an alloying element in aluminium. In addition, Silgrain® has been developed into a range of different speciality products for customers that require unique chemistry and/or sizing.

Microsilica and related products

When silicon is produced, a by-product of silicon is also made in the off-gas process. Elkem has developed a method to collect and process the off-gas and develop it into a valuable product called Elkem Microsilica® "**Elkem Microsilica®**". Through focused research and development, Elkem has developed speciality microsilica products and associated materials and now offers more than 300 different variations of Elkem Microsilica®. In addition to its own production, Elkem also buys and processes microsilica for resale. Examples of other related products include microspherical particles of manganese oxides and microfine ilmenite for oilfield applications.

9.5.3.3 Applications and customers

The Silicon Materials division delivers value to its customers in the solar (polysilicon), aluminium, chemical, construction including fibre cement and concrete, oil field services and refractories including polymer industries worldwide by providing specialty products which are tailor made for each application.

Silicon has a large number of varied applications and the end-users of silicon are generally divided into three main customer segments according to customer specifications procedures: (i) polysilicon, (ii) aluminium and (iii) chemicals. Elkem's silicon is utilised by polysilicon manufacturers as a raw material for the production of polysilicon which is

[134] The percentage of total operating income also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".

[135] Based on cost of goods sold in 2017 for Elkem's plants in 2017.

further processed into solar panels and other electronic components such as mobile phones, computers and tablets. Other grades of silicon from Elkem are mixed with aluminium to produce alloys of cast aluminium parts, or are processed by the chemicals sector into a number of products, including silicones. In addition, the Silgrain® speciality products are sold to many smaller market segments with various applications.

Elkem Microsilica® is used for a variety of purposes. In the construction industry it is used to increase strength and durability in bridges, marine structures, high rise buildings, tunnels and other high performance applications. In oil field services, Elkem Microsilica® and related products are used in cementing, drilling fluids and stimulation applications, in the refactory industry it is primarily used to reduce the amount of water necessary to install refractory concrete improving strength and durability and in the fibre cement industry it is used in construction boards and roofing tiles, which inter alia replaces asbestos.

The Silicon Materials division’s silicon customer base generally consists of high volume, global customers with long-term contracts with Elkem as well as a wide variety of smaller customers around the world. The Silicon Materials division enters into large, long- and short-term contracts with the customers in the chemical and polysilicon segment. The prices for those contracts are based on the CRU silicon market price index, but often also with premiums for high grade products, e.g. low ferrosilicon for the aluminium segment, premiums for value-added and value based pricing for silicon specialties, e.g. Silgrain® products. Sales to the aluminium segment are usually entered into for a shorter term, typically with quarterly or half-yearly contracts or purchase orders, with the prices being linked to the CRU market price index. For Elkem Microsilica® and related products, Elkem's customer portfolio is considerably more fragmented with more than 900 customers worldwide and the customers generally enter into annual frame contracts and place purchase orders on smaller amounts. Pricing is mostly based on value added, but in the construction segment (being a high volume, lower margin segment), pricing is also highly influenced by the competitive situation and the supply/demand balance in the respective sales regions.

The top ten customers by sales revenue of the Silicon Materials division accounted for 8% of Elkem’s total combined operating income and 35% of the total combined operating income of the Silicon Materials division for the year ended 31 December 2017.

9.5.3.4 Production facilities

The Silicon Materials division's production facilities are located on the coast of Norway and, upon the acquisition of Yongdeng Silicon Materials, in China in close proximity to efficient port facilities. According to CRU[136], these facilities holds a world leading cost position due to their access to low cost energy, advanced energy recovering programs, their ability to secure high quality raw materials, processing expertise and are well integrated. The table below sets out certain key information about the Silicon Materials division's production facilities:

Plant	Country	Owned/leased	M^2	Production capacity[1]
Elkem Salten	Norway	Owned	415,000	75,000 tonnes
Yongdeng Silicon Materials	China	Owned	256,200	55,000 tonnes
Elkem Rana	Norway	Leased	114,000	80,000 tonnes
Elkem Bremanger	Norway	Owned	200,000	40,000 tonnes
Elkem Tamshavn	Norway	Owned	158,000	45,000 tonnes

1 The table presented above is only for illustrative purposes. For capacity utilisation, it is difficult to provide an accurate number due to the product mix produced at Elkem's plants. The capacity at most of Elkem's plants depends on the product mix which varies extensively from year to year. For an overview of the production volumes produced at Elkem's plants, please refer to Section 12.3.2 “Sales volumes” in connection with the production capacity provided for each plant.

Elkem Salten, Norway

The Elkem Salten plant is located in Straumen in the municipality of Sørfold in Norway, 100 km north of the Arctic Circle. The key products produced by Elkem Salten are Si99, Silloy® and Elkem Microsilica®. The annual production capacity is approximately 75,000 tonnes of silicon. The plant consists of three modern smelting furnaces, with a total capacity of 115 MW. The plant employed 188 employees as of 31 December 2017.

Yongdeng Silicon Materials, China

The Yongdeng Silicon Materials production facility is located in Lanzhou, Yongdeng Silicon Materials County in China. The main products produced by Yongdeng Silicon Materials is the Si99 and the plant has a production capacity of

[136] Elkem IPO Support (CRU, January 2017).

approximately 55,000 tonness of silicon and 25,000 tonnes of Elkem Microsilica®. The plant consists of four operational smelting furnaces. The plant employed 522 employees as of 31 December 2017.

Elkem Rana, Norway

The Elkem Rana plant is located in Mo i Rana, Norway. Elkem Rana is currently producing ferrosilicon and Microsilica at its two large furnaces, and special ferrosilicon products, including granulated, high purity and refined qualities, make up a large share of the production. The plant is located in Mo Industrial Park, Mo i Rana and is connected to infrastructure that is shared with other companies at the industrial park. The plant has a production capacity of approximately 80,000 tonnes of ferrosilicon and employed 103 employees as of 31 December 2017.

Elkem Bremanger, Norway

The Elkem Bremanger plant is located in Svelgen, in the Sogn og Fjordane region on the west coast of Norway. The plant mainly produces Silgrain® and Elkem Microsilica® and has an annual production capacity of approximately 40,000 tonnes of Silgrain®. The plant consists of one modern smelting furnace with a capacity of 40 MW and a chemical facility for the purification of silicon into Silgrain®. The plant employed 101 employees as of 31 December 2017. The plant is located together with the Foundry Products division's plant in Bremanger.

Elkem Thamshavn, Norway

The Elkem Tamshavn plant is located in Orkanger, about 40 km southwest of Trondheim in Norway. The key products produced are Si99 and Elkem Microsilica®. The annual production capacity is approximately 45,000 tonnes of silicon. The plant consists of two modern smelting furnaces with a total capacity of 68 MW, one of which is the world's largest silicon furnace[137]. The plant employed approximately 155 employees as of 31 December 2017.

9.5.3.5 Other processing facilities

In addition to its 5 production facilities, the Silicon Materials division has units processing its Elkem Microsilica® products in the Netherlands and China as well as one unit in Germany which micronises and processes silicon.

The Silicon Materials division is also involved in one joint venture, Elkania DA (50/50 joint venture held by Elkem AS and Titania AS), which supplies powder materials to the Oilfield business. Elkania DA has established a micronisation plant on the west coast of Norway. In addition, Elkem has a 51% ownership in Elkem Oilfield Chemicals FZCO Oilfield, which also supplies powder materials to the Oilfield business. Chemicals FZCO is located in the United Arab Emirates.

The Silicon Materials division also operates quartz mines in Norway and Spain. See Section 9.10 "Sourcing of raw materials" for more information.

9.5.3.6 Markets and competition

The Silicon Materials division's main markets are Europe, Asia and the Americas. The silicon industry is characterised as a capital intensive business with high entry barriers. It requires stable, long term supply of electricity, access to a skilled workforce and availability of high quality carbon materials and quartz.

With a total annual production capacity outside China of 150,000 tonnes of silicon, the Silicon Materials division is considered by CRU[138] to be the second largest merchant producer of silicon outside China based on volumes. With annual sales volumes of approximately 300,000 tonnes of Elkem Microsilica® and related products, Elkem believes that it is a world leading supplier of silicon and microsilica.

While the Silicon Materials division competes locally against many smaller regional competitors, FerroGlobe and Dow Corning are strong global competitors to the Silicon Materials division.

9.5.4 Foundry Products

9.5.4.1 Introduction

The Foundry Products division supplies metal treatments solutions and is a supplier of high quality special ferrosilicones products through the production of speciality foundry alloys and ferrosilicon for the iron foundry and steel industries. The division has a total production capacity of approximately 303,000 tonnes per year, based on its

[137] Company information.

[138] Elkem IPO Support (CRU, January 2017).

current product mix (inoculants, nodularisers and specialty and standard ferrosilicon).[139] The Foundry Products division generated 20% of Elkem's total combined operating income in the year ended 31 December 2017.[140]

Elkem's Foundry Products division operates two plants in Norway and one plant in each of Canada, Iceland, China, India and Paraguay (which is currently under construction). The Foundry Products division specialises in making tailor-made products adapted to each customer's needs. The technical sales team will visit the customers' plants and recommend complete solutions to the customers, such as process changes or the use of different products in different part of the processes, helping the customer to resolve production problems or to reduce operating costs.

The Foundry Products division's external operating income by geography for the year ended 31 December 2017 is as follows: Europe (49%), Asia (25%), America (25%), Africa (0.4%) and the rest of the world (0.6%).

The Foundry Products division's input factors as percentage of recipe costs (energy and raw materials) are as follows[141]: Coal/biocarbon (approximately 35%), energy (approximately 35%), alloying elements (15 - 20%), quartz (approximately 10%) and electrodes (approximately 5%).

9.5.4.2 Products

All significant products in the Foundry Products segment come from the same production process, meaning that the basis for both ferrosilicon and foundry alloys comes from the reduction of quartz in an electric arc furnace. The differentiating factors are the post-treatment process of the various products consisting of refining or alloying, or a combination of both.

The key products of the Foundry Products division are foundry alloys for the foundry iron industry and speciality ferrosilicon for the steel industry.

Foundry alloys

Foundry alloys are speciality alloys based on ferrosilicon with a specific addition of other active elements. The main foundry alloys that the Foundry Products division produces are nodularisers (ferrosilicon magnesium) and inoculants.

Nodularisers are a family of magnesium-containing ferrosilicon alloys, which are used in the production of ductile iron and compacted graphite iron. Nodularisers are added to foundry iron during the manufacturing process and change the characteristics of the iron to ensure it has the desired properties, particularly ductility and strength. Low magnesium content alloys and alloys designed to counter shrinkage have become major areas of development and application in recent years, because they result in cost savings, increased productivity and decrease the environmental impacts of production for Elkem's customers.

Inoculants are ferrosilicon based alloys which contain carefully balanced amounts of active elements designed to control the properties of foundry iron. Inoculants ensure that the iron solidifies in the optimal manner to obtain the desired structure and properties. Elkem's high quality inoculants are especially designed to serve most requirements in grey, compacted and ductile iron production, as well as control the structure and eliminate harmful and brittle iron carbides. Inoculants can have specific functions, such as shrinkage and gas reduction.

Ferrosilicon

Ferrosilicon is an alloy of iron and silicon, and an important raw material for the steel industry. Ferrosilicon is produced in a furnace similar to a silicon furnace, but with iron containing raw materials as part of the charge mix added in the smelting furnace. The Foundry Products division's portfolio contains all grades of ferrosilicon; high purity, low aluminium, low carbon and standard grade ferrosilicon. Ferrosilicon is used to remove oxygen from the steel and as alloying element to improve the final quality of the steel. It also increases the strength and wear resistance, elasticity (spring steels), scale resistance (heat resistant steels), and lowers electrical conductivity and magnetostriction (electrical steels).

9.5.4.3 Applications and customers

The Foundry Products division has strong customer relationships and specialises in tailor-made product packages to suit individual customer requirements. A globally based technical service team and a commitment to research and

[139] The capacity will depend on the current product mix as certain products produced by the Foundry Products division may need twice the capacity of others. The mix can vary quite extensively from year to year.
[140] The percentage of total operating income also takes into account the "other" segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 "Operating divisions and reporting segments".
[141] Based on cost of goods sold in 2017 for Elkem's plants in Bjølvefossen, Bremanger and Iceland.

development complement Elkem's high quality products offering and ensures that Elkem can supply innovative solutions to customers. The automotive, engineering and pipe industries are important end customer categories within the Foundry Products division.

Elkem's flexible manufacturing techniques enable Elkem to have magnesium ferrosilicon based nodularisers to suit specific foundry conditions, while its extensive inoculant range meets customers' needs in terms of chill and shrinkage control, microstructure and mechanical properties. Combined with a range of preconditioners, ferrosilicon and recarburisers that can be added to the furnace during smelting to ensure specific properties, Elkem can supply a package of products fitted specifically for the customers' purpose.

The Foundry Products division mainly sells its ferrosilicon to customers within the steel industry. Some contracts are entered into on a long-term basis with the price being linked to the monthly CRU price, and other contracts are entered into on a quarterly basis with fixed prices. For the foundry alloys products, Elkem usually enters into six to twelve months contracts with its customers and the prices are fixed . As with silicon, when ferrosilicon is produced the by-product microsilica is made. The Microsilica from the Foundry Products division is sold by the Elkem Microsilica® product team in the Silicon Materials division.

The top ten customers by sales revenues of the Foundry Products division accounted for 5% of Elkem's total combined operating income and 28% of the total combined operating income of the Foundry Products division for the year ended 31 December 2017.

9.5.4.4 Production facilities

The table below sets out certain key information about the Foundry Products division's production facilities:

Plant	Country	Owned / leased	M^2	Production capacity[1]
Elkem Bremanger	Norway	Owned	200,000	30,000 tonnes
Elkem Nagpur	India	Owned	13,350	12,000 tonnes
Elkem Bjølvefossen	Norway	Owned	180,000	65,000 tonnes
Elkem Iceland	Iceland	Leased	120,000	110,000 tonnes
Elkem Shizuishan	China	Leased	128,000	30,000 tonnes
Elkem Chicoutimi	Canada	Owned	173,000	45,000 tonnes
Elkem Paraguay	Paraguay	Owned	80,000	11,000 tonnes

1 The table presented above is only for illustrative purposes. For capacity utilisation, it is difficult to provide an accurate number due to the product mix produced at Elkem's plants. The capacity at most of Elkem's plants depends on the product mix which varies extensively from year to year. For an overview of the production volumes produced at Elkem's plants, please refer to Section 12.3.2 "Sales volumes" in connection with the production capacity provided for each plant.

Elkem Bremanger, Norway
The plant is located in Svelgen, in the Sogn og Fjordane region on the west coast of Norway. The plant produces foundry alloys, specialising in inoculants, ferrosilicon and Elkem Microsilica®. The annual total production capacity of foundry alloys and ferrosilicon is approximately 30,000 tonnes. The plant consists of two modern smelting furnaces, with a total capacity of approximately 36 MW. The plant employed approximately 94 employees as of 31 December 2017. The plant is located together with the Silicon Materials division's plant in Bremanger.

Elkem Nagpur, India
The Elkem Nagpur plant was acquired in 2016 from Minex and is located in MIDC Hingna, India. The plant produces high quality noduralisers and inoculants. The plant has two induction furnaces with a total annual production capacity of approximately 12,000 tonnes. The plant employed approximately 84 employees as of 31 December 2017.

Elkem Bjølvefossen, Norway
The Elkem Bjøvefossen plant is located in Ålvik in the western part of Norway, 115 km east of Bergen. The key products produced at the plant are foundry alloys, specialising in nodularisers (ferrosilicon magnesium), ferrosilicon and Elkem Microsilica®. The annual total production capacity is approximately 65,000 tonnes. The plant consists of two modern smelting furnaces with a total capacity of 43 MW as well as two smelting furnaces and one induction furnace which currently are idle. The plant employed 155 employees as of 31 December 2017.

Elkem Iceland
The Elkem Iceland plant is located in Grundartangi, north of Reykjavik. The plant produces ferrosilicon, primarily speciality products, and Elkem Microsilica®. The plant has an annual production capacity of approximately 110,000

tonnes of ferrosilicon. The plant consists of three furnaces with a total capacity of 114 MW. The plant employed 160 employees as of 31 December 2017.

Elkem Shizuishan, China

The Elkem Shizuishan plant is located in Shizuishan city in the Ningxia Hui Autonomous Region, in the northwest of China. The key products produced at the plant are foundry alloys. The plant has an annual production capacity of 30,000 tonnes. The plant consists of two induction furnaces. The plant employed 72 employees as of 31 December 2017. The plant is new and just started in December 2017.

Elkem Chicoutimi, Canada

The Elkem Chicoutimi plant is located in the city of Saguenay in Quebec, Canada. The plant produces foundry alloys, ferrosilicon and Elkem Microsilica®. The plant has an annual total production capacity of approximately 45,000 tonnes. The plant consists of one furnace with a total capacity of 35 MW and one hydro power station with a total capacity of 38 MW. The plant employed 89 employees as of 31 December 2017.

Elkem Paraguay (under construction)

The Elkem Paraguay plant, which currently is under construction, is located near Asuncion in Paraguay. The plant will produce ferrosilicon and foundry alloys (nodularisers and inoculants) and the expected maximum annual production capacity is approximately 15,000 tonnes. The plant will consist of one furnace with a total capacity of 11.5 MW. The plant is expected to employ 61 employees when it is opened in March 2018.

9.5.4.5 Markets and competition

Elkem Foundry Products division is the world’s leading producers of foundry alloys to the foundry iron industry. Other key market participants are Ferroglobe, Osaka Steel Co. Ltd., Toyo Metallurgicals Limited and Snam. The Foundry Products Division also competes against smaller regional market participants.

9.5.5 Carbon

9.5.5.1 Introduction

The Carbon division is a supplier of Søderberg electrode paste, lining materials and speciality carbon products such as pre-baked electrodes and other carbon based products for metallurgical processes, primary aluminium and base metals, all of which Elkem defines as a group of similar products. The Carbon division is a global leading supplier of Søderberg electrode paste. It has an annual production capacity of approximately 260,000 tonnes of Søderberg electrode paste and approximately 105,000 tonnes of other carbon products.[142] The Carbon division generated 7% of Elkem’s combined total operating income in the year ended 31 December 2017.[143]

The carbon products produced by the Carbon division are used in various metallurgical smelting processes, including in Elkem’s own production of silicon and ferrosilicon based alloys. As of 31 December 2017, 13.6% of the sales of Elkem Carbon were within the Group. The Carbon division has in total six production plants and serves the market from its production facilities in Norway, South Africa, Brazil, Malaysia and China, complemented by a global sales network.

The Carbon division’s external operating income by geography for the year ended 31 December 2017 is as follows: Americas (43%), Europe (19%), Asia (27%), Africa (9%) and the rest of the world (3%).

The Carbon division’s input factors as percentage of recipe costs (energy and raw materials) are as follows: Anthracite/coke (50 - 55%), coal tar (30 - 35%) and energy (10 - 20%)[144]

9.5.5.2 Products

The Carbon division produces a number of carbon products, with the key product being Søderberg electrode paste as well as a variety of other carbon based products for use in smelting processes world-wide. All main products stem from an electrical Calcining process and are used in Elkem’s customers furnaces or smelters.

The Carbon division also produces high quality carbon additives such as ELGRAPH® recarburisers which are used by the foundry iron industry. Additionally, the Carbon division produces ELSEAL® ramming paste and a range of coal tar pitches and oils in addition to other specialities as ELTAP™ and carbon electrodes.

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[142] The capacity will ultimately depend on the current product mix which can be adjusted based on market demand.

[143] The percentage of total operating income also takes into account the “other” segment and eliminations, and does accordingly not sum to 100%. See Section 12.2 “Operating divisions and reporting segments”.

[144] Based on cost of goods sold for all of the Carbon division's plants.

9.5.5.3 Applications and customers

The products produced by the Carbon division are mainly used in metallurgical processes for the production of ferroalloys, base metals and primary aluminium. 94% of the division's revenues are from sales to steel, stainless steel, silicon, and aluminium producers.

Søderberg electrode paste is used in submerged arc furnaces to ensure that the raw material reaches the required process temperatures and is used by producers of silicon, ferrosilicon, ferrochromium, ferronickel, ferromanganese, silicomanganese, calcium carbide, copper and platinum matte. The ELTAP™ products contribute to controlled tapping of metal and closure of tapholes, increased lifetime of various materials due to high oxidation resistance and generally improved taphole operations. The ELTAP™ products have proven performance as linings for furnaces producing silicon, ferrosilicon and silicomanganese, and as repair pastes to furnaces producing ferrochrome and ferromanganese. Coal tar pitch is used as a binder in various carbon based products, including ramming paste and Søderberg electrode paste. The cathode ramming paste product range (ELSEAL®) are used in the aluminium industry and contribute to extended pot life and stable operation. Recarburisers (ELGRAPH®) are a carbon raiser used in production of steel and foundry products. Elgraph ® is added to the furnace during smelting, with the purpose of raising the carbon content in the metal to a certain level, required in casted iron.

Elkem Carbon has more than 315 customers worldwide and has long-term relationships with its main customers. Contracts are typically for short terms, but are usually renewed every six to twelve months. Prices are generally negotiated, without reference to index.

The top ten customers by sales revenues of the Carbon division accounted for 2% of Elkem's total combined operating income and 34% of the total combined operating income of the Carbon division for the year ended 31 December 2017.

9.5.5.4 Production facilities

The table below sets out certain key information about the Carbon division's production facilities:

Plant	**Country**	**Owned/leased**	**M²**	**Production capacity[1]**
Elkem Fiskaa	Norway	Owned	23,000	110,000 tonnes
Elkem Shizuishan Carbon	China	Leased	180,000	65,000 tonnes
Elkem Ferroveld	Sourth Africa	Leased	20,000	60,000 tonnes
Elkem Carboindustrial	Brazil	Owned	114,000	70,000 tonnes
Elkem Carboderivados	Brazil	Owned	194,000	60,000 tonnes
Elkem Sarawak	Malaysia	Leased	80,000	28,500 tonnes

1 The table presented above is only for illustrative purposes. For capacity utilisation, it is difficult to provide an accurate number due to the product mix produced at Elkem's plants. The capacity at most of Elkem's plants depends on the product mix which varies extensively from year to year. For an overview of the production volumes produced at Elkem's plants, please refer to Section 12.3.2 "Sales volumes" in connection with the production capacity provided for each plant.

Elkem Fiskaa, Norway

The Elkem Fiskaa plant is located together with Elkem's main research centre at Fiskaa in Kristiansand, Norway. The plant produces Søderberg electrode paste, ELSEAL® ramming paste, furnace lining materials (tamping paste), tap hole repair materials and ELGRAPH® recarburisers. The total annual production capacity is approximately 126,000 tonnes. The plant employed 81 employees as of 31 December 2017.

Elkem Shizuishan Carbon, China

The Elkem Shizuishan Carbon plant is located in Shizuishan city in the Ningxia Hui Autonomous Region, in the northwest of China. It produces Søderberg electrode paste, furnace lining materials (tamping paste), tap hole repair materials and ELSEAL™ ramming paste. The annual production capacity is approximately 70,000 tonnes of Søderberg electrode paste and other carbon products. The plant employed 109 employees as of 31 December 2017. The plant is located together with the Foundry Products division's plant in Shizuishan.

Elkem Ferroveld JV, South Africa

The Elkem Ferroveld JV plant, which is a joint venture between Elkem Carbon AS and Samancor Chrome, is located in the town of eMalahleni, in the Mpumalanga province of South Africa. It produces Søderberg electrode paste and has a total annual production capacity of approximately 60,000 tonnes, of which 50%, 29,000 tonnes, is Elkem's share. The plant employed 64 employees, of which 32 are accounted in Elkem, as of 31 December 2017.

Elkem Carboindustrial, Brazil

The Elkem Carboindustrial plant is located in the state of Espirito Santo, Brazil. The plant produces pre-baked carbon electrodes, Søderberg electrode paste and ramming/tamping paste. The annual production capacity of the plant is approximately 60,000 tonnes of Søderberg electrode paste and 10,000 tonnes of other carbon products. The plant employed 104 employees as of 31 December 2017.

Elkem Carboderivados, Brazil

The Elkem Carboderivados plant is located in the same area as Elkem Carboindustrial in the state of Espirito Santo, Brazil. The plant is the Carbon division's coal tar distillation facility for the production and processing of pitches, oils and blends. It has an annual total production capacity of approximately 60,000 tonnes of distilled coal tar products. The plant employed 53 employees as of 31 December 2017.

Elkem Sarawak, Malaysia

The Elkem Sarawak plant is located in Sarawak, Malaysia. The plant manufactures Søderberg electrode paste. The plant has an annual total production capacity of 28,500 tonnes. The plant is a mixing plant that receives electro-calcined anthracite from the other Elkem Carbon plants and mix this with coal tar pitch in order to produce Söderberg electrode paste. The plant employed 22 employees as of 31 December 2017.

9.5.5.5 Markets and competition

Elkem Carbon believes that it is a global leading supplier of electrode paste with over 43% of the market share in the global market in 2017 (excluding China).[145] The fact that the Group uses its own products in the smelting processes conducted by the Silicon Materials and the Foundry Products divisions ensures a high level of competence within the Carbon division, benefitting its external customers.

9.6 Energy

9.6.1 Sourcing of energy/power

Elkem's business is highly power intensive with an annual consumption of approximately 6 to 8 TWh, depending on the production (5.3 TWh in 2016 exclusive Xinghuo Silicones and Yongdeng Silicon Materials). Access to power supply is together with raw materials the most important input factor for Elkem's manufacturing process. Especially the smelting furnaces in the Silicon Materials and the Foundry Products divisions are power consuming and central to their production processes.

The smelting furnaces operated by the Silicon Materials division are located in Norway and China, while the smelting furnaces of the Foundry Products division are located in Norway, Iceland, Canada, China and Paraguay. The Group purchases power contracts in order to minimise future exposure to changes in power prices, a portfolio which consists mostly of physical energy contracts. Most of Elkem's production plants are located in countries with close to 100% renewable power production, including Norway, Iceland and Paraguay.

The Norwegian power market is liquid and has transparent market prices, with power contracts being traded on the power exchange, via brokers or bilaterally. The market is well developed and attractive with many market participants on the market, but only a few power producers are large enough to provide the volumes required for power intensive industries such as Elkem's. For this reason, Elkem spreads its power purchases for its plants in Norway over several separate contracts with not only big market participants, but also medium-sized power producers.

Elkem's policy for its Norwegian plants is to hedge at least 80% of its expected power consumption of about 3,8 TWh/year for current and next year. This hedging ratio is reduced by 10 percentage points in each of the following three years to 50% of Elkem's expected power consumption in its Norwegian plants for the fourth full year. This hedging profile is rolled over each year and provides the Group with a good balance between reduced risk of power price fluctuations, as well as exposing the company to some degree of the same movements as its main competitors. All electricity contracts are take-or-pay contracts, but in Norway any excess contracted power may be sold on the power exchange within certain limits pertaining to the duration of such sales. A portion of the electricity contracts obligate Elkem to minimum consumption.

Due to the interconnected nature of Europe's power system, power is exchanged between Norway's mostly non-emitting power system and other countries with gas- or coal-fired power plants. Gas and coal based producers have to purchase CO_2 quotas for their emissions, adding a CO_2-element to their cost base. This CO_2 element is, via the

[145] Company estimate based on global figures, excluding China. The Estimate is based on the total size of the market, knowledge of own production, and estimates of the production of other market participants.

international exchange of power, imported into Norway as well. The extra cost of this CO_2 element in the price of power is a competitive disadvantage for power intensive industries in Europe. Thus, Norway and a few other European countries compensate companies in those industries for a portion of this disadvantage via a CO_2 compensation scheme. This scheme depends on funding via the national budget each year. The current scheme expires in 2020, but it is expected that it will be replaced by a similar scheme extending to 2030, The regulatory framework for the extended period is currently under development in EU and is later expected to be implemented in Norway.

Landsvirkjun, which is Iceland's dominant power generator, is the supplier for the approximately 1 TWh/year that the Elkem Iceland plant consumes. Elkem has secured a long term power contract with Landsvirkjun with a fixed price until 2019, adjusted annually with changes in Norwegian consumer price index and energy price index[146], after which the contract continues until 2029 with a new re-negotiated price. Power production in Iceland is generated entirely by hydroelectric or geothermal power and does not cause any direct emissions of CO_2. Power to Elkem Iceland is specified to originate from one dedicated hydroelectric power station.

In Canada, Hydro-Québec is the sole supplier of electricity in the province of Québec and is 100% owned by the government. Elkem Chicoutimi's electricity contract is renewed every year with a price based on a regulated tariff grid for large consumers (rate L). Elkem Chicoutimi has its own hydro power plant that generates 38 MW, covering approximately 75% of the plant's requirements. Power production in Quebec is generated mostly by hydroelectric power and does thus cause very little emissions of CO_2.

Elkem has also secured a long term electricity supply contract for its plant in Paraguay which currently is under construction. For the Group's production facilities in China, power is primarily sourced based on bilateral one year contracts with local energy producers.

9.6.2 Energy recovery

A key driver for Elkem's low production costs is the Group's ability to exploit advanced energy recovery systems. Elkem has over several years worked on the implementation of energy management systems throughout the value chain in order to identify potential energy efficiency gains and energy recovery to ensure sustainable and responsible utilisation of energy. Energy recovery systems are in operation at several of Elkem's plants in each of the Silicon Materials, Foundry products and Carbon divisions. In addition to reducing costs, Elkem considers energy efficiency and energy recovery to be an important strategic initiative and a long-term competitive advantage. Sustainability and energy efficiency is increasingly important for the industry and is being emphasised by Elkem's customers and by governments in the jurisdictions which Elkem operates, particularly in Europe.

Two methods are used for energy recovery from the smelting process. The first method is based on using surplus heat directly in the form of steam or hot water. Using steam and hot water is very efficient, but since most of Elkem's plants are, with certain exceptions, located in sparsely populated areas there is little demand for heat from local communities or other industrial facilities. Existing possibilities have been realised at some of Elkem's plants where heat is used by the local community, adjacent industrial facilities (Elkem Chicoutimi in Canada and Elkem Salten in Norway) and internally for own production (Elkem Fiskaa in Norway). The second method for energy recovery is based on using surplus heat to produce electricity. This is less efficient in terms of recovery rate, but the advantage is that the electricity can be fed directly into the power grid. Both methods are currently in use in Elkem.

In May 2017, Elkem initiated a significant energy recovering project at its Silicon Materials plant Elkem Salten (the "**Salten Energy Recovery Project**" or "**SERP**"). The Salten Energy Recovery Project will allow Elkem Salten to utilise excess heat from the smelting furnace off-gas to produce approximately 275 GWh electricity per annum, which amounts to approximately 28% of the energy consumption at the plant. The technology applied is conventional and the selected solutions are based on Elkem's experience from Elkem Bjølvefossen, Elkem Thamshavn and Elkem Chicoutimi. Elkem's contributing factors to SERP will be project management, engineering, procurement and construction management services during the construction phase. Elkem will also provide the operational, maintenance and management of SERP during operation which is expected to commence in 2020.

Management expects that the Salten Energy Recovery Project will require a total investment of up to NOK 1,000 million. The Salten Energy Recovery Project has received a grant from ENOVA of approximately 35% of the total investment amount up to NOK 350 million provided that certain conditions are met. Approximately 50% of the total investment amount will be debt financed.

[146] *Nw.: prisindeks for førstegangsomsetning innenlands.*

Elkem has not made a final investment decision to proceed with the Salten Energy Recovery Project and the investment amount is therefore not committed.

In 2017, Elkem recovered in total approximately 644 GWh of energy from its energy recovering operations of which 275 GWh was electricity. With a total annual consumption of 5 to 6 TWh of electrical energy, the Group accordingly recovered approximately 11 to 13% of the energy it consumed in 2017.

9.7 Research and development

9.7.1 Introduction

The history of Elkem is characterised by an emphasis on long-term research and development work ("**R&D**"). Today, Elkem operates thirteen R&D facilities with more than 400 employees and R&D is an integrated part of Elkem's operations through all operating divisions. Elkem's R&D facilities and researchers also cooperate with notable research institutions around the world to develop more efficient, sustainable and advanced manufacturing processes and products. In general, Elkem's R&D is focused on:

(i) Market driven R&D by generate innovative speciality products.

(ii) Operational excellence and sustainable specialisation through environmentally friendly and energy efficient production technologies, reduction of energy consumption and optimisation of the raw material base.

Aligned with the strategy to develop the specialisation within Elkem, more innovative products are developed, linked directly to the megatrends which sustain Elkem's growth such as improved living standards, increased energy demands, ageing population and climate change. Elkem's ambition is to constantly source innovative opportunities inside and outside Elkem's operations to develop and commercialise new technologies. Elkem believes that leading R&D capabilities will enable Elkem to achieve further specialisation within increased value-added segments and driving its product mix towards high value-add specialties.

The significant growth in Elkem's Silicones division in recent years is a result of realised projects from R&D activities. The Silicones division has focused both on upstream and downstream R&D, including general technology improvements, formulations, chemical processes and other process developments. The Silicones division has research centres worldwide, with the Lyon Research & Innovation Centre as the main hub as further described below (the "**Lyon R&D Centre**"). Further, R&D has played and will continue to play an important role in the integration of Xinghuo Silicones. One of the initiatives Elkem plans in order to achieve significant growth and increased exports from Xinghuo Silicones has been a process based improvement on technology and R&D sharing between ESi and Xinghuo Silicones. As a result of this, Xinghuo Silicones has obtained critical know-how needed in order to develop and launch new products for Asia-Pac markets.

Elkem's other divisions have also made significant R&D progress in recent years. Within the Silicon Materials division, there has been particular focus on Elkem Microsilica® development projects. Within the Foundry Products division, special attention has focused on the improvements of inoculants for the cast iron market. Lastly, examples within the Carbon division include research on high density graphite materials (cathodes and electrodes) as well as development of green binders for ramming paste and electrode production.

Some of Elkem's most significant R&D projects for the Silicones division in recent years include:

- **Value chain optimization: From Quartz to Silox**. The end goal of this cross-divisional project between the Silicones and Silicon Materials division is to optimize Elkem's value chain and to improve its competitiveness. The project is ongoing, but it has already identified and implemented several improvements of the total value chain.
- **Sustainability**. This involves the development of non-hazardous binders for electrodes, which includes launch of a new ramming paste.
- **Electrical vehicles (climate change and energy demand driven)**. Elkem has launched a silicones foam for batteries in electrical vehicles, electrical steel and silicon and graphite for batteries (currently in progress).
- **Health care**. Elkem has launched a product named Soft Skin Adhesive for health care applications. The Soft Skin Adhesive is a self-bonding adhesive for wound dressings, which handles the typical challenge being sufficient breathable, biocompatible and flexible.

- **Packaging and labelling (improved living standards)**. Elkem has developed products with a new range of UV curable silicones acrylates for release coating applications. The product is based on a reactive adhesion-promoting component which again is based on multifunctional acrylate monomer technology. Along with its adhesion promoting properties, it combines excellent blend-compatibility with UV/EB curable release coatings based on acrylate-silicones with an enhancement of overall UV/EB cure response.

Recent new products by Elkem which has resulted from the Group's R&D projects include seals for aeronautics, adhesives for electronics UV system for high performance coatings, antifoam for chemicals, textile coatings for airbags and pressed preconditioner. Elkem’s researchers have also engineered Elkem’s energy recovery systems (see Section 9.6.2 “Energy recovery” for further information) and created several cost effective processes for the production of foundry alloys.

9.7.2 R&D partnerships – open innovation and collaborative projects

Identifying potential partners and developing relationships with customers, suppliers, research institutions, government authorities and financial markets is an integral part of Elkem’s innovation strategy. By working alongside partners with complementary skills, Elkem has enhanced the development of new markets, products, processes and services. Many of Elkem’s most successful research-based innovations come from collaborative research programmes and projects. The open innovation approach to R&D is made possible by multiple collaborative projects supported by the European, Norwegian, Chinese and French governments and through industry clusters such as Eyde in Norway and Axelera and Techtera in France.

During 2017 Elkem was recognized as a partner in six new strategic collaborative projects devoted to new products, operational excellence and sustainability:

- Silicones new product development: FASSIL (Fabrication Additive pour la Santé – Nouveaux matériaux SILicones), a 3D printing for healthcare and new silicones materials, a collaborative project funded by the French government. The project aims to create/develop new silicones materials for 3D printing, new applications mainly for health care and platform to share competences and speed up the development of new applications and products.
- Foundry Products new product development: Agile CasT Iron Foundries, a collaborative project funded by the Norwegian government. The aim of the project is to help the consortium foundries to improve their competitiveness and to reach new markets for high performance products by customizing cast iron alloys.
- Carbon new product development: WOCA (Wood Based Carbon Electrodes), a collaborative project funded by the Norwegian government. The project aims to replace carbon from fossil sources with bio based raw materials in the production of furnace electrodes.
- Nano based silicon alloy product development which is two projects funded by the Norwegian government: thermo Electric Silicides and Silicon based intermetallics for Additive Manufacturing.
- Silicon 2020: PyrOpt, pyrolysis of wood optimized for production of energy and tailor-made biochar for silicon production, a collaborative project funded by the Norwegian government. The project aims to develop new bio based raw materials and replace carbon from fossil sources as a reduction agent in silicon alloy production.
- Carbon Neutral Metal Production: SiNoCO2, silicon production with no CO2 emissions, a collaborative project funded by the Norwegian government. The project aims to develop the next generation reactor for silicon alloy production with minimum environmental emissions and prepared for carbon capture.

In competition with 38 other strong Norwegian industrial environments, Elkem was chosen to be one of the first test centers to be financed by the Norwegian government’s Catapult scheme in 2017. Elkem is currently establishing a new national test center for companies and start-ups focusing on advanced materials. Future Materials, which is the name of the national test center, will be a place where entrepreneurs and small and medium-sized businesses, often in the start-up phase, will have the opportunity to test research results and prepare pilots on a larger scale. The center will give businesses easy access to expertise, equipment and premises. In addition, the center will be a meeting place that facilitates smaller companies' collaboration with major players on the industrialization of new technology. As a result of the above initiatives, Elkem takes part in the reinforcement of cooperative networks of universities, research institutes and industry partners that operate with support from the Norwegian Research Council and the French Ministry of Research.

9.7.3 Elkem Technology

Elkem Technology conducts R&D projects related to all parts of Elkem's value chain and provides support to the R&D teams in each of the operating divisions. The R&D is based on close collaboration between the operational organisation and the researchers. Elkem's main R&D centre is located in Kristiansand and is owned and operated by Elkem Technology (the "**Elkem R&D Centre**"). The Elkem R&D Centre was established in 1939, and projects and experiments carried out at the Elkem R&D Centre have been decisive for Elkem's development and progress. Break-through innovations include the development of the Søderberg electrode technology, electric arc furnace development for ferroalloy production, electrical calcining technology, microsilica, post taphole treatment of silicon alloys and Elkem Solar Silicon® (ESS®).

The Elkem Technology Centre, to support the Elkem divisions, has also established the "**Si 2020 R&D program**", a strategic roadmap to develop a technology program focusing on long-term improvement (up to the year 2020) of Elkem's ferrosilicon and silicon production processes towards more stable, predictable operations with maximum overall silicon yield, more energy efficient operations and lower environmental emissions. The Elkem R&D Centre is located together with Elkem Silicon Material's Elkem Microsilica® development team and Elkem's carbon plant at Fiskaa, Kristiansand in Norway. Elkem R&D Centre has approximately 70 dedicated staff members that have interdisciplinary expertise and a core competence in metallurgical high temperature processes. Customers and collaborating partners are offered more than 10,000 square meters in the research centre with advanced pilot testing facilities, laboratories and workshops as part of their product development contracts.

Elkem Technology's core competence in metallurgical high temperature processes covers the whole value chain from raw materials to finished products. Its R&D services include:

- Process development and verification;
- Waste to resources;
- Raw materials testing and qualification;
- Equipment testing and verification;
- Hydro-metallurgical treatment and processes;
- Product testing; and
- Material processing.

The Elkem R&D Centre's pyrometallurgical equipment reserve consists of arc furnaces and induction furnaces scaled in size from 16 kW to 1 MW. The system is therefore very well-suited for industrial test runs, from small-scale to full-scale piloting. This means that any concept can be tested and developed using small scale furnaces, and if successful, be scaled up using larger furnaces to identify any possible scale-up differences and challenges.

Elkem Technology also has equipment for raw material handling such as crushing, screening, agglomeration, drying, separating, pre-heating and pre-reduction. Beyond existing equipment, the generous floor area, ability and knowledge allow Elkem to tailor new equipment and develop associated procedures, both independently and in collaboration with customers. The facilities also include available office space and meeting rooms equipped with modern technical equipment and means of communication. The research centre also includes a design group, mechanical, electrical, instrumentation and graphite workshops, as well as fully-equipped laboratories for chemical analysis and material characterization. In addition, Elkem Technology has engineering and project management departments that work on engineering and construction of furnaces and technical installations, operational support and technical audits.

9.7.4 R&D in the various divisions of the Group

9.7.4.1 Introduction

In addition to Elkem Technology, which covers and provides assistance to all the operating divisions of Elkem, the different operating divisions are also engaged in division specific R&D activities.

9.7.4.2 Silicones

R&D is one of the main pillars for the development of new innovative products and the development of speciality products within the Silicones division of Elkem, giving its partners and customers a competitive advantage in a wide range of technologies and applications. The Silicones division has established a competence centre in Lyon, the Lyon R&D Centre, with more than 135 researchers, as well as 9 other R&D & Technical centres worldwide that are a part of the division's global R&D network employing 300 employees together, including researchers working at the Xinghuo

Silicones National Technical Center and at the Beijing R&D center. The main purpose of the Silicones R&D network is to build a top-tier platform of expertise that connects the Silicones division and the broader scientific community. The Silicones R&D department's key focuses include supporting and developing the Silicones division's strategy, sharing knowledge with customers, meeting unmet needs by developing new product prototypes and developing sustainable products and processes in compliance with applicable regulations. The projects of the Silicones division focus both on upstream and downstream R&D, including general technology improvements, formulations, chemical processes and other process developments. R&D costs for the Silicones division as a percentage of total revenues on a combined basis was 1.5% for the year ended 31 December 2017.

9.7.4.3 Silicon Materials

The Silicon Materials division has two product development centres located in Kristiansand (for Elkem Microsilica®) and Trondheim (for Silicon). These centres employing highly skilled engineers are essential to the division's product and market development activities. Elkem's centre in Kristiansand employs 15 researchers and the centre in Trondheim employs 6 researchers. From these facilities, Elkem can simulate the customer's production process in order to customize products and to develop new applications for its specialty products. Through a close technical dialogue with many of its customers Elkem Silicon Materials also offers to do certain tests upon request. The product development centre provides Elkem Silicon Materials with a unique basis for customizing products and developing new applications for its speciality products. R&D costs for the Silicon Materials division as a percentage of total revenues on a combined basis was 0.10% for the year ended 31 December 2017.

9.7.4.4 Foundry Products

To meet customer demands for increasingly customised product specifications, the Foundry Products division has a dedicated R&D team based in the Elkem R&D Centre in Kristiansand, which consist of 7 researchers. At the centre, the R&D team tests new products and processes with liquid iron, supplemented by full examination in the extensive metallographic and chemical laboratories on-site. Using these state-of-the-art facilities, Elkem can also provide an evaluation of specific casting problems for its key customers. The Foundry Products division also participates in joint R&D projects with its customers and their customers in order to improve knowledge on foundry iron properties and determine the best way to apply foundry iron in end products. Special attention has been drawn to the improvements of inoculants for the cast iron market. The division also has ongoing R&D programs with universities worldwide. R&D costs for the Foundry Products division as a percentage of total revenues on a combined basis was 0.05% for the year ended 31 December 2017.

9.7.4.5 Carbon

The Carbon division is present at the Elkem R&D Centre with specialists in physical and chemical analysis of carbon material. The Carbon division employs 9 researchers. Pitch is a key raw material used in the production of various carbon pastes. Long distance transportation of pitch is expensive and causes emissions and pitch is a non-environmentally friendly fossil source. Transportation, production and/or consumption involving coal tar pitch in Europe is a long-term challenge due to the EU's regulatory system for chemicals, REACH[147], and a continued Elkem focus on environmental safety and sustainable issues. In response, the Carbon division has an on-going R&D-project to develop non-hazardous and green binders in pastes. Elkem has succeeded in finding an alternative binder for the production of ramming paste, and is focused on developing new binder solutions for other products going forward. A Norwegian government institution partly funds this project. Other R&D projects within the Carbon division include research on high density graphite materials (cathodes and electrodes). R&D costs for the Carbon division as a percentage of total revenues on a combined basis was 0.06% for the year ended 31 December 2017.

9.7.5 R&D costs for each year covered by the historical financial information

The table below sets out an overview of Elkem's annual R&D costs for the years ended 31 December 2017, 2016 and 2015:

[147] The European Community regulation for the Registration, Evaluation, Authorisation and Restriction of Chemical substances (REACH: EC 1907/2006).

In NOK millions	Year ended 31 December		
	2017[1]	**2016[1]**	**2015[2]**
Expensed	386.6	367.0	250.6
Capitalized amount	53.5	52.3	52.9
Total R&D spending	**440.1**	**419.3**	**303.5**

1 The figures are extracted from the Combined Financial Statements.

2 The figures are extracted from the Consolidated Financial Statements.

9.8 Intellectual property

Elkem's intellectual property portfolio includes registered patents and patent applications, trademark registrations and trademark applications, domain names as well as trade secrets. Elkem has in total 1,625 registered patents, 1,234 registered trademarks and pending trademark applications, and 205 domain registrations.

Elkem's business is to some extent dependent on its intellectual property and the reliance on patented technology is greatest for the Silicones division. The global Silicones market is largely patent driven and a substantial part of the Silicones division sales are based on patented processes and products, and a portfolio consisting of more than 1,100 registered patents as at 31 December 2017. The Silicones division's intellectual property will be fully integrated with the IP portfolio of Xinghuo Silicones in line with the divisional IP strategy. Elkem's three other divisions had a combined patent portfolio of 514 registered patents and current patent applications as at 31 December 2017. Although Elkem has a substantial patent portfolio, Elkem's business does not rely on a specific patent or a series of specific patents for its production processes nor can any specific patent or a series of specific patents be identified as more important. The Company considers it impossible, and potentially misleading for potential investors, to provide an overview of certain specific patents in this Prospectus.

Elkem, and in particular the Silicones division, is dependent on its patent portfolio in order to sustain a competitive advantage for its products and processes. The other divisions of Elkem are generally less dependent on patents, and rely on a combination of patent, trademark, copyright, domain name registration and trade secret laws, as well as contractual restrictions and physical measures to protect Elkem's trade secrets, proprietary information and other intellectual property rights.

Elkem has developed a sophisticated IP strategy and deploys this strategy by:

- Creating patent positions in agreement with the corporate strategy that can be leveraged in the market;
- Securing patents and delivering legal opinions to ensure that the company has freedom to operate (i.e. not infringing third party patents) when launching a new product or a new technology and to protect its own products and technologies via patents from its competitors;
- Maintaining patent rights and optimizing the patent's international reach, i.e. geopolitics;
- Allowing patents that no longer are useful for the business to lapse and thereby reducing the maintenance costs. Patents that are no longer useful are sold or licensed to third parties;
- Structuring the patent portfolio according to the strategy of the Group and the individual divisions, subject to annual reviews by divisional patent committees; and
- Structuring the silicone patent portfolio according to Elkem's strategy, subject to review every year by the patent committee.

9.9 Elkem Business System

Elkem has established a business system that plays an important role in all of Elkem's operations. The Elkem Business System aims to secure excellence in environment, health and safety, delivery and quality as well as to reduce costs in Elkem's operations. The Elkem Business System is fundamental to the organisation's operations and is designed and aligned to support the strategic direction in achieving its goals via continuous improvement in all parts of the value chain. The principles of the Elkem Business System are anchored in Elkem's core values and consist of the following four basic principles:

Make to use puts the customer, both internal and external, into focus. The products must always meet the customer's need.

Empowered people is a conviction that each and every success is attributable to at least 70% human effort and just 30% to the system behind it. The skills of the employees and their knowledge and experience add up to a resource that Elkem seeks to use through increased team organisation and the development of a systematic form of working where employees have an opportunity to contribute and can influence problem-solving and continuous improvement.

Eliminating waste represents Elkem's drive for perfection. Waste includes all unnecessary costs and the use of resources Elkem incurs during the production process for goods and services.

Processes in control is about stability. Elkem needs predictable and consistent processes when it comes to manpower, machines, materials, and methods in order to meet customers' demands. This principle puts focus into the manufacturing process.

9.10 Sourcing of raw materials

9.10.1 Introduction

The main components in the production of silicon and foundry alloys are quartz, coal, charcoal, wood chips, steel scrap, and other metals, such as magnesium and rare earth minerals. The production of silicones requires silicon and a number of chemicals, including methyl chloride and platinum, and the production of electrode paste and other carbon products requires anthracite, coke, pitch and coal tar.

9.10.2 Quartz

Silicon and ferrosilicon are extracted from quartz, which consists of silicon and oxygen. Quartz is one of the most abundant minerals in the earth's continental crust and occurs in large quantities around the world. Quartz is a low cost material, although certain types of silicon products require higher quality quartz. For instance, high quality quartz is necessary for the efficient production of silicon, while ferrosilicon typically can be produced from lower grade quartz. The Silicon Materials division operates two quartz mines in Norway and four quartz mines in Spain. The mines in Spain are owned by Explotacion de Rocas Industriales y Minerals S.A. ("**Erimsa**"), a wholly-owned subsidiary of Elkem.[148] Elkem holds all required permits to conduct mining operations in Norway and Spain.

Elkem is approximately 70% self-supplied with quartz, which also leverages a fully vertically integrated quartz to silicon to silicones chain, which enables Elkem to optimise the quality and cost of silicon. Elkem sees it as strategically important to operate its own quartz mines as this secures access to raw materials of sufficient quality, reduces its exposure to price volatility, optimizes production across the value chain from quartz to ferrosilicon based alloys, silicon and silicones. Elkem's raw materials exploration team works continuously on a global basis, to identify new potential quartz sources and Elkem has knowledge of several potential quartz sources that could be developed. Specifically, Elkem is currently working on two quartz exploration and development projects (i) Nasafjellet in Norway and (ii) development of one quartz source in Spain. Elkem has the capacity to be 100% self-supplied with quartz.

[148] As part of the acquisition of Elkem Rana in 2016, Elkem acquired the remaining 33% of the shares in ERIMSA previously held by Nor-Kvarts A/S, which was a joint venture held 67% by Elkem and 33% by Elkem Rana.

Geological estimates carried out by Elkem have indicated that its current mines have reserves of quartz for approximately 20 years based on Elkem's current level of activity. Elkem uses standardized methods for estimating reserves. These may vary somewhat from site to site (all are opencast mines), but the main methods include geological surface mapping, chemical analysis of quartzite sampled on the surface, diamond drilling and sampling and chemical analysis of the quartzite in the drill cores. Based on the geological surface mapping and core drilling, a 3D model of the quartzite is generated and the quartzite is separated into various grades based on chemical analysis. Elkem is confident that the estimation methods that it uses are appropriate for its mines and produce an accurate view of the reserves and qualities.

The total annual production from the Group's quartz mines was approximately 1.3 million tonnes of quartz in 2017. Key information regarding Elkem's quartz mines has been set out below:

Elkem Tana, Norway

The Elkem Tana mine is located in Austertana in Finnmark, Norway. It is Elkem's largest mine, producing a total of approximately 800,000 tonnes a year of silicon and ferrosilicon quartz. Geological estimates carried out by Elkem indicate that Elkem has approximately 20 years of reserves of quartz in the mine. Approximately 70% of the total quartz produced is used by Elkem and the remaining 30% is sold to third parties. The mine employed 26 employees as of 31 December 2017.

Elkem Mårnes, Norway

The Elkem Mårnes mine is located in Mårnes in the north of Norway. The mine produces approximately 125,000 tonnes of ferrosilicon quartz per year. Geological estimates carried out by Elkem indicate that Elkem has more than 50 years of reserves of ferrosilicon quartz in the mine. The quartz extracted is sold to third parties in its entirety and the mine employed 1 employee as of 31 December 2017.

ERIMSA, Spain

Operated by ERIMSA, Elkem has four separate mines located in close proximity to each other in Castillo, Ladra and Frades in Galicia and in Salamanca, Spain. In total, the mines produce approximately 350,000 tonnes per year (290,000 tonnes of silicon quartz and approximately 60,000 tonnes of ferrosilicon quartz). Geological estimations carried out by Elkem indicate that there are more than approximately 20 years of reserves of silicon quartz in the mines. Approximately 80% of the total quartz produced is used by Elkem and the remaining 20% is sold to third parties. In addition to the metallurgical quartz, ERIMSA produces aggregates for the construction industry. The aggregate market fluctuates from year to year, with a production of 340,000 tonnes expected for 2018. The mines employed approximately 87 employees in total as of 31 December 2017.

9.10.3 Coal/carbon

Elkem uses coal as a reductant in the production of silicon and ferrosilicon. A major share of the coal supply is from America. Another source of carbon is coke, mainly sourced within Europe. Contracts are made for periods between one and five years to adjust to the general development in the markets. The sourcing of coal, charcoal and carbon is, however, mostly based on long term partnerships with companies with stable and predictable sources. Elkem has its own exploration team for carbon materials, both for the cooperation and development of existing sources, and to develop new areas for future need.

Anthracite is used in the production of carbon electrode products such as Søderberg electrode paste. Anthracite of the necessary quality and size is sourced from a limited number of mines world-wide, with most of the current sources being stable suppliers to the Carbon division for many years. The contracts for anthracite mostly have a duration of one year or less. Anthracite prices are influenced by variations in regional supply-demand balances for anthracite as well as price fluctuations in other carbon commodity products for which anthracite can be a substitute product.

For the production of ELGRAPH®, Elkem uses petroleum coke. As Elkem is a small consumer of petroleum cokes and the raw material is sold by refineries in very large quantities, the sources for Elkem are mainly trading companies that are offering adequate volumes in the necessary quality and sizie. Contracts for and prices of petroleum coke are similar to those for anthracite.

The coal tar pitch used as binder in the electrode pastes is sourced regionally (in relation to each plant) from several alternative suppliers. Exceptions are in South Africa where there is only one regional source, and in Brazil where Elkem produces coal tar pitch internally. The contracts are mostly for a term of one year or less. The pitch pricing is mainly influenced by variations in regional supply-demand balances. The coal tar supply for the production of pitches and oils in Brazil is mainly from one source, that has been a long term supplier for Elkem.

9.10.4 Other raw materials

Elkem uses woodchips in the production of ferrosilicon and silicon. Woodchips are sourced domestically (in relation to each plant), except for in Iceland where it is necessary to import woodchips. Contracts are normally entered into for a period between one and five years, but Elkem has had long-term relationships with the majority of its suppliers.

Elkem imports millscale and iron pellets for the production of ferrosilicon. The contracts are usually for a term of one to three years. Elkem has been sourcing from some of the same suppliers of these raw materials for many years. Elkem's foundry alloys also include different alloying elements, the main ones being magnesium, calcium, aluminium, misch lanthanum and cerium (rare earths), strontium, barium and zirconium. There are numerous suppliers of most of the alloying elements, the majority being located in China.

The key raw materials used in the production of silicones are silicon, methanol, platinum and silica. The Silicones division sources more than 80% of its silicon through a long-term agreement with the Silicon Materials division, and the remaining half through annual agreements with worldwide suppliers in France, Brazil and Asia. Other materials that are essential in the production of silicones, such as methanol and silica are generally sourced through long-term contracts with large international suppliers. Platinum, which also is essential in the production of silicones, is purchased in the spot market mostly on behalf of customers (through swap deals) or indexed.

9.10.5 Access to raw materials

As described in Sections 9.10.2 - 9.10.4 above, Elkem sources raw materials used in production from third party suppliers in addition to self production of quartz. As further discussed in Sections 12.3.2 “Sales volumes” and 12.3.5 “Cost of raw materials and energy prices”, Elkem has occasionally experienced shortages in raw materials, for example in 2016 resulting from maintenance stops and other problems at certain suppliers. However, this is irregular events and Elkem considers maintenance stops at its suppliers to be an event in the ordinary course of business. In general, Elkem does not consider any of the raw materials used in its production processes to be scarce.

9.11 Logistics and distribution

Elkem has an extensive global logistics network that is closely linked to its network of sales offices. Elkem has established a logistics model in which the Group itself manages most of its transportation of raw materials to the Group's production facilities, goods between the Group's plants and goods from the plants to customers. This model gives Elkem a high level of predictability and allows it to better manage and influence environmental and safety factors throughout the supply chain. Elkem uses a variety of transport methods to deliver its products safely and efficiently to their destinations on time and the largest portion of Elkem's products are transported by sea for both cost and environmental reasons.

Elkem's logistics function handle all transportation related functions, such as short-and deep-sea chartering, container logistics, rail and road logistics, warehousing and distribution, forwarding services, transport and warehouse management systems, transport insurance and finance and administration related to logistics.

Elkem has ownership shares in several freight companies to ensure efficient transportation and logistics operations of raw materials and finished goods. The main entities are:

- Onego Management BV (Elkem has an indirect ownership share of 20%) which is a deepsea freight company based in the Netherlands

- North Sea Container Line AS (Elkem has an indirect ownership share of 50%) which conducts shipping services in the European shortsea market.

- Euro Nordic Logistics BV (Elkem has an indirect ownership share of 80% through Elkem Chartering Holding AS) based in Netherlands which handles ports, terminals, warehousing and land transport (Rotterdam and Europe).

9.12 Material contracts

Elkem is party to a selected number of material contracts. With respect to the joint venture and partnership agreements described below, Elkem is dependent on these material contracts in the sense that some of its material plants are held through the joint venture and partnership agreements described. Elkem also considers these agreements to be strategically important for its business going forward.

9.12.1 Framework agreements / Joint venture agreements / shareholders' agreements

Framework agreement regarding Elkem Oilfield Chemicals FZCO

Pursuant to the framework agreement between Elkem and Ayman Khirou Abaji, Elkem Oilfield Chemicals FZCo ("**Elkem Oilfield**") was founded as a limited liability company on 30 May 2007, with Elkem and Ayman Khirou Abaji holding 51% and 49%, respectively, of the shares in Elkem Oilfield. Under the terms of the agreement, Elkem Oilfield focuses on selling chemicals for use in the oil drilling industry throughout the Middle East and to do so, Elkem Oilfield licenses certain Elkem trademarks and operates as the sole distributor of Elkem's oilfield services chemicals under those trademarks. Each party has a right of first refusal to purchase any or all of the shares held by the other party. Each party may terminate the agreement: (i) with written notice and immediate effect if (a) Elkem Oilfield makes losses for three consecutive years or (b) if Elkem Oilfield's cumulative losses exceed 2/3 of its registered capital and the parties are unable to agree on a program for restructuring within six months and (ii) with 30 day written notice if non-competition provisions of the agreement have been violated.

Joint venture agreement regarding Elkem Ferroveld JV

Elkem Ferroveld JV ("**Elkem Ferroveld**") is a South African unincorporated joint venture focusing on the manufacture of products such as Soderberg electrode paste between Samancor Chrome Limited ("**SamCr**") and Elkem Carbon AS with each party holding an undivided 50% share in Elkem Ferroveld and with each party having the right to half the profits and being responsible for half the losses that Elkem Ferroveld incurs. The joint venture is governed by a joint venture agreement dated 6 October 2006.

Elkem has, as the managing owner, the right (and obligation) subject to the terms of the joint venture agreement, to manage and control the day-to-day processes and commercial operations of the joint venture, purchases and sales, finance (subject to board instructions), personnel and industrial relations, manage relations with regulators and government agencies, technology management and insurance. Subject to certain restrictions in the joint venture agreement, Elkem has the sole right to represent and act on behalf of the joint venture in its dealings with third parties.

The joint venture agreement is of indefinite duration but provides that a non-defaulting party, may terminate the agreement by written notice if (i) the defaulting party fails to pay in full any amount due and payable by it under the agreement, (ii) the defaulting party fails to perform or comply with any of its material obligations under the agreement and fails to remedy such breach within a reasonable period, (iii) the defaulting party is deemed unable to pay its debts, admits its inability to pay its debts as they come due, commences negotiations with its creditors for re-adjustment of its indebtedness or makes a general assignment for the benefit of, or a composition with, its creditors; (iv) the defaulting party takes any corporate action or other steps for its winding up or dissolution or for it to enter into any arrangement or composition for the benefit of creditors or for the appointment of a receiver, administrator, or similar person or an encumbrancer tales possession of any of its revenues or assets, (v) the defaulting party ceases to be under the control of the persons who control it on the date of the agreement, except with the approval of the aggrieved party, which is not to be unreasonably withheld.

9.12.2 Other material contracts

Other material agreements include the New Loan Facilities Agreement (see Section 12.11.4 "Financing arrangements"), the equity transfer agreements relating to the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials (see Sections 6.2 "Transfer of Xinghuo Silicones to Elkem" and 6.3 "Transfer of Yongdeng Silicon Materials to Elkem"), and the power supply contracts in Norway, Iceland and Canada (see Section 9.6.1 "Sourcing of energy/power").

9.13 Environmental matters

9.13.1 Introduction

Elkem is subject to a broad range of environmental laws and regulations in different countries where it operates and must have environmental permits for much of their production activities. Environmental regulation varies from country to country, but the main trend today is more detailed and strict regulations in all countries where Elkem operates increasing potential liabilities for non-conformance. Applicable environmental regulation includes emissions to air, discharge to water, ground contamination, waste management, chemical management and remediation of mining areas after extraction. In general, each of the Group's plants holds its own emission permits and in certain cases permits for storage of large volumes of chemicals.

Elkem's main production processes are energy-intensive and generate significant air emissions, water discharges and waste streams. Elkem incurs substantial capital and operating expenditures in order to control and reduce these. In addition, substantial effort is also used for the continuous improvement of Elkem's environmental performance including the investigation and remediation of any identified deviations, and other ongoing environmental matters.

9.13.2 Air emission issues

9.13.2.1 Introduction

The main air emissions from Elkem's primary production processes (smelting, calsining and paste production) include CO_2, SO_2, NOx, PAH, MeCI and dust. These are inherent parts of the production process and cannot be totally removed with current technology. They can, however, to a certain extent be controlled by means of process control, capture and filter technology, and the choice of raw material.

The main air emissions are closely regulated in the different countries where Elkem operates its primary production processes and each plant maintains applicable permits from local government environmental agencies. Any deviations from permit limits are reported, investigated and mitigated in a timely manner.

9.13.2.2 CO_2 emissions

Elkem has a high level of CO_2 emissions as it is an inherent part of the chemical reaction used to create silicon from Quartz and cannot be substantially reduced with current technology (see other sections on technological development). In addition to the smelting process CO_2 is also emitted from other energy generation. CO_2 emissions largely correlate with production volumes.

9.13.2.3 NO_x emission

While most of the oxygen that is released in the smelting process binds itself to the carbon in coal, coke or wood in the furnaces and turns into CO_2, some oxygen atoms bind themselves to nitrogen in the air instead and thus become nitrogenoxides (NO_X). Global NO_X emissions from Elkem's operations from 2015 to 2017 were as follows:

The Silicones division uses heat oil for the MCS distillation process provided by heat oils boilers (natural gas or propane in Europe and coal in China). The emission of NOx varies based the fuel mix and control of the process. In 2013, EU regulations were adopted which established a new emission target for NOx (Emission Limit Value, "**ELV**").

9.13.2.4 So2 emission

SO2 emissions are generated in the calsining process, in the smelting process and when burning fossil fuel for energy production. Elkem's Norwegian smelters and carbon plants are members of a nation-wide program where the government wavers emissions tax provided similar amounts of money are paid into a fund where members can apply for funding for SO2 reduction projects.

9.13.2.5 Mitigation activities for air emissions

Elkem has developed technology to reduce emissions of NO_x in the smelting process for silicon and ferrosilicon that is now being implemented in Elkem's Norwegian smelters with financial support from the Norwegian NO_x fund, giving a substantial reduction in Elkem's total emissions of NO_x. In Norway, there is a funding regime (NO_x fund) which supports the industrial efforts to reduce NO_x emissions. Elkem has not been required to reduce its NO_x emissions, but has on its own initiative taken advantage of the funding regime to develop new designs to reduce emissions. In addition to the NO_x reduction, the modification program delivers other significant improvements and efficiency gains (e.g. automated continuous raw material feeding systems), and is often done together with other planned maintenance projects to improve the economics of the modified furnace.

SO_2 emissions have historically been controlled within permit limits through raw material choice and not with specific filter or scrubbing technology. The need to consider alternatives has however become more important as low sulphur raw materials become scarcer. Elkem has installed scrubber capacity capable of reducing SO2 emissions by 50% at the Elkem Carbon Fiskaa plant and is also in the process of evaluating scrubbing technology for some of its smelting furnaces based on available financial support from the Norwegian SO_2 fund (*Nw.: Prosessindustriens Miljøfond*).

Elkem has a long history of controlling dust emissions from the smelting process through bag house technology that was developed by Elkem in the 1950s. Today's challenges are more focused on dust in the working environment and fugitive emissions of dust from other parts of the production process. Elkem has active orders from the Norwegian Labour Authorities to reduce dust in the working environment and has fulfilled these requirements at 2 of 5 Norwegian smelters. Ongoing investment programs will fulfil requirements at the other 3 plants by 2019.

As carbon materials are used in the chemical process to convert quartz to silicon, CO_2 emissions are unavoidable with today's technology. Elkem's main focus has therefore been to reduce its' CO_2 footprint by replacing fossil carbon sources like coal with more CO_2 neutral sources of carbon. Charcoal and woodchips are examples of CO_2 neutral carbon sources in use today. Elkem has also started a major technology development program with partners to develop a carbon neutral production process for the production of silicon and ferrosilicon.

9.13.3 Water issues

The majority of Elkem's production activities are located in areas with a high availability of water. Other production activities, that are in dry areas of the world are not water intensive, so water availability is normally not a major issue for Elkem. There are however issues with wastewater discharge at some plants including carbon plants that use water directly to cool products, and plants with wet chemical processes like upstream Silicone plants and the Silgrain plant in Bremanger. These plants use vast amounts of water that must treated before discharge to remove pollutants like suspended solids, oxygen depleting organic matter, PAH contamination and trace metals like copper, aluminium and iron. This type of discharge is also subject to regulation with permits and limits that can vary from country to country. The main trend is, however, stricter regulation and lower limits for discharge as we also see with emissions to air.

Effective water treatment technology is available and in use where needed to comply with applicable regulations at each plant, but more investment will also be needed in the future to meet new regulations. One of these is the EU Water Framework Directive 2000/60/EC (the "**WFD**") that commits the member states to achieve good qualitative and quantitative status of all water bodies. The WFD was implemented into Norwegian law by the Regulation on Framework for Water Management of 15 December 2006 no. 1446. The WFD prescribes various steps to be taken to reach the common goal of the directive rather than adopting the more traditional limit value approach. The WFD requires that each of the member states prepare River Basin Management Plans ("**RBMP**s") to be implemented by 2021.

Elkem's plants in Norway, Iceland and the EU are subject to requirements in the WFD.

9.13.4 Investigation and remediation of contaminated properties and adjacent waterways

Elkem has a number of facilities that have been operated for many years or have been acquired after long-term operation by other entities. Most of these facilities were not subject to environmental requirements for many years allowing a build-up of contaminants on the properties and in adjacent waterways. Through comprehensive mapping, Elkem has in recent years identified areas that may need mitigation and/or surveillance and other control measures. Surveillance is done in close cooperation with local environmental authorities and the main concerns today are related to fjord areas adjacent to Elkem Fiskaa in Kristiansand, Norway, which is likely to be subject to remediation measures in the future. In 2017, Elkem received a decision from Miljødirektoratet requiring Elkem to submit a clean-up plan for specific pollution of the contaminated seabed adjacent to Elkem's Fiskaa plant in Kristiansand within April 2018. No legal proceedings have been initiated in connection with this. The contaminated seabed may be a future potential obligation for remediation work, but the assessment of such potential future obligation is uncertain and no provisions was made as at the year ended 31 December 2017.

Current and closed landfills at some of Elkem's plants are also subject to routine surveillance. Even though Elkem currently does not expect any material remediation measures to be imposed, such material remediation measures cannot be excluded in the future. In view of Elkem's long history of industrial activity, and the increasing stringency of environmental standards, it is possible that additional contamination requiring investigation or remediation will be identified in the future at these or other sites.

9.13.5 Greenhouse gas regulation

In 2017, Elkem purchased approximately 436,000 CO_2 quotas to cover its CO_2 emissions from its plants in Norway and Iceland and France compared to approximately 423,274 in 2016, all of which are covered by the EU's emission trading system (ETS). This accounted for approximately 27% of Elkem's total CO_2 emissions. Companies like Elkem are awarded allowances for less than their needs based on historical product data, but are credited with quotas for heat sales, energy recovery or using biocarbon. Regional quota schemes can distort competition for companies that operate in a global market. For this reason the EU's and Norway's schemes to compensate for the indirect effects that quota trading has on energy prices in Norway are very important. Even though the ETS price of CO_2 quotas is currently low, it nonetheless entails a mark-up in energy prices that has a significant effect on companies that consume large amounts of power, such as Elkem. Elkem received compensation of NOK 77 million in 2017 for the impact that prices for CO_2 quotas had on energy prices. This compensation scheme is important to counter 'carbon leakage', i.e. companies in the European Economic Area (EEA) relocating outside the EEA and thus moving their emissions to other regions without CO_2 regulations. Both the awarding of free quotas and the compensation for the impact of the prices for CO_2 quotas on energy prices are temporary schemes that will be gradually tightened, meaning that Elkem's allocations via these schemes will shrink each year, while costs will vary according to CO_2 quotas prices as before. The figures presented above in relation to 2017 are preliminary and will be verified in March 2018 in time for reporting of emissions data to ETS.

Elkem's plants in Norway and Iceland have since January 2013 been subject to the EU's emissions trading system (ETS). Energy intensive industries competing in a global market receive an allocation of free quotas to avoid that industrial production in Europe is moved to parts of the world without CO_2 quota schemes (leading to so-called carbon leakage). For ferroalloys and silicon producers such as Elkem, the base allocation is approximately 75% of emissions based on historical production data, reducing at an annual rate of 1.74% until 2020. In 2017, Elkem purchased approximately 436,000 CO_2 quotas to cover its CO_2 emissions in Europe compared to approximately 432,274 in 2016.

The EU-ETS also lead to an increase in the market price for electricity, as power producers in Europe pass on their CO_2-costs to the market. As allowed for under the EU State aid guidelines, Norway has put a compensation scheme in place, awarding Elkem partial compensation for the ETS-related mark-up in power prices.

The Group's plants in France are also subject to the ETS-system. Quotas have been reserved for the plant in Roussillon, France, totalling to 654,391 tonnes for seven years, calculated with a decrease to 75,220 tonnes in 2020. Based on 0.92 ton CO_2 per tonnes of siloxanes going forward, the Group expects that the site in Roussillon will be free from any deficit tonne of CO_2 over the period until 2020 and might even be in a position to sell quotas of CO_2. Quotas reserved for the plant in St Fons, France, totals to 130,501 tonnes for seven years, calculated with a decrease to 15,210 tonnes in 2020.

9.13.6 Integrated environmental permit – EU Directives

The EU Directive on Integrated Pollution Prevention and Control 2008/17/EC (the "**IPPC Directive**"), provides for closing monitoring and inspection of certain industrial plants by the competent authorities, increased reporting duties for the relevant operators as well as enhanced public participation in administrative decision-making processes and requires national operating permits based on best available techniques ("**BAT**") for pollution prevention and control. All smelting facilities in Norway are operated under an environmental permit issued by the Norwegian Environment Agency in accordance with the Norwegian Pollution Control Act, which effectively implements the provisions of the IPPC Directive into Norwegian law. The Directive on Industrial Emissions 2010/75EU (the "**IED Directive**"), which replaces the IPPC Directive, was adopted on 24 November 2010 and was required to be transposed into national legislation by 7 January 2013. The quartz production facilities are operated under local environmental permits issued by the county governor (*Nw.: Fylkesmannen*).

9.13.7 Chemical regulation

Elkem uses a large number of chemical substances which are regulated by the European Union Regulation (EC) No. 1907/2006 on the Registration, Evaluation and Authorisation of Chemicals (the "**REACH Regulation**") and adjacent regulations. REACH Regulation imposes significant obligations on the chemicals industry with respect to testing, evaluation, assessment, registration and labelling of chemicals and chemical intermediates. These processes are expensive, time consuming and bind personnel which leads to increased production costs.

Elkem produces a variety of chemical products, and these products are used in a large variety of downstream applications. Consequently, Elkem is subject to a wide array of laws, regulations, permit requirements, documentation requirements, and standards that it has to meet or adhere to. Elkem's product safety and regulatory affairs management group ensures that Elkem complies with all applicable laws, regulations and other legal requirements.

Elkem uses coal tar pitch, D4 and D5 in the production process. Pitch is designated as substances of very high concern ("**SVHC**") and, therefore, considered to be included on Annex XIV of the REACH Regulation which would require authorisation of the substance. The European Chemicals Agency is currently examining whether D4 will be designated as SVHC.

9.14 Health and safety matters

Elkem's production and maintenance activities involve interaction with large quantities of raw materials, hazardous chemicals, powerful machinery and very high temperatures giving the potential for harm and damage. Substantial resources are therefore used to understand and control risks that may cause injury or illness. Elkem has a zero-harm philosophy regarding health and safety and gives prevention of injury and illness first-priority in its operations. The prevention principles are based on understanding potential hazards and implementing necessary measures to reduce risk to an acceptable level before it can cause harm. This involves both comprehensive risk-assessment and a high degree of reporting of any unsafe conditions, incidents and injuries so they can be investigated and mitigated.

Much of the work also focuses on behaviour, as statistics show that the vast majority of all injuries are caused by the actions of individuals. All Elkem employees receive general EHS training, specific job-related EHS training and participate in awareness activities in connection with Elkem's EHS management system.

Elkem's experience over the past years shows that many plants manage to operate without recordable injuries or with very few recordable injuries year after year confirming that it is possible to achieve a target of zero. It also shows, however, that serious injuries still do happen in Elkem, including fatalities, and that a high level of safety awareness will always be necessary at all times.

The table below sets out the details on the Group's recordable injuries in 2017, 2016 and 2015:

	2017		**2016**		**2015**	
Employees	H1:[1]	11	H1:	15	H1:	7
	H2:[2]	20	H2:	19	H2:	3
Contractors	H1:	5	H1:	12	H1:	7
	H2:	7	H2:	8	H2:	4

1 Number of lost time injuries (lost work time).

2 Number of other recordable injuries (medical treatment / restricted work).

Approximately 80% of all recordable injuries in 2016 and 2017 were low severity injuries like small cuts, burns and sprains. Six injuries were classified as high severity from 2015 to 2017 including 2 contractor fatalities. The increase in the number of recorcdable injuries in 2016 and 2017 compared to 2015 is partially because of record low numbers in 2015 and partially because of the expansion of Elkem with the Silicones division and new plants that have been integrated into Elkem from the middle of 2015.

9.15 Insurance

Elkem currently maintains insurance coverage of the type and in amounts that it believes to be customary in the industry, including property damage and business interruption, marine cargo/transportation, aviation products liability for transportation, environmental liability, general third-party and product liability, workers' compensation, commercial crime, employment practices liability, radioactive sources, contractors liability, commercial general liability, umbrella liability and excess liability insurance all subject to certain limitations, deductibles and caps. The Management and Board of Directors are also covered by directors and officers liability insurance.

9.16 Legal proceedings.

9.16.1 Legal proceedings

From time to time, the Group is involved in litigation, disputes and other legal proceedings arising in the normal course of its business. Neither the Company nor any other company in the Group, including Xinghuo Silicones and Yongdeng Silicon Materials, is, nor has been, during the course of the preceding 12 months involved in any legal, governmental or arbitration proceedings which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability, and the Company is not aware of any such proceedings which are pending or threatened.

9.17 Dependency on contracts, patents, licenses etc.

Other than set out in Section 9.12 "Material contracts", 9.8 "Intellectual property", 9.10 "Sourcing of raw materials" and 9.13 "Environmental matters" it is the Company's opinion that Elkem's existing business or profitability is not materially dependant on patents or licenses, industrial, commercial or financial contracts.

Other than the equity transfer agreements relating to the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials as described in Section 6 "Reorganisation", Elkem has not entered into any material contracts outside the ordinary course of business for the two years prior to the date of the Prospectus or any other contract entered into outside the ordinary course of business which contains any provision under which any member of the Group has any obligation or entitlement.

9.18 Corporate social responsibility

Elkem has dedicated governing documents and a number of tools to ensure that its organisation understands Elkem's priorities and requirements in the areas of sustainability and social responsibility and are enabled to comply with them.

Elkem's policy for maintaining Elkem's social responsibility describes the overarching requirements related to social responsibility, areas of responsibility within the organisation and routines for ensuring compliance with the basic principles described in governing documents for social responsibility. The principles provide an overview of what Elkem emphasises in connection with safeguarding human rights, the employees' rights as workers, environmental concerns, a sustainable utilization of natural resources and business integrity.

Elkem does not permit or tolerate engagement in any form of corruption and has implemented an anti-corruption policy that defines different forms of corruption and how it must be avoided. The policy is coupled with an obligatory e-learning course that helps key personnel detect and avoid situations that may be problematic and against the law.

Elkem's has also implemented supplier requirements that impose requirements on risk-exposed suppliers regarding human rights and responsible environmental management. Elkem's standard procurement contracts refer to Elkem's principles for social responsibility as a requirement for signing contracts. Elkem provides training and implements supplier audits, and continuously work with ensuring full compliance throughout the value chain for goods on the world market.

In addition to these policies and tools, Elkem publishes a sustainability report annually in accordance with the Global Reporting Initiative's requirements for reporting to document its activities and results in the area.

10 CAPITALISATION AND INDEBTEDNESS

10.1 Introduction

The financial information presented below has been extracted from the Group's audited combined financial statements as of and for the year ended 31 December 2017 and should be read in connection with the other parts of this Prospectus, in particular Section 11 “Selected Financial and Other Information” and Section 12 “Operating and Financial Review”, and the Combined Financial Statements and notes related thereto, included in Appendix B of this Prospectus. As further described in Sections 4.2 “Presentation of financial and other information” and 11 “Selected Financial and Other Information”, the combined financial statements includes Xinghuo Silicones and Yongdeng Silicon Materials for the relevant period, reflecting the assumption that Xinghuo Silicones and Yongdeng Silicon Materials have been under the control of Elkem for such period. Thus, the financial information presented below are based on the activities presented in the Combined Financial Statements which are those of Elkem going forward.

As described in Sections 6.4 “Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials” and 12.4.3 “Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials”, the Combined Financial Statements and the Consolidated Financial Statements do not provide explicit information regarding the continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials. The effects these acquisitions will have on the equity of the Group are presented in said sections, and as described therein will result in continuity differences recognised against equity of negative NOK 3,889 million (see note 15 to the table presented in Section 10.2 “Capitalisation” below). In addition, upon completion of the IPO Elkem will pay a total purchase price of NOK 4,100 million for the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials which, less the continuity differences recognised against equity of NOK 3,889 million, will result in an increased combined equity of Elkem of NOK 211 million.[149]

Elkem is of the view that the combined financial information presented below in conjunction with the adjustments in (i) to (iii) below provides potential investors with the appropriate information.

The financial information presented below provides information about the Group’s combined capitalisation and net financial indebtedness on an actual basis as at 31 December 2017 and, in the “As adjusted” column, the Group’s combined capitalisation and net financial indebtedness as at the date hereof, on an adjusted basis to give effect to the material post-balance sheet events and effects of the Offering described in (i) to (iii) below.

The “As adjusted” column reflect adjustments to the Group's combined capitalisation and net financial indebtedness as of 31 December 2017 in respect of:

(i) The refinancing of the Group's Syndicated Loan Facilities Agreement (EUR 275 million) (NOK 2,707.3 million), the loan from the Nordic Investment Bank (NOK 306 million[150]), the other loans and credit facilities as specified in Section 12.11.4.1 “Existing Indebtedness” (NOK 218.2 million) and a portion of the indebtedness which will be assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials (NOK 5,152 million);

(ii) the New Loan Facilities Agreement (as defined below) of up to EUR 1,150 million (NOK 11,321.5 million), the proceeds of which will be used to refinance the indebtedness referred to in (i) above (see Section 12.11.4.3 “Description of New Loan Facilities Agreement”); and

(iii) the assumed net proceeds from the sale of the New Shares in the Offering received by the Company in the amount of NOK 5,000 million, a portion of which will be used to (i) finance the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials (NOK 4,100 million), and (ii) reduce the Group's long term interest bearing debt (NOK 900 million), assuming an Offer Price of NOK 32 per Offer Share, which is the mid-point of the Indicative Price Range, with assumed gross proceeds from the sale of the New Shares in the Offering of NOK 5,200 million and transaction costs related to the Offering of NOK 200 million payable by the Company.

[149] For the purpose of this Section 10 “Capitalisation and Indebtedness”, the numbers have been rounded down compared to the numbers presented in Sections 6.4 “Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials” and 12.4.3 “Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials”.

[150] The amount has been adjusted for instalments, see Section 12.11.4 “Financing arrangements”.

Other than as set forth above, there has been no material change to the Group's combined capitalisation and net financial indebtedness since 31 December 2017.

10.2 Capitalisation

The following table sets forth information about the Group's combined capitalisation as at 31 December 2017, derived from the Combined Financial Statements:

In NOK millions	**As at 31 December 2017[1]**	**Adjustment amount**	**As adjusted**
Total current debt:			
Guaranteed[2]	5,472	(4,344)[3]	1,128[3]
Secured[4]	36	-	36
Unguaranteed and unsecured[5]	789	(538)[6]	251
Total current debt[7]:	**6,297**	**(4,882)**	**1,415**
Total non-current debt:			
Guaranteed[8]	1,903	(808)[9]	1,095[9]
Secured[10]	81	-	81
Unguaranteed and unsecured[11]	2,601	4,790[12]	7,391[12]
Total non-current debt[13]:	**4,585**	**3,982**	**8,567**
Total indebtedness	**10,882**	**(900)**	**9,982**
Shareholders' equity			
Share capital	2,010	1,000[14]	3,010
Additional paid-in capital	908	4,000[14]	4,908
Retained earnings	5,545	(4,100)[15]	1,445
Non-controlling interests	102	-	102
Total shareholders' equity	**8,565**	**900**	**9,465**
Total capitalisation	**19,447**	**-**	**19,447**

1 The data set forth in this column is derived from the statement of financial position set out in the Combined Financial Statements as at 31 December 2017.

2 All guaranteed current debt consists of debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, and includes bank financing of NOK 2,822.4 million consisting of various RMB loans to Xinghuo Silicones and Yongdeng Silicon Materials from Industrial and Commercial Bank of China, China Construction Bank, Shanghai Pudong Development Bank and Agricultural Bank of China, in addition to current bills payable of NOK 2,649.8 million. All guaranteed current debt is guaranteed by China National Bluestar (Group) Co. Ltd. with corresponding cross guarantees among entities within the China National Bluestar Group.

3 Repayment of outstanding guaranteed bank financing to Xinghuo Silicones and Yongdeng Silicon Materials with new current indebtedness drawn down under the New Loan Facilities Agreement. See Section 12.11.4.2 "The refinancing" for a description of Elkem's intention to repay indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials. Although the amount of debt assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials to be refinanced remains uncertain, Elkem has, as of the date hereof, assumed that NOK 4,344 million will be refinanced, resulting in NOK 1,128 million of current debt assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials remaining outstanding.

4 Elkem has, through its subsidiary ESi France, a secured loan facility with the governmental agency BPI, which will expire in the second half of 2018. See Section 12.11.4.1 "Existing Indebtedness" for further information about this loan. The loan is secured by receivables pledged to the French tax administration.

5 Unguaranteed and unsecured total current debt consist of financial leases of the Group's manufacturing equipment (NOK 1.2 million), loans from external parties other than banks (NOK 60.6 million), accrued interest to other related parties within the China National Bluestar Group (NOK 157.1 million), accrued interest (NOK 10.5 million) in addition to other existing bank financing (NOK 559.6 million).

6 Repayment of outstanding current portion of non-current indebtedness under the Syndicated Loan Facilities Agreement, the loan from the Nordic Investment Bank and the other loans and credit facilities as specified in Section 12.11.4.1 "Existing Indebtedness" with new current indebtedness drawn under the New Loan Facilities Agreement. The amount relates to instalments due in 2018 and are therefore transferred to current indebtedness, see note 11 below for information about the non-current indebtedness under these loans.

7 Total current debt consist of unguaranteed and unsecured financial leases of the Group's manufacturing equipment (NOK 1.2 million), unguaranteed and unsecured bank financing (NOK 559.6 million), unguaranteed and unsecured loans from external parties other than banks (NOK 60.6 million), unguaranteed and unsecured accrued interest to other related parties within the China National Bluestar Group (NOK 157.1 million), unguaranteed and unsecured accrued interests (NOK 10.5 million), secured bank financing (NOK 36 million), guaranteed bank financing (NOK 2,822.4 million) and guaranteed current bills payable (NOK 2,649.8 million).

8 All guaranteed non-current debt consists of debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, and includes bank financing of various RMB loans to Xinghuo Silicones and Yongdeng Silicon Materials from China Development Bank, China Construction Bank, the Export-import Bank of China, Bank of Jiujiang in addition to China and Overseas Financial lease Co. Ltd. assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials. All guaranteed non-current debt is guaranteed by China National Bluestar (Group) Co.

Ltd. with corresponding cross guarantees among entities within the China National Bluestar Group.

9 Repayment of outstanding guaranteed bank financing to Xinghuo Silicones and Yongdeng Silicon Materials. See Section 12.11.4.2 "The refinancing" for a description of Elkem's intention to repay indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials. Although the amount of debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials to be refinanced remains uncertain, Elkem has, as of the date hereof, assumed that NOK 808 million will be refinanced, resulting in NOK 1,095 million of non-current debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials remaining outstanding.

10 As of 31 December 2017, Elkem had, through its affiliate Aleaciones Yguazu a long-term secured loan with Sudameris in an aggregate principal amount of USD 9.9 million equal to NOK 81 million. This loan was repaid in early 2018. The loan is secured by a pledge of all fixed assets in Aleaciones Yguazu.

11 Includes non-current the Syndicated Loan Facilities Agreement, loan from the Nordic Investment Bank, the loan Elkem Carbon Malaysia has with Handelsbanken (see Section 12.11.4.1 "Existing Indebtedness") in addition to certain loans held by ERIMSA. Such debt will be refinanced with the proceeds of the New Loan Facilities Agreement, as described further in Section 12.11.4.2 "The refinancing". None of the unguaranteed and unsecured non-current debt relates to the debt assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials.

12 Additional funds to be drawn down under the New Loan Facilities Agreement which, together with the refinancing of the NOK 2,601 million in outstanding indebtedness described in note 11, will be equal to NOK 7,391 million in new non-current indebtedness to be drawn down under the New Loan Facilities Agreement.

13 Total non-current debt consists of unguaranteed and unsecured financial leases (NOK 401 million), unguaranteed and unsecured loans from external parties other than banks (NOK 79.5 million), unguaranteed and unsecured bank financing (NOK 2,514.0 million), secured bank financing (NOK 81.2 million) and guaranteed bank financing (NOK 1.903.0 million).

14 Assumed net proceeds from the sale of New Shares in the Offering.

15 Upon completion of the IPO, Elkem will pay a total purchase price of NOK 4,100 million for the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials which, less the continuity differences recognised against equity of NOK 3,889 million, will result in an increased consolidated equity of Elkem of NOK 211 million.

10.3 Indebtedness

The following table set forth information about the Group's combined net financial indebtedness as at 31 December 2017, derived from the Combined Financial Statements:

In NOK millions	**As at 31 December 2017[1]**	**Adjustment amount**	**As adjusted**
(A) Cash	1,751	1,016[2]	2,767
(B) Cash equivalents[3]	1,124	(1,016)[4]	108
(C) Trading securities	-	-	-
(D) Liquidity (A)+(B)+(C)	**2,875**	**-**	**2,875**
(E) Current financial receivables	**-**	**-**	**-**
(F) Current bank debt	1,859	(678)[5]	1,181
(G) Current portion of non-current debt	1,559	(1,554)[5]	5
(H) Other current financial debt[6]	2,879	(2,650)[5]	229
(I) Current financial debt (F)+(G)+(H)	**6,297**	**(4,882)**	**1,415**
(J) Net current financial indebtedness (I)-(E)-(D)	**3,422**	**(4,882)**	**(1,460)**
(K) Non-current bank loans	4,498	3,982[7]	8,480
(L) Bonds issued	-	-	-
(M) Other non-current loans	87	-	87
(N) Non-current financial indebtedness (K)+(L)+(M)	**4,585**	**3,982**	**8,567**
(O) Net financial indebtedness (J)+(N)	**8,007**	**(900)**	**7,107**

1 The data set forth in this column is derived from the statement of financial position set out in the Combined Financial Statements as at 31 December 2017.

2 Adjusted for assumed net proceeds from the sale of New Shares in the Offering.

3 Includes restricted deposits, non-current and current of NOK 1,114.7 million, loans to joint arrangements of NOK 8.9 million and accrued interest income of NOK 0.2 million.

4 Repayment of outstanding guaranteed indebtedness assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials.

5 See notes 3, 6 and 9 to the table presented in Section 10.2 "Capitalisation". The amounts relates to the repayment of outstanding guaranteed indebtedness assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials. See Section 12.11.4.2 "The refinancing" for a description of Elkem's intention to repay indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials. In addition, the amounts includes repayment of Repayment of outstanding indebtedness under the Syndicated Loan Facilities Agreement, the loan from the Nordic Investment Bank and the other loans and credit facilities as specified in Section 12.11.4.1 "Existing Indebtedness" with new current indebtedness drawn under the New Loan Facilities Agreement.

6 The amount includes accrued interest and is therefore not consistent with Section 12.11.6 "Financial indebtedness and other contractual obligations".

7 The net effect of payment of outstanding financing to Xinghuo Silicones and Yongdeng Silicon Materials against the New Loan Facilities Agreement.

10.4 Working capital statement

The Company is of the opinion that the working capital available to the Group is sufficient for the Group's present requirements, for the period covering at least 12 months from the date of this Prospectus.

10.5 Contingent and indirect indebtedness

As of 31 December 2017 and as of the date of the Prospectus, the Group did not have any contingent or indirect indebtedness.

11 SELECTED FINANCIAL AND OTHER INFORMATION

The Combined Financial Statements as of and for the years ended 31 December 2017 and 2016 have been prepared in accordance with IFRS as adopted by the EU to the extent appropriate since IFRS does not provide explicit guidance for the preparation of combined financial information. The Combined Financial Statements have been audited by KPMG AS, as set forth in their auditor's reports included herein. The Combined Financial Statements cover Elkem, Xinghuo Silicones and Yongdeng Silicon Materials for the relevant historical periods. Xinghuo Silicones and Yongdeng Silicon Materials are included as if they had been a part of Elkem for the relevant periods, reflecting the assumption that Xinghuo Silicones and Yongdeng Silicon Materials have been under the control of Elkem for such period. Thus, the activities presented in the Combined Financial Statements are those of Elkem going forward.

The Consolidated Financial Statements as of and for the years ended 31 December 2017, 2016 and 2015 have been prepared in accordance with IFRS as adopted by the EU. The Consolidated Financial Statements for the years ended 31 December 2017 and 2016 have been audited by KPMG AS, as set forth in their auditor's report included herein. The Consolidated Financial Statements for the year ended 31 December 2015 have been audited by PricewaterhouseCoopers AS, as set forth in their auditor's report included herein. The Consolidated Financial Statements cover Elkem but not Xinghuo Silicones or Yongdeng Silicon Materials for the relevant period.

The transactions under the Reorganisation constitute a "significant gross change" on relevant indicators pursuant to the Prospectus Directive, meaning that the requirement for including pro forma financial information in the Prospectus is triggered. Elkem is, however, of the view that the equity effect of the Reorganisation, is appropriately reflected in Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", Section 10 "Capitalisation and Indebtedness" and Section 12.4.3 "Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials" as derived from note 33 to the Consolidated Financial Statements for the year ended 31 December 2017, meaning that pro forma financial information would not provide potential investors with additional information of significance. Accordingly, Elkem has not included pro forma financial information in the Prospectus reflecting the Reorganisation. Other than the equity effect, there have been no other effects of the Reorganisation, including no transaction costs. For an overview of effects on results based on estimated transaction costs relating to the Listing and the Offering, see Section 12.4.4 "Effects on results from transaction costs relating to the Listing and the Offering".

11.1 Introduction and basis for preparation

The selected financial information presented in Sections 11.3 - 11.6 below has been extracted from the Group's audited combined financial statements as of and for the years ended 31 December 2017 and 2016 (the Combined Financial Statements). The selected financial information included therein should be read in connection with, and is qualified in its entirety by reference to, the Combined Financial Statements included in Appendix B of this Prospectus and should be read together with Section 12 "Operating and Financial Review". References in this Prospectus to "financial information on a combined basis" are to financial information derived from the Combined Financial Statements.

The selected financial information presented in Sections 11.7 - 11.10 below has been extracted from the Group's audited consolidated financial statements as of and for the years ended 31 December 2017, 2016 and 2015 (the Consolidated Financial Statements). The selected financial information included therein should be read in connection with, and is qualified in its entirety by reference to, the Consolidated Financial Statements included in Appendix C of this Prospectus and should be read together with Section 12 "Operating and Financial Review". References in this Prospectus to "financial information on a consolidated basis" are to financial information derived from the Consolidated Financial Statements.

11.2 Summary of accounting policies and principles

For information regarding accounting policies and the use of estimates and judgements, please refer to Note 2 and 3 of the Combined Financial Statements and the Consolidated Financial Statements, included in this Prospectus as Appendix B and C, respectively.

11.3 Selected data from the combined statement of income

The table below sets out selected data from the Group's combined statement of income for the years ended 31 December 2017 and 2016.

	Year ended 31 December

In NOK thousands	**2017**	**2016**
Revenues	21,132,609	16,721,639
Other operating income	235,637	199,168
Total operating income	**21,368,246**	**16,920,807**
Raw materials and energy for smelting	(10,824,536)	(8,941,764)
Employee benefit expenses	(3,144,819)	(2,817,339)
Other operating expenses	(4,245,278)	(3,625,302)
Gross operating profit (loss)	**3,153,613**	**1,536,402**
Amortisations and depreciations	(1,244,025)	(1,217,255)
Impairment losses	(16,809)	(77,767)
Other gains and losses	43,638	57,287
Operating profit (loss)	**1,936,417**	**298,667**
Income from associates and joint ventures	34,144	22,130
Finance income	30,436	36,565
Foreign exchange gains/(losses)	(7,701)	49,661
Finance expenses	(474,499)	(486,696)
Profit (loss) before income tax	**1,518,797**	**(79,673)**
Income tax (expenses) benefit	(269,391)	(188,567)
Profit (loss) for the year	**1,249,406**	**(268,240)**

11.4 Selected data from the combined statement of financial position

The table below sets out selected data from the Group's combined statement of financial position as at 31 December 2017 and 2016.

	As of 31 December	
In NOK thousands	**2017**	**2016**
ASSETS		
Property, plant and equipment	11,950,419	11,410,401
Goodwill	326,323	342,645
Other intangible assets	911,022	891,989
Deferred tax assets	89,584	67,348
Investment in joint ventures	97,871	108,978
Interest in associates and other companies	111,967	100,516
Derivatives	151,574	119,161
Other non-current assets	355,874	392,808
Total non-current assets	**13,994,634**	**13,433,846**
Inventories	4,099,200	3,792,297
Accounts receivables	2,518,423	1,952,473
Derivatives	33,357	56,388
Other current assets	2,090,949	1,621,919
Restricted deposits	1,019,791	915,013
Cash and cash equivalents	1,750,930	1,319,797
Total current assets	**11,512,650**	**9,657,887**
Total assets	**25,507,284**	**23,091,733**

	As of 31 December	
In NOK thousands	**2017**	**2016**
EQUITY AND LIABILITIES		
Paid-in capital	2,918,203	3,088,203
Retained earnings	5,545,130	2,654,513
Non-controlling interest	101,557	87,553
Total equity	**8,564,890**	**5,830,269**
Interest-bearing non-current liabilities	4,584,974	5,113,490

Deferred tax liabilities	104,587	114,182
Pension liabilities	444,807	425,488
Derivatives	378,955	561,131
Provisions and other non-current liabilities	426,215	506,028
Total non-current liabilities	**5,939,538**	**6,720,319**
Accounts payable	2,650,387	2,310,509
Income tax payables	138,916	99,631
Interest-bearing current liabilities	3,647,297	4,204,240
Bills payable	2,649,760	2,418,946
Derivatives	246,683	128,001
Provisions and other current liabilities	1,669,813	1,379,818
Total current liabilities	**11,002,856**	**10,541,145**
Total equity and liabilities	**25,507,284**	**23,091,733**

11.5 Selected data from the combined statement of cash flows

The table below sets out selected data from the Group's combined statement of cash flows for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
In NOK thousands	**2017**	**2016**
Operating activities		
Operating profit (loss)	1,936,417	298,667
Changes in fair value commodity contracts	(79,093)	(77,598)
Amortisation, depreciation and impairment changes	1,260,834	1,295,022
Changes in working capital	(127,825)	218,259
Changes in provisions, pension obligations and other	(137,315)	(135,379)
Interest payments received	23,629	34,442
Interest payments made	(446,136)	(408,079)
Other financial items	(1,034)	1,394
Income taxes paid	(198,456)	(201,013)
Cash flow from operating activities	**2,231,021**	**1,025,715**
Investing activities		
Investments in property, plant and equipment and intangible assets	(1,126,068)	(833,952)
Sale of property, plant and equipment	17,758	6,760
Acquisition of subsidiaries, net of cash acquired	4,063	(439,788)
Dividend received from associates and joint ventures	25,037	26,190
Acquisition of joint ventures	(19,528)	-
Loan to associate and joint ventures	(12,150)	(34,258)
Other investments/sales	7,978	3,713
Cash flow from investing activities	**(1,102,910)**	**(1,271,335)**
Financing activities		
Dividends paid to non-controlling interests	(26,121)	(40,364)
Dividends paid to owner of the parent	(143,947)	-
Payments due to increase in ownership interests in subsidiaries	-	(31,224)
New interest-bearing loans and borrowings	60,175	1,283,140
Repayment of interest-bearing loans and borrowings	(859,191)	(204,603)
Net changes in bills payable and restricted deposits	285,054	(698,138)
Repayment of short term loan from related parties	(29,698)	(149,425)
Cash flow from financing activities	**(713,728)**	**159,386**
Change in cash and cash equivalents	**414,383**	**(86,234)**
Currency exchange differences	16,750	(38,110)
Cash and cash equivalents opening balance	**1,319,797**	**1,444,141**
Cash and cash equivalents closing balance	**1,750,930**	**1,319,797**

11.6 Selected data from the combined statement of changes in equity

The table below sets out selected data from the Group's combined statement of changes in equity for the years ended 31 December 2017 and 2016.

In NOK thousands	Share capital	Other paid-in capital	Total paid in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2016	**2,010,000**	**1,078,203**	**3,088,203**	**440,734**	**(1,133,971)**	**1,258,562**	**565,325**	**3,653,528**	**123,219**	**3,776,747**
Profit (loss) for the year	-	-	-	-	-	(304,359)	(304,359)	(304,359)	36,119	(268,240)
Other comprehensive income for the year	-	-	-	193,683	691,794	(41,013)	844,464	844,464	(4,100)	840,364
Total comprehensive income for the year	-	-	-	193,683	691,794	(345,372)	540,105	540,105	32,019	572,124
Conversion of liabilities[1]	-	-	-	-	-	1,552,986	1,552,986	1,552,986	-	1,552,986
Dividends to equity holders	-	-	-	-	-	-	-	-	(40,364)	(40,364)
Changes in the composition of the group	-	-	-	-	-	(3 903)	(3 903)	(3 903)	(27 321)	(31 224)
Balance 31 December 2016	**2,010,000**	**1,078,203**	**3,088,203**	**634,417**	**(442,177)**	**2,462,273**	**2,654,513**	**5,742,716**	**87,553**	**5,830,269**
Balance 1 January 2017	**2,010,000**	**1,078,203**	**3,088,203**	**634,417**	**(442,177)**	**2,462,273**	**2,654,513**	**5,742,716**	**87,553**	**5,830,269**
Profit (loss) for the year	-	-	-	-	-	1,210,724	1,210,724	1,210,724	38,682	1,249,406
Other comprehensive income for the year	-	-	-	116,287	(10,417)	3,402	109,272	109,272	1,443	110,715
Total comprehensive income for the year	-	-	-	116,287	(10,417)	1,214,126	1,319,996	1,319,996	40,125	1,360,121
Conversion of liabilities[2]	-		-	-	-	1,570,621	1,570,621	1,570,621	-	1,570,621
Dividends to equity holders	-	(170,000)	(170,000)	-	-	-	-	(170,000)	(26,121)	(196,121)
Balance 31 December 2017	**2,010,000**	**908,203**	**2,918,203**	**750,704**	**(452,594)**	**5,247,020**	**5,545,130**	**8,463,333**	**101,557**	**8,564,890**

1 In December 2016, a shareholder loan of RMB 1,256 million (NOK 1,553 million) in Xinghuo Silicones was converted into equity.

2 In May 2017, a shareholder loan of RMB 543 million (NOK 670 million) in Yongdeng Silicon Materials and in August 2017 a shareholder loan of RMB 761 million (NOK 900 million) in Xinghuo Silicones was converted to equity.

11.7 Selected data from the consolidated statement of income

The table below sets out selected data from the Group's consolidated statement of income for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
In NOK thousands	**2017**	**2016**	**2015**
Revenues	16,441,894	14,045,397	14,361,403
Other operating income	215,988	180,772	179,654
Total operating income	**16,657,882**	**14,226,169**	**14,541,057**
Raw materials and energy for smelting	(8,125,907)	(6,899,039)	(6,847,021)
Employee benefit expenses	(2,857,634)	(2,559,950)	(2,438,997)
Other operating expenses	(3,575,874)	(3,149,390)	(3,048,051)
Gross operating profit (loss)	**2,098,467**	**1,617,790**	**2 206,988**
Amortisations and depreciations	(776,023)	(717,781)	(674,383)
Impairment losses	(16,809)	(11,818)	(1,813)
Other gains and losses	49,312	52,438	(221,006)
Operating profit (loss)	**1,354,948**	**940,629**	**1,309,786**
Income from associates and joint ventures	34,144	22,130	21,327

Finance income	19,219	22,617	57,492
Foreign exchange gains (losses)	(7,701)	49,661	32,533
Finance expenses	(119,376)	(88,501)	(154,067)
Profit (loss) before income tax	**1,281,234**	**946,537**	**1,267,071**
Income tax (expense) benefit	(269,390)	(188,567)	(424,663)
Profit (loss) for the year from continued operations	**1,011,844**	**757,969**	**842,408**
Profit (loss) for the year from discontinued operations	-	-	(7,097)
Profit (loss) for the year	**1,011,844**	**757,969**	**835,311**

11.8 Selected data from the consolidated statement of financial position

The table below sets out selected data from the Group's consolidated statement of financial position as at 31 December 2017, 2016 and 2015.

	As of 31 December		
In NOK thousands	**2017**	**2016**	**2015**
ASSETS			
Property, plant and equipment	6,568,934	5,909,087	5,602,208
Goodwill	326,323	342,645	244,088
Other intangible assets	719,350	693,013	643,493
Deferred tax assets	89,584	67,348	323,969
Investment in joint ventures	97,871	108,978	67,476
Interest in associated and other companies	111,967	100,516	96,046
Derivatives	151,574	119,161	40,480
Other non-current assets	324,615	370,697	217,226
Total non-current assets	**8,390,220**	**7,711,445**	**7,234,986**
Inventories	3,561,007	3,339,415	3,302,196
Accounts receivables	2,264,479	1,870,770	1,864,010
Derivatives	33,357	56,388	14,332
Other current assets	601,822	600,861	755,737
Restricted deposits	3,773	3,771	-
Cash and cash equivalents	1,493,279	1,230,668	1,305,592
Total current assets	**7,957,717**	**7,101,896**	**7,241,867**
Total assets	**16,347,935**	**14,813,342**	**14,476,853**

	As of 31 December		
In NOK thousands	**2017**	**2016**	**2015**
EQUITY AND LIABILITIES			
Paid-in capital	2,918,203	3,088,203	3,088,203
Retained earnings	5,313,102	4,283,286	2,955,626
Non-controlling interest	101,557	87,553	123,219
Total equity	**8,332,862**	**7,459,042**	**6,167,048**
Interest-bearing non-current liabilities	2,681,975	2,834,859	3,051,916
Deferred tax liabilities	104,587	114,182	124,475
Pension liabilities	444,807	425,488	393,735
Derivatives	378,955	561,131	925,852
Provisions and other non-current liabilities	389,859	463,560	262,184
Total non-current liabilities	**4,000,183**	**4,399,220**	**4,758,162**
Accounts payables	1,836,888	1,527,587	1,448,578
Income tax payables	138,669	99,387	128,496
Interest-bearing current liabilities	661,189	277,970	327,981
Derivatives	246,683	128,001	615,208
Provisions and other current liabilities	1,131,462	922,135	1,031,380
Total current liabilities	**4,014,890**	**2,955,080**	**3,551,643**

Total equity and liabilities	**16,347,935**	**14,813,342**	**14,476,853**

11.9 Selected data from the consolidated statement of cash flows

The table below sets out selected data from the Group's consolidated statement of cash flows for the years ended 31 December 2017, 2016 and 2015.

	Year ended 31 December		
In NOK thousands	**2017**	**2016**	**2015**
Operating activities			
Operating profit (loss)	1,354,948	940,629	1,309,786
Changes in fair value of commodity contracts	(79,093)	(77,598)	96,908
Amortisation, depreciation and impairment changes	792,832	729,599	676,196
Changes in working capital[1]	(139,377)	98,410	(171,001)
Changes in provisions, pension obligations and other[2]	(116,049)	(123,900)	98,693
Interest payments received	12,412	13,919	48,986
Interest payments made	(91,693)	(77,151)	(63,333)
Other financial items	(1,034)	160	(2,007)
Income taxes paid	(198,456)	(200,104)	(174,056)
Cash flow from operating activities	**1,534,490**	**1,303,964**	**1,820,172**
Investing activities			
Investments in property, plant and equipment and intangible assets	(930,344)	(755,281)	(1,067,383)
Sale of property, plant and equipment	5,814	3,860	4,789
Dividend received	25,037	26,190	32,097
Acquisition of subsidiaries, net of cash acquired	4,063	(439,788)	(15,015)
Acquisition of joint ventures and other shares	(19,528)	-	-
Payment received on loan to associates and joint venture	-	-	1,604
Loan to associate and joint venture	(12,150)	(34,258)	(20,570)
Other investments / sales	(226)	277	911
Cash flow from investing activities	**(927,334)**	**(1,199,000)**	**(1,063,567)**
Financing activities			
Dividends paid to non-controlling interests	(26,121)	(40,364)	(15,095)
Dividends paid to owner of the parent	(143,947)	-	(1,900,000)
Payments due to increase in ownership interest in subsidiaries	-	(31,224)	
New interest-bearing loans and borrowings	60,175	110,115	3,510,249
Repayment of interest-bearing loans and borrowings	(245,005)	(204,603)	(1,787,126)
Cash flow from financing activities	**(354,898)**	**(166,076)**	**(191,972)**
Change in cash and cash equivalents	252,258	(61,112)	564,633
Currency exchange differences	10,353	(13,812)	45,966
Cash and cash equivalents opening balance	**1,230,668**	**1,305,592**	**694,993**
Cash and cash equivalents closing balance	**1,493,279**	**1,230,668**	**1,305,592**

1 Changes in working capital is equal to the line "changes in net working capital" in the Consolidated Financial Statements for the year ended 31 December 2015.

2 Changes in provisions, pension obligations and other is equal to the line "changes in other working capital" in the Consolidated Financial Statements for the year ended 31 December 2015.

11.10 Selected data from the consolidated statement of changes in equity

The table below sets out selected data from the Group's consolidated statement of changes in equity for the years ended 31 December 2017, 2016 and 2015.

In NOK thousands	**Share capital**	**Other paid-in capital**	**Total paid in capital**	**Foreign currency**	**Cash flow hedge reserve**	**Other retained earnings**	**Total retained earnings**	**Total owners share**	**Non-controlling**	**Total**

				translat ion reserve					interest	
Balance 1 January 2015	**2,010,000**	**4,045,203**	**6,055,203**	**197,859**	**(470,467)**	**(237,401)**	**(510,009)**	**5,545,194**	**95,873**	**5,641,067**
Profit for the year	-	-	-	-	-	801,938	801,938	801,938	33,373	835,311
Other comprehensive income for the year	-	-	-	242,875	(663,504)	17,005	(403,624)	(403,624)	9,068	(394,556)
Total comprehensive income for the year	-	-	-	242,875	(663,504)	818,943	398,314	398,314	42,441	440,755
Conversion of liabilities	-	-	-	-	-	3,082,335	3,082,335	3,082,335	-	3,082,335
Dividends to equity holders	-	(2,967,000)	(2,967,000)	-	-	-	-	(2,967,000)	(15,095)	(2,982,095)
Changes in the composition of the group	-	-	-	-	-	(15,015)	(15,015)	(15,015)	-	(15,015)
Balance 31 December 2015	**2,010,000**	**1,078,203**	**3,088,203**	**440,734**	**(1,133,971)**	**3,648,862**	**2,955,625**	**6,043,828**	**123,219**	**6,167,047**
Balance 1 January 2016	2,010,000	1,078,203	3,088,203	440,734	(1,133,971)	3,648,862	2,955,625	6,043,828	123,219	6,167,047
Profit for the year	-	-	-	-	-	721,850	721,850	721,850	36,119	757,969
Other comprehensive income for the year	-	-	-	(41,067)	691,794	(41,013)	609,714	609,714	(4,100)	605,614
Total comprehensive income for the year	-	-	-	(41,067)	691,794	680,837	1,331,564	1,331,564	32,019	1,363,583
Dividends to equity holders	-	-	-	-	-	-	-	-	(40,364)	(40,364)
Changes in the composition of the group	-	-	-	-	-	(3,903)	(3,903)	(3,903)	(27,321)	(31,224)
Balance 31 December 2016	**2,010,000**	**1,078,203**	**3,088,203**	**399,667**	**(442,177)**	**4,325,796**	**4,283,286**	**7,371,489**	**87,553**	**7,459,042**
Balance 1 January 2017	**2,010,000**	**1,078,203**	**3,088,203**	**399,667**	**(442,177)**	**4,325,796**	**4,283,286**	**7,371,489**	**87,553**	**7,459,042**
Profit for the year	-	-	-	-	-	973,162	973,162	973,162	38,682	1,011,844
Other comprehensive income for the year	-	-	-	63,669	(10,417)	3,402	56,654	56,654	1,443	58,097
Total comprehensive income for the year	-	-	-	63,669	(10,417)	976,564	1,029,816	1,029,816	40,125	1,069,941
Dividends to equity holders	-	(170,000)	(170,000)	-	-	-	-	(170,000)	(26,121)	(196,121)
Balance 31 December 2017	**2,010,000**	**908,203**	**2,918,203**	**463,336**	**(452,594)**	**5,302,360**	**5,313,102**	**8,231,305**	**101,557**	**8,332,862**

11.11 Key financial information data by segment

The tables below sets out key financial information by segment on a combined basis for the years ended 31 December 2017 and 2016, and on a consolidated basis for the years ended 31 December 2017, 2016 and 2015. The APMs presented in the tables below are not recognised measurements of financial performance or liquidity under IFRS, but are used by Management to monitor and analyse performance of Elkem's business and operations. In particular, APMs should not be viewed as substitutes for operating revenues or operating profit (as determined in accordance with generally accepted accounting principles), as a measure of Elkem's operating performance; or any other measures of performance under generally accepted accounting principles. See Section 4.2 "Presentation of financial and other information".

Key financial information – by segment (combined)	**Year ended 31 December**	
In NOK thousands unless otherwise stated	**2017**	**2016**
Operating income		
Silicones	10,025,777	7,619,351
Silicon Materials	6,412,299	5,269,090
Foundry Products	4,247,256	3,642,021
Carbon	1,576,651	1,375,075
Other	1,217,770	774,582

Eliminations	(2,111,507)	(1,759,312)
Total operating income	**21,368,246**	**16,920,807**
Operating profit (loss) before other gains and losses		
Silicones	840,435	(373,461)
Silicon Materials	526,677	363,117
Foundry Products	492,277	304,752
Carbon	208,888	219,612
Other	(147,383)	(280,265)
Eliminations	(28,115)	7,625
Total operating profit (loss) before other gains and losses	**1,892,779**	**241,380**
Operating EBITDA margin per division (%)		
Silicones	15%	5%
Silicon Materials	13%	11%
Foundry Products	17%	14%
Carbon	17%	20%
Group	**15%**	**9%**
Operating EBIT margin per division (%)		
Silicones	8%	(4%)
Silicon Materials	8%	7%
Foundry Products	12%	8%
Carbon	13%	16%
Group	**9%**	**1%**
Capital employed		
Silicones	8,273,908	8,109,068
Silicon Materials	3,324,154	3,293,824
Foundry Products	3,280,388	2,738,915
Carbon	830,796	777,297
Other	171,595	225,719
Eliminations	(58,993)	(29,741)
Total capital employed	**15,821,848**	**15,115,082**
Capital turnover[151]		
Silicones	1,2x	0,9x
Silicon Materials	1,9x	1,6x
Foundry Products	1,4x	1,3x
Carbon	2,0x	1,8x
Total capital turnover	**1,4x**	**1,1x**
Return on capital employed (ROCE) per division		
Silicones	10%	(4%)
Silicon Materials	16%	11%
Foundry Products	16%	11%
Carbon	26%	29%
Other	(74%)	(139%)
Total return on capital employed	**12%**	**2%**

Key financial information – by segment (consolidated)		**Year ended 31 December**	
In NOK thousands unless otherwise stated	**2017**	**2016**	**2015**
Operating income			

[151] Total operating income (t) / Average (Capital employed (t) and capital employed (t-1)).

Silicones	5,450,895	5,029,222	4,985,403
Silicon Materials	5,534,000	4,540,151	4,758,566
Foundry Products	4,247,256	3,642,021	3,673,633
Carbon	1,576,651	1,375,075	1,387,863
Other	1,217,770	774,585	879,818
Eliminations	(1,368,690)	(1,134,885)	(1,144,226)
Total operating income	**16,657,882**	**14,226,169**	**14,541,057**
Operating profit (loss) before other gains and losses			
Silicones	274,692	148,158	222,260
Silicon Materials	480,644	488,309	735,125
Foundry Products	492,277	304,752	539,034
Carbon	208,888	219,612	221,788
Other	(147,383)	(280,265)	(177,276)
Eliminations	(3,482)	7,625	(10,139)
Total operating profit (loss) before other gains and losses	**1,305,635**	**888,191**	**1,530,792**
Operating EBITDA margin per division (%)			
Silicones	10%	8%	9%
Silicon Materials	13%	15%	19%
Foundry Products	17%	14%	20%
Carbon	17%	20%	20%
Group	**13%**	**11%**	**15%**
Operating EBIT margin per division (%)			
Silicones	5%	3%	4%
Silicon Materials	9%	11%	15%
Foundry Products	12%	8%	15%
Carbon	13%	16%	16%
Group	**8%**	**6%**	**11%**
Capital employed			
Silicones	3,131,156	2,84,342	2,953,811
Silicon Materials	2,863,892	2,827,841	2,479,426
Foundry Products	3,280,388	2,738,915	2,701,497
Carbon	830,796	777,297	750,865
Other	171,595	225,719	176,481
Eliminations	(33,354)	(29,742)	(38,462)
Total capital employed	**10,244,473**	**9,389,372**	**9,023,618**
Capital turnover[152]			
Silicones	1,8x	1,7x	1,8x
Silicon Materials	1,9x	1,7x	1,9x
Foundry Products	1,4x	1,3x	1,4x
Carbon	2,0x	1,8x	2,0x
Total capital turnover	**1,7x**	**1,5x**	**1,7x**
Return on capital employed (ROCE) per division			
Silicones	9%	5%	8%
Silicon Materials	17%	18%	30%
Foundry Products	16%	11%	21%
Carbon	26%	29%	31%
Other	(74%)	(139%)	(94%)

[152] Total operating income (t) / Average (Capital employed (t) and capital employed (t-1)).

Total return on capital employed capital employed	**13%**	**10%**	**18%**

11.12 Sales revenues by geographic area

The table below sets out the Group's total operating income by geographic area on a combined basis for the years ended 31 December 2017 and 2016, as extracted from the Combined Financial Statements.

	Year ended 31 December	
In NOK thousands	**2017**	**2016**
Nordic countries	2,033,456	1,538,889
United Kingdom	840,120	664,521
Germany	2,154,221	2,110,424
France	548,157	557,566
Italy	679,086	586,826
Poland	354,052	318,919
Luxembourg	460,107	323,802
Other European countries	2,221,970	1,668,166
Europe	**9,291,169**	**7,769,112**
Africa	**165,142**	**113,145**
America	**3,230,984**	**3,015,876**
China	5,758,625	3,616,295
Japan	694,183	675,265
South Korea	556,266	446,087
Other Asian countries	1,608,508	1,218,963
Asia	**8,617,582**	**5,956,611**
Rest of the world	63,368	66,063
Total operating income	**21,368,246**	**16,920,807**

The table below sets out the Group's total operating income by geographic area on a consolidated basis for the years ended 31 December 2017, 2016 and 2015 as extracted from the Consolidated Financial Statements.

		Year ended 31 December	
In NOK thousands	**2017**	**2016**	**2015**
Nordic countries	2,033,454	1,537,040	1,625,423
United Kingdom	838,614	663,971	641,712
Germany	2,153,125	2,110,424	2,407,475
France	574,089	584,478	693,503
Italy	679,086	586,826	643,274
Poland	354,052	318,919	362,395
Luxembourg	568,517	281,462	336,461
Other European countries	2,189,196	1,667,185	1,524,828
Europe	**9,390,133**	**7,750,304**	**8,235,073**
Africa	**165,142**	**112,217**	**149,103**
America	**3,154,590**	**2,987,031**	**2,766,803**
China	1,211,387	1,030,290	973,926
Japan	694,001	675,183	632,016
South Korea	522,327	437,043	527,829
Other Asian countries	1,457,782	1,168,473	1,182,072
Asia	3,885,497	3,310,989	**3,315,843**
Rest of the world	62,520	65,628	74,236
Total operating income	**16,657,882**	**14,226,169**	**14,541,057**

11.13 Independent auditors

The Company's independent auditor is KPMG AS, with business registration number 935 174 627, and registered address at Sørkedalsveien 6, 0369 Oslo. KPMG AS is a member of Den Norske Revisorforeningen (The Norwegian Institute of Public Accountants). KPMG AS has been the Group's auditor since the financial year 2016.

PricewaterhouseCoopers AS, with business registration number 987 009 713, and registered address at Dronning Eufemias gate 8, N-0191 Oslo, Norway, was the Company's auditor from the financial year 2012 until KPMG AS was appointed as the Company's auditor in 2016. PricewaterhouseCoopers AS is a member of Den Norske Revisorforeningen (The Norwegian Institute of Public Accountants).

Elkem's Combined Financial Statements and as of and for the years ended 31 December 2017 and 2016, the consolidated financial statements of Elkem AS and its subsidiaries which are prepared in accordance with IFRS, and the financial statements of the parent company Elkem AS which are prepared in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, as of 31 December 2017 and 2016 and for each of the years then ended, included in Appendix B and C of this prospectus, respectively, have been audited by KPMG AS, independent auditors, as stated in their reports appearing herein, which includes an Emphasis of Matter in the auditor's report on the Combined Financial Statements drawing attention to the basis of preparation included therein.

PricewaterhouseCoopers AS' audit report on the Consolidated Financial Statements for the year ended 31 December 2015 is included together with the Consolidated Financial Statements, included in Appendix C. PricewaterhouseCoopers AS has not audited, reviewed or produced any report on any other information provided in this Prospectus.

12 OPERATING AND FINANCIAL REVIEW

This operating and financial review should be read together with Section 4 "General Information", Section 9 "Business of the Group", Section 11 "Selected Financial and Other Information" and the Combined Financial Statements and the Consolidated Financial Statements and related notes included in Appendix B and C, respectively, of this Prospectus. This operating and financial review contains forward-looking statements. These forward-looking statements are not historical facts, but are rather based on the Group's current expectations, estimates, assumptions and projections about the Group's industry, business, strategy and future financial results. Actual results could differ materially from the results contemplated by these forward-looking statements because of a number of factors, including those discussed in Section 2 "Risk Factors" and Section 4.3 "Cautionary note regarding forward-looking statements" of this Prospectus, as well as other sections of this Prospectus. An overview of the APMs discussed in this operating and financial review is presented in Section 4.2.2 "Alternative Performance Measures".

12.1 Overview

Elkem is a market leader in the production of silicon-based advanced materials[153], with a history of more than 110 years of technology driven growth. Elkem is a fully integrated producer with operations throughout the silicon value chain from upstream quartz mining to silicon, silicones and downstream silicone specialties as well as specialty ferrosilicon alloys and carbon materials.

Elkem operates its business in four divisions: Silicones, Silicon Materials, Foundry Products and Carbon. In addition to its operating divisions, Elkem has a technology division which conducts research and development projects for all parts of the Group's value chain.[154] Elkem's research strategy is based on close cooperation between the operational divisions and the research teams. Elkem operates its business under the EBS, which is dedicated to lean manufacturing and efficient operational processes throughout the manufacturing process.

Elkem has a strong global footprint with twenty-seven production facilities worldwide whereof thirteen production facilities in Europe, six production facilities in the Americas (one of which is under construction in Paraguay), one production facility in Africa and seven production facilities in Asia. Elkem also operates two quartz mines in Norway and four quartz mines in Spain through ERIMSA. In addition, Elkem has an extensive network of sales offices and agents covering Elkem's most important markets. Having production on each of the main industrial continents enables Elkem to respond quickly and effectively to customer needs on a global basis.

Since 2011, Elkem has been under common control with Bluestar and BSI, which is now ESi, one of the foremost fully integrated global silicone manufacturers in the world. Following a three year gradual integration process, Bluestar formally decided in June 2015 to combine Elkem and BSI into one group. As early as in 2013, a silicon smelting furnace at Elkem's plant in Salten was dedicated to production for intra-group sales to BSI which, combined with several strategic integration initiatives, have resulted in significant cost savings creating a financially robust entity positioned to grow across Elkem's divisions. The main purpose of the integration was to take advantage of operational and market synergies and to create a financially robust company with the ability to grow profitably across all of Elkem's business segments, while maintaining the expertise and market driven organisations that have been the basis for its historic success.

In 2016 and 2017, Elkem continued to grow its business through a series of domestic and international acquisitions, expansions and partnerships. Key initiatives during 2016 included the acquisition of Fesil Rana in Norway, a low-cost producer of specialty and standard grades of ferrosilicon with a capacity of 80,000 metric tons per year, which became part of the Silicon Materials division, as well as the acquisition of the foundry business of Minex, a producer of ferrosilicon magnesium and inoculants in India with a capacity of 12,000 metric tons per year, which became part of the Foundry Products division. Elkem also completed phase one of a new carbon plant in Sarawak, in Malaysia, focused on the production of electrode paste, which added 46,000 metric tons per year of paste mixing capacity to Elkem's Carbon division in a strategically important market.

In 2017, as part of Elkem's goal to become the leading provider of metal treatment solutions for iron foundries in China, the Foundry Products division relocated, expanded and upgraded its operations within Shizuishan city in Northern China. The relocation, which resulted in a tripling of the operation's production capacity to 30,000 metric tons per year, is necessary to support Elkem's market share development in the large Chinese market.

[153] Company estimate based on its position in each of the segments where it operates.

[154] The technology division is from a financial reporting perspective part of the "other" segment, see Section 12.2 "Operating divisions and reporting segments".

In March 2018, Elkem plans to start production at a new plant in Paraguay, which will be able to produce 15,000 metric tons per year of ferrosilicon. The plant is owned by Aleaciones Yguazú S.A, a Paraguayan company in which Elkem increased its ownership level from 50% to 100% in 2017. The plant will become the local source of foundry alloys and ferrosilicon for the South American market, and Elkem believes it will play an important role in growing Elkem’s market share in this region.

On 30 January 2018 and in connection with the Listing, Elkem agreed to acquire Xinghuo Silicones and Yongdeng Silicon Materials from Bluestar Elkem Investment Co. Ltd., as further described in Section 6 “Reorganisation”. The acquisitions, referred to together as the Reorganisation, are expected to close contemporaneously with the Listing. Xinghuo Silicones, whose main products include organic silicone monomer and organic silicone-related downstream products for the sealants, rubber and emulsion markets, will be combined with ESi as part of Elkem’s Silicones division. Elkem believes that, with a current siloxane production capacity of 220,000 metric tons per year, Xinghuo Silicones' addition to its silicones business will substantially strengthen ESi’s leading market position, as well as enhancing its service quality and security of supply.

Yongdeng Silicon Materials, whose main product is Silicon 99, has a production capacity of approximately 55,000 metric tons of silicon and 25,000 metric tons of microsilica per year. Upon its acquisition, it will become part of Elkem’s Silicon Materials division, which is already one of the world’s leading suppliers of silicon and microsilica.

The purpose of the Reorganisation is to further establish and develop Elkem's fully integrated value chain. Prior to the acquisitions, Elkem and ESi worked closely with Xinghuo Silicones and Yongdeng Silicon Materials for several years and from September 2015 Elkem and China Bluestar have been cooperating through a strategic alliance in order to partially integrate Xinghuo Silicones and Yongdeng Silicon Materials into Elkem. The integration process is expected to accelerate following the Reorganisation, as described in more detail below. Since 2015, Elkem's operations have developed significantly and today Elkem is more specialized and has transitioned into a predominantly chemical company with the majority of its revenue from silicones. As of 31 December 2017, Elkem's Silicones and Silicon Materials divisions accounted for 77% of Elkem's combined total operating income, including intragroup sales.

On a combined basis, the Group had a total operating income of NOK 21,368.2 million and Operating EBITDA of NOK 3,153.6 million as of 31 December 2017. As of 31 December 2017[155], the Group had 6,114 employees worldwide, of which 2,171 are employees of Xinghuo Silicones and Yongdeng Silicon Materials.

12.2 Operating divisions and reporting segments

Elkem’s business is organised and managed through four operating divisions: Silicones, Silicon Materials, Foundry Products and Carbon. The Silicones division produces and sells a range of silicone based products across various sub-sectors including release coatings, engineering elastomers, healthcare products, specialty fluids, emulsions and resins. The Silicon Materials division produces and sells various grades of metallurgical silicon and microsilica for use in a wide range of end applications. The Foundry Products division supplies specialised ferrosilicon products to the cast iron and steel industries. The Carbon division produces carbon electrode materials, lining materials and specialty carbon products for metallurgical processes for the production of a range of metals.

Elkem has performed an evaluation of the products and services it provides (at an entity-wide level) and has concluded, based on the chemical composition of the products, the production techniques employed, product substitution possibilities, interdependencies and the uses and demands of its customers, that the individual products produced are considered similar at a level which corresponds the divisional level (which is also the Company’s operating segment level). In accordance with IFRS 8.32 the Company therefore refers to Note 4 to its Financial Statements included herein for information on each group of similar products and services within product revenues, sales of services and power sales. Thus, each division is a segment and there is a segment entitled “Other” which reflects results of the business not attributable to the other four operating divisions, such as central headquarters activity, Elkem Technology’s financial results, global sales and logistics and the results of the Group’s currency hedging activities and power hedging activities.

The Group’s divisions operate at different levels throughout the production chain and many of them, in addition to producing their products for sale to third parties, produce and sell their products to other operating divisions within the Group. This is most common with the Silicon Materials division, which sells a portion of its output to the Silicones division, and the Carbon division, which sells a portion of its output to the Silicon Materials and Foundry Products

[155] See Section 14.8 “Employees” for an overview of the number of employees per operating division and geographic location per 31 December 2017 on a combined basis.

divisions. Therefore, operating segment revenues and gross operating profit (loss)/Operating EBITDA do not sum to total Group revenues or gross operating profit (loss)/Operating EBITDA.

Geographical information about Elkem's revenues from external customers and non-current assets is also provided in note 4 to the Financial Statements.

12.3 Factors affecting the Group's results of operations

Elkem's results of operations over the three financial years ended 31 December 2017, as well as during the current financial year and in future years, have been and will likely continue to be affected by the factors discussed in Sections 12.3.1 - 12.3.7 below.

12.3.1 Sales prices

Elkem's results are impacted by the average selling prices that it receives for its products which are a result of the interaction of global demand and supply for those products. In addition, as the published reference prices against which most sales contracts are negotiated are listed in dollars, exchange rate fluctuations indirectly impact those prices and in the past year, the strengthening dollar has contributed to an increase in reference prices. As discussed in more detail below, Elkem's product mix also has an impact on average selling prices, with specialty products generally carrying higher selling prices than commoditised products.

Price fluctuations impacted the period under review. In general, reference prices fell from the second half of 2015 into 2016, before rebounding during 2017. For example, average CRU Si99 silicon prices declined 24%, from EUR 2,191 / MT in 2015 to EUR 1,675 / MT in 2016, before increasing 19%, from EUR 1,675 / MT in 2016 to EUR 1,988 in 2017. On a consolidated basis, the price fluctuations was a factor that impacted Elkem's revenue and Operating EBITDA negatively between 2015 and 2016, with revenue declining from NOK 14,361.4 million in 2015 to NOK 14,045.4 million in 2016 and Operating EBITDA declining from NOK 2,207.0 million in 2015 to NOK 1,617.8 million in 2016; and such price fluctuations impacted revenue and Operating EBITDA positively between 2016 and 2017, with revenue increasing from NOK 14,045.4 million in 2016 to NOK 16,441.9 million in 2017 and Operating EBITDA increasing from NOK 1,617.8 million in 2016 to NOK 2,098.5 million in 2017. On a combined basis, price increases for Xinghuo Silicones' and Foundry Products' products had a meaningful impact on Elkem's revenue and Operating EBITDA between 2016 and 2017, with revenue increasing from NOK 16,721.6 million in 2016 to NOK 21,132.6 million in 2017 and Operating EBITDA increasing from NOK 1,536.4 million in 2016 to NOK 3,153.6 million in 2017. There is generally a delay between a change to reference prices and the impact on Elkem's realised prices and therefore on revenue and Operating EBITDA. The delay generally can vary from three to twelve months.

Elkem produces a wide range of specific products for which it negotiates sales contracts, and thus sales prices, with each of its customers, and each factory or product will command a different price that has varied throughout the periods under review. In two of its four operating divisions, Silicon Materials and Foundry Products, there are global reference price indexes whose evolution to a certain extent reflects the average price developments that Elkem experiences in those divisions, though with a timing delay as described above. For Silicon Materials, that reference index is the monthly average CRU Si-99 price in Europe and for Foundry Products it is the monthly average CRU FeSI-75 price in Europe. The CRU Si-99 price and CRU FeSi-75 price development has fluctuated in the period under review. From 2015 to 2016 both price reference curves fell due to changes in supply and demand balances. In 2015 prices reached a high level due to strong demand growth in 2014 and production limitations in Brazil in 2014 and 2015 impacting exports to Europe and US, resulting in undersupply of both Si-99 and FeSi-75. When production limitations in Brazil were resolved and production capacity came on stream again, prices fell during 2016, an effect exacerbated by excess supply in China. During 2017 prices rebounded due to tight supply balances in Europe and production limitations in China driven by environmental restrictions.

There is no single reference price for the large majority of the products produced by the Silicones division in Europe and the diversity of products that it produces means that it typically experiences a high degree of variability in its sales prices. During the period under review, silicones prices fluctuated. The Silicones division produces a mix of commoditised products and specialty products. The sales prices for its commoditised products are typically driven by the evolution of general supply and demand dynamics. For example, in 2016, following raw material trends, market prices decreased; whereas from 2016 to 2017 the prices for commoditised products in China increased due to tight supply in China, which positively impacted commoditised product prices globally. The European market benefited from continued strong demand and tight supply resulting from the shutdown of upstream capacity in Germany.

The average prices for the Silicones division's specialty products, particularly release coatings, tend not to follow reference prices. They are particularly sensitive to the price of platinum, as it is a significant co-input in the production of release coatings. On the specialties side, the Surface business unit experienced a price decrease from 2015 to 2016, mainly linked to price changes to platinum, whereas prices in the eXtensio business unit decreased mostly due to changes to prices in the sealing and bonding market segment. In 2017, specialty prices increased in both the Surface and eXtensio business units, with a negligible platinum effect.

Elkem's average selling prices, and therefore its results, in the future will continue to be impacted by the factors described above. Some of these, namely reference prices and exchange rate fluctuations, are largely out of Elkem's control, whereas others, such as product mix, will turn on the success of Elkem's strategy of focussing on higher value specialty products. Although Elkem's specialty product focus has rendered it less vulnerable to reference price swings in recent years compared to previously, reference prices will continue to have a significant impact on the average selling prices of Elkem's products.

12.3.2 Sales volumes

Elkem's results are impacted by the volumes of the products it sells, which in turn are impacted by the global demand for silicon, silicone products and the other products which Elkem produces, and its capacity to meet this demand. The table below sets out Elkem's sales volumes by operating division for the periods under review. The figures below include intra-Group sales as well as external sales. From 2015 to 2016, on a consolidated basis, Elkem experienced an increase in sales volumes in Silicon Materials, Foundry Products and Carbon, partly offset by a decrease in Silicones sales volumes. Such sales volume increases helped to mitigate the decline in revenue and Operating EBITDA at the Group level from 2015 to 2016 caused by the decline in sales prices over the period. From 2016 to 2017, on a combined basis, Elkem experienced significant increases in sales volume growth, mainly driven by the Silicon Materials and Carbon divisions; on a combined basis, the Silicones division also contributed significantly to such sales volume growth from 2016 to 2017.

The table below provides an overview of sales volumes by segment in 2017, 2016 and 2015.

	Year ended 31 December			
(metric tonnes)	**2017 (combined)**	**2016 (combined)**	**2016 (consolidated)**	**2015 (consolidated)**
Silicones[1]	300.4	262.4	120.5	126.8
Silicon Materials[2]	278.4	203.2	146.3	133.5
Foundry Products[3]	260.2	255.2	255.2	232.6
Carbon[4]	283.7	255.5	255.5	255.1

1 Silicones sales volumes include sales of specialty products, such as silicone fluids and elastomers, and core products. For a further description of these products see Section 9.5.2.2 "Products".

2 Silicon Materials sales volumes include sales of Silicon 99, Silicon 97/96 and Silgrain. For a further description of these products see Section 9.5.3.2 "Products".

3 Foundry Products sales volumes include sales of inoculants, nodularisers (ferrosilicon magnesium) and ferrosilicon. For a further description of these products see Section 9.5.4.2 "Products".

4 Carbon sales volumes include sales of electrode paste, ramming/tamping paste, elgraph, prebaked electrodes and ECD-products. For a further description of these products see Section 9.5.5.2 "Products".

Sales volumes in the Silicones segment fluctuated during the period under review. On a consolidated basis, sales volumes decreased by 6.3 kMT from 126.8 kMT in 2015 to 120.5 kMT in 2016. On a combined basis, sales volumes increased by 38 kMT from 262.4 kMT in 2016 to 300.4 kMT in 2017. The drop in volume in 2016 compared to 2015 on a consolidated basis resulted from raw material availability issues following maintenance stops by certain suppliers, negatively impacting Elkem's core product (i.e., commodities) sales. The strong volume increase in 2017 compared to 2016 on a combined basis was driven by an increase in specialties volumes split between the Surface and eXtensio business units, in addition to improved sales volumes from Xinghuo Silicones and favourable demand in China.

On a consolidated basis, sales volumes at the Silicon Materials segment increased by 12.8 kMT from 133.5 kMT in 2015 to 146.3 kMT in 2016. On a combined basis, sales volumes increased by 75.2 kMT from 203.2 kMT in 2016 to 278.4 kMT in 2017. The increase in sales volume in 2016 compared to 2015 on a consolidated basis was due to sales volume growth at Elkem's Thamshavn and Salten plants, driven by demand from customers in the chemical and aluminium industries. Although demand was relatively good in 2017, operational interruptions resulted in lower production volumes and in turn limited sales volume growth on a combined basis. Nonetheless, total sales volume for the Silicon Materials division on a combined basis improved due to the inclusion of Elkem Rana sales volumes following the acquisition of Fesil Rana Metall AS in December 2016.

Foundry Products segment sales volumes increased by 22.6 kMT from 232.6 kMT in 2015 to 255.2 kMT in 2016, mainly due to strong sales of foundry alloys in Asia and specialty ferrosilicon in North America, offset by a decline in standard ferrosilicon sales as a result of capacity limitations and the decision to convert some capacity to higher margin specialty ferrosilicon production. Foundry Products division sales volumes increased by 5 kMT from 255.2 kMT in 2016 to 260.2 kMT in 2017. Sales of foundry alloys increased in Asia partly driven by the acquisition of a plant in India in 2016, offset by a decline in standard ferrosilicon sales for the reasons described above as well as production issues at two major plants.

The overall volumes for the Carbon segment were relatively stable from 2015 to 2016 at 255.1 kMT and 255.5 kMT, but increased by 28.2 kMT from 255.5 kMT in 2016 to 283.7 kMT in 2017 as sales of two key products, Søderberg electrode paste and ramming paste, increased due to greater market demand, including from the aluminium industry in China. Coal tar based products produced by the division increased from 2015 to 2016 and declined in 2017 due to variations in the availability of raw materials.

Because Elkem's operating divisions produce materials which are used in the production of end-use products, its sales volumes are generally responsive to changes in external demand for such products, which has been volatile in recent years. Therefore, the overall levels of demand for the Group's products on a global basis, and particularly in Europe and China, have experienced significant volatility in recent years.

In addition to global demand, the Group's production is impacted by its total production capacity. Elkem has a maximum production capacity for each of its products which fixes Elkem's maximum possible short-term sales volume regardless of the strength of global demand for its products. In the longer term, Elkem can react, and has reacted during the period under review, to increased demand for certain products by investing in new capacity, either through acquisitions, commissioning new greenfield factories or by investing in capacity expansion at its existing factories. Additionally, Elkem benefits from capacity creep whereby incremental technical adjustments and increases in efficiency enable its plants to marginally expand their capacity each year. However, when engaged in improving its existing factories, it is necessary to curtail production at that site until the improvements are completed. This is true for projects that expand capacity and for those projects which redirect capacity towards higher margin activities.

12.3.3 Product mix

The Group's revenues are a function of price and sales volumes of its various products so the mix of those products in a given period directly impacts the revenues for that period.

The Group sells a wide range of separately priced products within its four divisions and within the classes of product that each division sells. Product mix impacts the Group's operating margin due to margin variability between the four divisions generally and among the products produced by each division. Generally speaking, within each of its four operating divisions, the products sold range across a spectrum from those products whose margin and volume characteristics are more easily classified as commodity products to those products which the Group considers to be specialty products due to the higher degree of customization to an individual customer's specific requirements. The Group further divides its specialty products into volume specialties, defined as differentiated products produced on a large scale, and value specialties, which are higher value, tailor-made products produced in lower volumes. Within the Silicones division, the Surface and eXtensio business units are focused on specialty products.

Specialty products generally command higher margins than commodity products. During recent years, Elkem's product mix across all divisions, but particularly in the Silicones and Foundry Products divisions, has shifted towards specialty products. This shift has been driven by Elkem's emphasis on close customer relationships and sales integrated product development teams who work closely with customers to develop products designed to meet specific customer needs and requests.

The Silicones division actively manages its product mix between business units and market segments to maximize profit. On a consolidated level, the Silicones division experienced improved sales in 2016 with an increase in specialties sales volumes, most notably in the Surface business unit, while commodities sales decreased in volume due to the Roussillon plant's regulatory maintenance shutdown. The trend continued in 2017 with volume increases in the specialties business units while commodities volumes continued to slightly decrease.

The Foundry Products division successfully increased sales of specialty ferrosilicon and foundry alloys, both of which are priced at a premium to standard FeSi products, during the period 2015 – 2017, primarily in Asia and North America. The Foundry Products division has an ambitious growth strategy within foundry alloys globally, and successfully increased market share in all regions during this period. The acquisition of a plant in India in December

2016 supported the rapid sales volume growth from 2016 to 2017, and sales of specialty ferrosilicon to the steel industry increased from 2015 to 2017 as a result of focus on the North American market, as well as Asia.

Increasing higher margin specialty product sales across each division is among the Group's core strategic goals. A key driver for Elkem's acquisition of Xinghuo Silicones, for example, is the potential to increase penetration of specialty products through the significant presence in the Asian Pacific markets of Xinghuo Silicones. Through its focus on continuing to transition to high-margin specialised products, Elkem hopes to strengthen its competitive position and enhance its return on capital. There is no assurance that Elkem's shift in focus to specialty products will yield the benefits that it expects, however. Elkem's results of operations will continue to be affected by its success in expanding the sale and production of higher margin specialty products.

12.3.4 Integration of recent and pending acquisitions

Acquisitions have been, and are expected to continue to be, one of the drivers of Elkem's growth. Elkem's future results and financial condition will be significantly impacted by the extent to which it is able to successfully integrate recently acquired assets, such as Fesil Rana Metall AS and the Minex foundry business, as well as the pending acquisitions and ongoing integration of Xinghuo Silicones and Yongdeng Silicon Materials, and in particular whether Elkem can achieve the expected synergies and other benefits that it has targeted.

Although Elkem and Bluestar have been cooperating since 2015 to partially integrate the operations of Xinghuo Silicones and Yongdeng Silicon Materials, which, like Elkem, are subsidiaries of Bluestar, into those of Elkem, full integration has not yet been achieved. Elkem believes, however, that both companies possess significant improvement potential. In particular, following the acquisition of Xinghuo Silicones by Elkem, which is expected to close contemporaneously with the Listing, Elkem intends, among other things, to complete the implementation of the Elkem Business System at Xinghuo Silicones, eliminate unprofitable assets and upgrade Xinghuo Silicones' technological capabilities, transfer Elkem's best in class production know-how in order to increase Xinghuo Silicones' yield levels and improve downstream capacity utilization, and share Elkem's silicones R&D expertise to increase specialisation. Xinghuo Silicones' results have already improved significantly, with total operating income increasing from RMB 2,227 million in 2016 to RMB 4,024 million in 2017, sales volume increasing from 152 kMT in 2016 to kMT 187 in 2017, and average sales prices increasing from RMB 14,651 per kMT in 2016 to RMB 21,521 per kMT in 2017. The main synergies the Group seeks to achieve from the acquisition and integration of Xinghuo Silicones and Yongdeng Silicon Materials relate to the establishment of a fully integrated silicones value chain which will further enhance Elkem's value chain, from upstream quartz mining to silicon, silicones and downstream silicone specialties and the strengthening of Elkem's position in the Chinese market.

Similarly, the ongoing integration of Fesil Rana Metall, which includes the option to convert its production capacity to the production of silicon, will support the development of Elkem's specialisation strategy, while Elkem expects the acquisition of the Minex foundry business to benefit Elkem by helping it to achieve a significant market position in India's iron foundry market.

Each of the foregoing acquisitions, as well as any future acquisitions that Elkem may execute, will carry significant financial costs as well as requiring substantial management time and attention before they are fully integrated into the Group. Elkem considers that the acquisitions that it has completed and which have been integrated in the last several years have been accretive to its profitability, and believes that its recently completed and pending acquisitions offer substantial upside potential, will be accretive to its business over the longer term and will support its long term strategic goals. There is no assurance, however, that these acquisitions, or any of them, will achieve the desired synergies and other benefits. The extent to which they do so is likely to have a material impact on Elkem's results and financial condition in the future.

12.3.5 Cost of raw materials and energy prices

Elkem's financial results are significantly impacted by the cost and availability of raw materials and energy. In 2017, 2016 and 2015, on a consolidated basis, raw material and energy for smelting represented 49%, 49% and 48% of Elkem's revenues. On a combined basis, raw material and energy for smelting represented 53% of combined revenues in 2016 and 51% in 2017.

The principal components in the production of silicones are silicon and methyl chloride, although platinum is important for specialty silicone products. In addition to a number of other chemicals; the principal components required for silicon and foundry alloys are quartz, coal, charcoal, wood chips, steel scrap, and other metals, such as magnesium and rare earth minerals; and the production of electrode paste and other carbon products requires anthracite, coke, pitch and coal tar. Elkem produces approximately 70% of its quartz requirements internally, with its remaining requirements purchased from-third party suppliers. These purchases are made from suppliers with whom the Group has long-term relationships; however, volumes and contract lengths vary considerably for each contract. Elkem purchases coal from third-party sources. The Silicones division sources approximately half of its silicon from the Silicon Materials division and the rest from third-party suppliers with whom it typically has annual or longer-term contracts with prices negotiated on an individual basis. Elkem is exposed to price volatility in each of those materials to the extent that it does not produce them internally, but instead purchases them via long and short-term contracts and on the spot market. In addition, Elkem has occasionally experienced shortages in raw materials, for example in 2016 and during the first half of 2017 in its Silicones division, resulting from maintenance stops and other problems at certain suppliers. Such shortages, however, are infrequent and are becoming less frequent as Elkem has sought to diversify its suppliers in order to avoid such issues. Although the incident in 2016 and during the first half of 2017 had a significant impact on Elkem, Elkem does not expect shortages to have a material impact on its financial condition in the future.

Elkem purchases a variety of grades of coal, and has it delivered to different locations, thus incurring a range of prices for any given period. However, the Northwest Europe spot price published by Coal Trader International provides a proxy for Elkem's coal prices and generally reflects the same price trends that Elkem experiences, though Elkem's coal is usually more expensive and less extreme in its price changes because Elkem uses specialty and post-treated coal in its operations. Northwest Europe coal prices declined through 2015, but started to increase beginning in 2016. In order to hedge this risk related to coal price movements, Elkem enters short-term fixed price contracts which it balances against the sale of its products for which the contracted coal will be an input.

Energy prices also have a significant impact on Elkem's operating costs. Elkem primarily uses hydropower as the core energy source to fuel most of its factories as most of the company's operations are based in countries with a high proportion of hydropower production. Elkem actively hedges its power costs. Its policy is to hedge a minimum of 80% of its expected power consumption for the current and next full year for its Norwegian plants. This hedging ratio is reduced by 10 percentage points in each of the following 3 years to 50% of Elkem's expected power consumption in its Norwegian plants for the fifth full year. This hedging profile is rolled over each year. Elkem continually analyses the market and increases the hedge ratio from time to time depending on market conditions. Elkem also receives, and has received since the second half of 2013, compensation annually from the Norwegian government to partially offset the higher cost of European power as a result of the EU Emission Trading Scheme for CO2 emissions. In Iceland, Elkem contracts its power under a long-term take or pay contract that lasts until 2029 with a fixed price through the first quarter of 2019. The price for the 10 year period after the first quarter of 2019 is currently in process of being decided upon by an arbitration tribunal. In Quebec, it has a captive power source that supplies approximately 75% of its power requirements and it either sells or buys, depending on the season, power to or from the provincial utility at regulated rates.

Despite the Group's global presence, its Norwegian power contracts remain a significant portion of the Group's energy related operating costs so that the trends reflected in their pricing reflect the broader trends in the Group's overall energy costs. Given the Group's hedging policy, the price that is most reflective of Elkem's actual exposure to prices in Norway is the price for the annual forward contracts listed on Nasdaq. Contracts are hedged ahead of time, thus the price in these contacts affect Elkem with some time delay. The cost of power for Elkem AS group was NOK 1.35 billion in 2017, NOK 1.20 billion in 2016 and NOK 1.26 billion NOK in 2015. Elkem Rana is included in the figures as of December 2016. Elkem has from time to time also an exposure to NordPool spot prices for a small percentage of its consumption. The company is thus exposed to spot prices as well, although only to a small extent.

In addition to silicon, the Silicones division uses methanol and hydrochloric acid as feedstock. Methanol is sourced as part of a consortium buy through multi-year contracts. Hydrochloric acid is sourced from industrial partners located in the eastern part of France.

12.3.6 Foreign exchange rate exposure

Elkem operates internationally and as a result it is exposed to fluctuations in the exchange rate between several currencies. Elkem's results generally improve when the currencies in which it incurs costs weaken against the currencies in which it incurs revenues. Elkem typically has a net revenue position in EUR and USD. In 2017, Elkem derived 55.0% of its revenue on a combined basis in EUR and USD. Elkem has a net cost position in other currencies, mainly NOK and to some extent Canadian dollars, Icelandic kroner and Brazilian real, and so it is exposed to the fluctuations of those currencies against EUR and USD. In addition, Elkem is impacted by USD/EUR exchange rate fluctuations as the reference prices for silicon and ferrosilicon in Europe increase when the USD strengthens against the EUR. Elkem's exposure to RMB is fairly balanced between revenue and costs; however, following the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, the Group's exposure to the RMB will likely increase further as the businesses grow and the amount of Elkem's revenue and costs denominated in RMB increase and, in addition, Elkem may incur RMB-denominated financial obligations in order to finance its operations and expansion in China. Elkem's net currency exposures before hedging are approximately EUR 350-400 million (NOK 3,264-3,731 million) and USD 130-170 million (NOK 1,074-1,405 million).

12.3.7 CO_2 allowances

Carbon dioxide is one of the main emissions resulting from Elkem's production operations. Elkem's European operations are therefore subject to the EU's CO_2 Emissions Trading Scheme (the "**CO_2 Trading Scheme**"), which was established as part of the EU's attempts to control greenhouse gas emissions and global warming. Under the scheme, industrial emitters of CO_2 are obliged to surrender allowances to the authorities corresponding to their emissions on an annual basis. Depending on their industry, most companies are awarded a significant portion of their allowances for free to avoid placing them at an undue competitive disadvantage as compared to producers outside of Europe.

Elkem, which came under the ambit of the CO_2 Trading Scheme in 2013, was awarded free allowances for 73%, 75% and 79% of its emissions in Norway in 2017, 2016 and 2015, respectively, and purchased allowances in the market to cover the remainder of its emissions in each year. The cost to purchase these allowances was NOK 19.5 million for 2017, NOK 13.9 million in 2016 and NOK 13.8 million in 2015. The amount of free allowances the government grants will decrease gradually until the current phase of the CO_2 Trading Scheme ends in 2020. The Scheme will likely be extended until 2030 but the details concerning any annual compensation amounts to Elkem for this period is still uncertain.

12.4 Factors affecting the comparability of financial information

The financial information disclosed and discussed in this Prospectus for the years ended 31 December 2017, 2016 and 2015 includes financial information prepared using different bases of presentation. Specifically, the results of operations, balance sheet and cash flow discussions for the years ended 31 December 2017 and 2016, presented on a combined basis, are derived from the Combined Financial Statements for those years. The Combined Financial Statements include Elkem as well as Xinghuo Silicones and Yongdeng Silicon Materials for 2017 and 2016. The results of operations, balance sheet and cash flow discussions for the years ended 31 December 2017, 2016 and 2015, presented on a consolidated basis, are derived from the Consolidated Financial Statements for those years. The Consolidated Financial Statements cover Elkem but not Xinghuo Silicones or Yongdeng Silicon Materials for 2017, 2016 and 2015. For further information, please refer to Section 4.2 "Presentation of financial and other information".

The financial information derived from the Combined Financial Statements on the one hand, and from the Consolidated Financial Statements on the other, is not comparable. In particular, the financial information presented on a combined basis for 2017 and 2016 is different from the financial information presented on a consolidated basis for 2017 and 2016.

For an overview of the continuity differences recognized against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, see Section 12.4.3 "Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials".

For an overview of the effects on results of estimated total transactions costs of, and incidental to, the Listing and the Offering, and the accounting treatment thereof, of approximately NOK 200 million to be paid by the Company, see Section 12.4.4 "Effects on results from transaction costs in the Offering".

In order to illustrate the differences between financial information for 2017 and 2016 presented on a combined basis and the financial information for 2017 and 2016 presented on a consolidated basis, Elkem has prepared the following financial information. Please see note 33 to the Combined Financial Statements for more detailed information.

12.4.1 Year ended 31 December 2017

The table below presents a summary of Elkem's statement of income for the year ended 31 December 2017, which sets forth Elkem's results on a consolidated basis; the aggregate results of Xinghuo Silicones and Yongdeng Silicon Materials; intra-group eliminations; and Elkem's results on a combined basis.

In NOK millions	Year ended 31 December			
	2017 (Consolidated)	**2017 (Xinghuo Silicones and Yongdeng Silicon Materials)**	**2017 (Eliminations)**	**2017 (Combined)**
Revenues	16,441.9	5,047.3	(356.6)	21,132.6
Other operating income	216.0	19.6	-	235.6
Total operating income	**16,657.9**	**5,067.0**	**(356.6)**	**21,368.2**
Raw materials and energy for smelting	(8,125.9)	(3,033.0)	334.4	(10,824.5)
Employee benefit expenses	(2,857.6)	(287.2)	-	(3,144.8)
Other operating expenses	(3,575.9)	(686.8)	17.4	(4,245.3)
Gross operating profit (loss)	**2,098.5**	**1,060.0**	**(4.8)**	**3,153.6**
Amortisation and depreciation	(776.0)	(468.0)	-	(1,244.0)
Impairment loss	(16.8)	-	-	(16.8)
Other gains and losses	49.3	(5.7)	-	43.6
Operating profit (loss)	**1,354.9**	**586.3**	**(4.8)**	**1,936.4**
Income from associates and joint ventures	34.1	0	-	34.1
Finance income	19.2	11.2	-	30.4
Foreign exchange gains (losses)	(7.7)	0	-	(7.7)
Finance expenses	(119.4)	(355.1)	-	(474.5)
Profit (loss) before income tax	**1,281.2**	**242.4**	(4.8)	**1,518.8**
Income tax (expense) benefit	(269.4)	0	-	(269.4)
Profit (loss) for the year	**1,011.8**	**242.4**	**(4.8)**	**1,249.4**

The table below presents a summary balance sheet for Elkem as of 31 December 2017, which sets forth Elkem's total assets and total liabilities on a consolidated basis; the total assets and total liabilities of Xinghuo Silicones and Yongdeng Silicon Materials; intra-group eliminations; and Elkem's total assets and total liabilities on a combined basis.

In NOK millions	2017 (Consolidated)	2017 (Xinghuo Silicones and Yongdeng Silicon Materials)	2017 (Eliminations)	2017 (Combined)
	As of 31 December			
Property, plant and equipment	6,568.9	5,381.5	-	11,950.4
Goodwill	326.3	-	-	326,3
Other intangible assets	719.4	191.7	-	911.0
Deferred tax assets	89.6	-	-	89.6
Investment in joint ventures	97.9	-	-	97.9
Interest in associated and other companies	112.0	-	-	112.0
Derivatives	151.6	-	-	151.6
Other non-current assets	324.6	31.3	-	355.9
Total non-current assets	**8,390.2**	**5,604.4**	**-**	**13,994.6**
Inventories	3,561.0	543.4	(5.2)	4,099.2
Accounts receivable	2,264.5	322.4	(68.5)	2,518.4
Derivatives	33.4	-	-	33.4
Other current assets	601.8	1,489.1	-	2,091.0
Restricted deposits	3.8	1,016.0	-	1,019.8
Cash and cash equivalents	1,493.3	257.7	-	1,750.9
Total current assets	**7,957.7**	**3,628.7**	**(73.7)**	**11,512.7**
TOTAL ASSETS	**16,347.9**	**9,233.1**	**(73.7)**	**25,507.3**
Paid-in capital	2,918.2	-	-	2,918.2
Retained earnings	5,313.1	237.3	(5.2)	5,545.1
Non-controlling interest	101.6	-	-	101.6
Total equity	**8,332.9**	**237.3**	**(5.2)**	**8,564.9**
Non-current interest-bearing liabilities	2,682.0	1,903.0	-	4,585.0
Deferred tax liabilities	104.6	-	-	104.6
Pension liabilities	444.8	-	-	444.8
Derivatives	379.0	-	-	379.0
Provisions	389.9	36.4	-	426.2
Total non-current liabilities	**4,000.2**	**1,939.4**	**-**	**5,939.5**
Accounts payable	1,836.9	882.0	(68.5)	2,650.4
Income tax payables	138.7	0.2	-	138.9
Interest-bearing current liabilities	661.2	2,986.1	-	3,647.3
Bills payable	-	2,649.8	-	2,649.8
Derivatives	246.7	-	-	246.7
Other current liabilities	1,131.5	538.4	-	1,669.8
Total current liabilities	**4,014.9**	**7,056.5**	**(68.5)**	**11,002.9**
TOTAL EQUITY AND LIABILITIES	**16,347.9**	**9,233.1**	**(73.7)**	**25,507.3**

The table below presents a summary condensed cash flow statement for Elkem for the year ended 31 December 2017, which sets forth Elkem's cash flows from operating activities, investing activities and financing activities on a consolidated basis; the cash flows of Xinghuo Silicones and Yongdeng Silicon Materials; and Elkem's cash flows on a combined basis.

In NOK millions	As of 31 December 2017 (Consolidated)	2017 (Xinghuo Silicones and Yongdeng Silicon Materials)	2017 (Eliminations)	2017 (Combined)
Cash flow from operating activities	1,534.5	696.5	-	2,231.0
Cash flow from investing activities	(927.3)	(175.6)	-	(1,102.9)
Cash from financing activities	(354.9)	(358.8)	-	(713.7)
Change in cash and cash equivalents	**252.3**	**162.1**	**-**	**414.4**

12.4.2 Year ended 31 December 2016

The table below presents a summary of Elkem's statement of income for the year ended 31 December 2016, which sets forth Elkem's results on a consolidated basis; the aggregate results of Xinghuo Silicones and Yongdeng Silicon Materials; intra-group eliminations; and Elkem's results on a combined basis.

In NOK millions	Year ended 31 December 2016 (Consolidated)	2016 (Xinghuo Silicones and Yongdeng Silicon Materials)	2016 (Eliminations)	2016 (Combined)
Revenues	14,045.4	2,866.1	(189.8)	16,721.6
Other operating income	180.8	18.4	0	199.2
Total operating income	**14,226.2**	**2,884.5**	**(189.8)**	**16,920.8**
Raw materials and energy for smelting	(6,899.0)	(2,223.8)	181.1	(8,941.8)
Employee benefit expenses	(2,560.0)	(257.4)	0	(2,817.3)
Other operating expenses	(3,149.4)	(484.6)	8.7	(3,625.3)
Gross operating profit (loss)	**1,617.8**	**(81.4)**	**-**	**1,536.4**
Amortisation and depreciation	(717.8)	(499.5)	-	(1,217.3)
Impairment loss	(11.8)	(65.9)	-	(77.8)
Other gains and losses	52.4	4.9	-	57.3
Operating profit (loss)	**940.6**	**(642.0)**	**-**	**298.7**
Income from associates and joint ventures	22.1	0	-	22.1
Finance income	22.6	13.9	-	36.6
Foreign exchange gains (losses)	49.7	0	-	49.7
Finance expenses	(88.5)	(398.2)	-	(486.7)
Profit (loss) before income tax	**946.5**	**(1,026.2)**	**-**	**(79.7)**
Income tax (expense) benefit	(188.6)	0	-	(188.6)
Profit (loss) for the year	**758.0**	**(1,026.2)**	**-**	**(268.2)**

The table below presents a summary balance sheet for Elkem as of 31 December 2016, which sets forth Elkem's total assets and total liabilities on a consolidated basis; the total assets and total liabilities of Xinghuo Silicones and Yongdeng Silicon Materials; intra-group eliminations; and Elkem's total assets and total liabilities on a combined basis.

In NOK millions	2016 (Consolidated)	2016 (Xinghuo Silicones and Yongdeng Silicon Materials)	2016 (Eliminations)	2016 (Combined)
	As of 31 December			
Property, plant and equipment	5,909.1	5,501.3	-	11,410.4
Goodwill	342.6	-	-	342.6
Other intangible assets	693.0	199.0	-	892.0
Deferred tax assets	67.3	-	-	67.3
Investment in joint ventures	109.0	-	-	109.0
Interest in associated and other companies	100.5	-	-	100.5
Derivatives	119.2	-	-	119.2
Other non-current assets	370.7	22.1	-	392.8
Total non-current assets	**7,711.4**	**5,722.4**	**-**	**13,433.8**
Inventories	3,339.4	452.9	-	3,792.3
Accounts receivable	1,870.8	114.3	(32.6)	1,952.5
Derivatives	56.4	-	-	56.4
Other current assets	600.9	1,021.1	-	1,621.9
Restricted deposits cash	3.8	911.2	-	915.0
Cash and cash equivalents	1,230.7	89.1	-	1,319.8
Total current assets	**7,101.9**	**2,588.6**	**(32.6)**	**9,657.9**
TOTAL ASSETS	**14,813.3**	**8,311.0**	**(32.6)**	**23,091.7**
Paid-in capital	3,088.2	-	-	3,088.2
Retained earnings	4,283.3	(1,628.8)	-	2,654.5
Non-controlling interest	87.6	-	-	87.6
Total equity	**7,459.0**	**(1,628.8)**	**-**	**5,830.3**
Non-current interest-bearing liabilities	2,834.9	2,278.6	-	5,113.5
Deferred tax liabilities	114.2	-	-	114.2
Pension liabilities	425.5	-	-	425.5
Derivatives	561.1	-	-	561.1
Provisions	463.6	42.5	-	506.0
Total non-current liabilities	**4,399.2**	**2,321.1**	**-**	**6,720.3**
Accounts payable	1,527.6	815.5	(32.6)	2,310.5
Income tax payables	99.4	0.2	-	99.6
Interest-bearing current liabilities	278.0	3,926.3	-	4,204.2
Bills payable	-	2,418.9	-	2,418,9
Derivatives	128.0	-	-	128.0
Other current liabilities	922.1	457.7	-	1,379.8
Total current liabilities	**2,955.1**	**7,618.7**	**(32.6)**	**10,541.1**
TOTAL EQUITY AND LIABILITIES	**14,813.3**	**8,311.0**	**(32.6)**	**23,091.7**

The table below presents a summary condensed cash flow statement for Elkem for the year ended 31 December 2016, which sets forth Elkem's cash flows from operating activities, investing activities and financing activities on a consolidated basis; the cash flows of Xinghuo Silicones and Yongdeng Silicon Materials; and Elkem's cash flows on a combined basis.

In NOK millions	As of 31 December			
	2016 (Consolidated)	2016 (Xinghuo Silicones and Yongdeng Silicon Materials)	2016 (Eliminations)	2016 (Combined)
Cash flow from operating activities	1,304.0	(278.2)	-	1,025.7
Cash flow from investing activities	(1,199.0)	(72.3)	-	(1,271.3)
Cash from financing activities	(166.1)	325.5	-	159.4
Change in cash and cash equivalents	**(61.1)**	**(25.1)**	**-**	**(86.2)**

12.4.3 Continuity differences recognised against equity as a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials

The tables below are derived from note 33 of the Consolidated Financial Statements for the year ended 31 December 2017 and provide an overview of the effects the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials will have on a consolidated basis as of 31 December 2017. The cash consideration of NOK 4,126.1 million[156] and continuity differences booked as a reduction of consolidated equity of 3,888.8 million are based on the prevailing RMB/NOK currency exchange rate of RMB 100 RMB to NOK 129.03 as of 31 December 2017. The Company has not hedged the currency exposure of the purchase price for Xinghuo Silicones and Yongdeng Silicon Materials. See Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials" for a description of the accounting treatment of the transactions. For further information, see also Section 33 to the Consolidated Financial Statements for the year ended 31 December 2017.

In NOK thousands	Xinghuo Silicones and Yongdeng Silicon Materials
Consideration	
Cash	4,126,104
Contingent consideration	-
Non-controlling ownership interest in subsidiary	-
Consideration transferred	**4,126,104**
Fair value of previously held equity interest	-
Total	**4,126,104**

[156] This amount is based on the estimated purchase price presented in the Consolidated Financial Statements for the year ended 31 December 2017, as described in Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", and deviates from the rounded amounts presented elsewhere in this Prospectus, see Sections 5 "Reasons for the Offering and the listing" and 10 "Capitalisation and Indebtedness". The final purchase price will be determined at the time of completion of the IPO.

In NOK thousands	Xinghuo Silicones and Yongdeng Silicon Materials
Amounts for assets and liabilities recognised	
Property plant and equipment	5,381,484
Other intangible assets	191,671
Other non-current assets	31,259
Inventories	543,430
Accounts receivable	322,446
Other current assets	1,489,127
Restricted deposits	1,016,018
Cash and cash equivalents	257,652
Non-current interest-bearing liabilities	(1,902,999)
Provisions	(36,356)
Accounts payable	(882,001)
Income tax payables	(248)
Interest-bearing current liabilities	(2,986,109)
Bills payable	(2,649,760)
Other current liabilities	(538,349)
Total	**237,265**
Non-controlling interests	-
Goodwill	-
Continuity differences recognised against equity	**(3,888,839)**

12.4.4 Effects on results from transaction costs relating to the Listing and the Offering

The net proceeds to the Company will be approximately NOK 5,000 million, based on estimated total transaction costs of, and incidental to, the Listing and the Offering of approximately NOK 200 million to be paid by the Company. The transaction costs of, and incidental to, the Listing and the Offering will be allocated between the Listing of existing Shares and the issue of New Shares based on the total number of Offer Shares in the Offering. The costs allocated to the Listing of existing Shares will amount to approximately NOK 138 million and will be recognised in the statement of income as "other gains and losses". The costs allocated to the issue of New Shares of approximately NOK 62 million is recognised against equity. The table below illustrates the effects outlined herein:

In NOK millions	As at 31 December 2017[1]	Adjustment amount	As adjusted
Shareholders' equity			
Share capital	2,010	1,000[2]	3,010
Additional paid-in capital	908	4,138[2]	5,046
Allocated cost to the listing	0	(138)[3]	(138)
Retained earnings	5,545	(4,100)[4]	1,445
Non-controlling interests	102	-	102
Total shareholders' equity	**8,565**	**900**	**9,465**

1 The data set forth in this column is derived from the statement of financial position set out in the Combined Financial Statements as at 31 December 2017.

2 Assumed net proceeds from the sale of New Shares in the Offering, excluding costs related to listing of existing shares.

3 Transaction costs relating to the Offering and the Listing of approximately NOK 200 million will be allocated between the Listing of existing Shares and the issue of New Shares based on the total number of Offer Shares in the Offering. The cost allocated to the Listing of existing Shares will amount to approximately NOK 138 million and will be recognised in the statement of income as "other gains and losses".

4 Upon completion of the IPO, Elkem will pay a total purchase price of NOK 4,100 million for the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials which, less the continuity differences recognised against equity of NOK 3,889 million, will result in an increased consolidated equity of Elkem of NOK 211 million.

12.5 Description of income statement line items

Set forth below is a brief description of the composition of certain line items of the income statement. This description must be read in conjunction with the significant accounting policies in this section and in the notes to the Combined Financial Statements and the Consolidated Financial Statements set forth in this Prospectus.

12.5.1 Revenue

The Group principally generates revenues through the sale of the goods it produces. It also generates revenue through the sale of services and the sale of power.

Revenues from sales of the Group's products are recognised when it is probable that transactions will generate future economic benefits for the Group and the amount can be measured reliably. Revenue is measured at the fair value of the considerations received or receivable, net of VAT and discounts. The Group produces commoditized and specialised products for its customers. Revenue from the sale of each different product is recognised when the significant risk and reward of the ownership of the goods have passed to the buyer, according to the actual delivery terms for a sale. The delivery terms and the revenue recognition policies for the products from the different business segments are the same for commoditised and specialised products. Sales terms for all products are based on Incoterms 2010 issued by the International Chamber of Commerce. This ensures consistent revenue recognition across all of Elkem's segments. The main delivery terms used consistently across all segments in Elkem are as follows:

- "F" terms, where the buyer arranges and pays for the product's transportation. The risk and reward are passed to the buyer when the goods are handed over to the carrier engaged by the buyer, this is typically upon dispatch from Elkem's factory or warehouse;

- "C" terms, where the Elkem arranges and pays for transportation but without assuming the risks associated with transportation. The risk and reward are passed to the buyer when the goods are handed over to the carrier, this is typically upon dispatch from Elkem's factory or warehouse; and

- "D" terms, where the Elkem arranges and pays for transportation and retains the risk and rewards of the goods until delivery at the agreed destination. In such cases, the risk is considered transferred to the buyer upon arrival at the agreed destination, usually the purchaser's warehouse.

Elkem sells value-added services related to its customers' production processes, use of Elkem's products or a combination of both. The service or an identified portion of the service are provided within short time period and revenue is recognised upon completion of the service or identified portion thereof.

Elkem sells power when Elkem purchases power from suppliers delivered in a price area that are different from the area of demand. In order to transfer the power between the five price areas in Norway Elkem must sell the power in the area of purchase and purchase the power back in the area of demand. The transaction value of the power sold in the area where the power from suppliers are delivered is measured at spot value at the date of delivery.

12.5.2 Other operating income

Other operating income is mainly comprised of revenues from the sale of fixed assets, insurance settlements, government grants primarily related to the CO_2 Trading Scheme, and proceeds from the cancellation of supply contracts. Insurance settlement income is recognised when it is virtually certain that Elkem will receive compensation from the settlement.

12.5.3 Raw materials and energy for smelting

Raw materials and energy for smelting reflects the cost of raw materials, including freight expenses for bringing the raw materials to the plants and energy for smelting related to production of inventories, adjusted for change in the value of inventories. Additionally, it includes expenses related to purchase of power transferred from an area were the power from a supplier is delivered to the area were the plant is located. When Elkem purchase power from suppliers delivered in a price area that is different from the area of use, Elkem must sell the power in the area of purchase and purchase the power back in the area it is used. The transaction value of the power purchased back in the area where the plant is located is measured at spot value at the date of delivery.

12.5.4 Employee benefit expenses

Employee benefit expenses are mainly comprised of salaries paid to employees, national insurance contributions, pension costs and other non-cash benefits to senior employees.

12.5.5 Other operating expenses

Other operating expenses are mainly comprised of freight and commission expenses, purchase of spare parts, repair and maintenance expenses, fees paid to external advisers and the portion of research and development costs expensed in any given period.

12.5.6 Gross operating profit (loss)/Operating EBITDA

Gross operating profit (loss)/Operating EBITDA is comprised of total operating income after deducting raw materials, employee benefit expenses and other operating expenses.

12.5.7 Amortisation and depreciation

Amortisation and depreciation consists of the depreciation associated with the Group's physical assets such as its properties, plants and equipment. Depreciation is particularly related to the value and effective life of Elkem's factories, furnaces and other machinery. Depreciation is recognised using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. Amortisation relates to intangible assets such capitalised expenditures on research activities which are recognised as intangible assets and subsequently amortised when Elkem can demonstrate the technical feasibility of completing the intangible asset, has the intention to complete it, the ability to use it, can demonstrate that it will generate probable future economic benefits and the cost can be reliably measured.

12.5.8 Impairment

Impairment is the difference between the fair value of a tangible or intangible asset and the value at which the asset is currently recorded. At the end of each reporting period, Elkem's management reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss which is then recognised as an expense.

12.5.9 Other gains and losses

Other gains and losses are primarily comprised of ineffective cash flow hedges, net gains on foreign exchange forward contracts related to cash flows from operations and the change in the fair value of commodity contracts.

12.5.10 Finance expenses net

Finance expenses net is the net value of Elkem's interest income, interest expenses associated with borrowing, interest on pension liabilities and net foreign currency translation income or expenses on financial items, such as interest payments and loans.

12.5.11 Income from associates and joint ventures

Income from associates and joint ventures comprises Elkem's proportionate share of the profit of those companies in which it has an equity interest.

12.6 Recent developments and trends

12.6.1 Trading update

In the period since 31 December 2017, Elkem's total operating income and gross operating profit (loss)/Operating EBITDA have significantly exceeded management's expectations.

Sales prices so far in 2018 have been particularly strong for Silicon Materials, Foundry Products and Silicones, as market prices for silicon and ferrosilicon have been on an upward trend from the second half of 2017 and into 2018, following a fundamentally improved supply/demand balance.

For the months of January and February 2018, production volume has been in line with Management's expectations for all segments, whereas sale volumes were higher than Management's expectations in the Silicones and Foundry Products divisions and below expectations for Silicon Materials.

The integration of Xinghuo Silicones and Yongdeng Silicon Materials has continued at a faster pace and with better results in January and February than previously expected.

For other factors mentioned under Section 12.3 "Factors affecting the Group's results of operations", the Company has not observed any adverse material developments or trends during January and February.

12.6.2 Acquisitions of Xinghuo Silicones and Yongdeng Silicone Materials

Elkem entered into two separate equity transfer agreements on 30 January, 2018, with Bluestar Elkem Investment Co. Ltd. pursuant to which Bluestar Elkem Investment Co. Ltd. has agreed to transfer 100% of the shares in Xinghuo

Silicones and Yongdeng Silicon Materials to the Company. Completion of these transfers are conditional only upon a completion of the Listing.

12.6.3 The New Loan Facilities Agreement

Elkem signed a new loan facilities agreement with four banks, Nordea, DNB Bank ASA, Citibank and Natixis, dated as of 13 February 2018. The financing arrangement consists of a revolving credit facility (RCF) of EUR 250 million (NOK 2,461 million), a term loan facility of EUR 400 million (NOK 3,938 million), and a bridge financing term loan facility of EUR 500 million (NOK 4,922 million). The New Loan Facilities Agreement provides sufficient capacity for the refinancing of the Group’s outstanding indebtedness, including outstanding indebtedness of Xinghuo Silicones and Yongdeng Silicon Materials. The availability of the facilities under the New Loan Facilities Agreement is conditional upon completion of the Listing. See Section 12.11.4 “Financing arrangements”.

12.6.4 Revenue and Operating EBITDA targets

In early January 2018, Elkem established the below revenue and Operating EBITDA targets.

As of 31 December 2017, Elkem's Silicones and Silicon Materials divisions accounted for 77% of Elkem's total operating income on a combined basis, including intragroup sales. As a result of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, Elkem will gain access to a significant and well invested capacity reservoir which will ensure an attractive growth option. On a combined basis, Elkem's total operating income increased by 26% from 2016 to 2017. In the medium term, Elkem's established target is for revenues to reach approximately double world GDP growth and for 2018, the target is double digit revenue growth.

For 2018, Elkem expects that continued focus on efficiency improvements, effect of operational improvements at Fesil Rana and achieved benefits of operational leverage from its expected growth and current market conditions are some of the factors that will lead to an improved Operating EBITDA margin and Elkem's established target is Operating EBITDA margin improvements for 2018 in the area of 1.5 – 2.0 percentage points compared to 2017 levels. In the medium term, Elkem expects Operating EBITDA margins to gradually increase through specialisation and continued focus on efficiency improvements.

These revenue and Operating EBITDA margin targets are based on the present macro-economic environment, current visibility and current exchange rates for Elkem’s key currencies. Further, these targets constitute forward-looking statements. Forward-looking statements are not guarantees of future financial performance, and Elkem’s actual results could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described in Section 4.3 “Cautionary note regarding forward-looking statements”, Section 2 “Risk Factors” and Section 12 “Operating and Financial Review”. Investors are urged not to place undue reliance on any of the statements set forth above.

12.6.5 Certain ratios

Elkem estimates its equity ratio, defined as Elkem’s total equity divided by its total assets, will be approximately 40% after giving effect to the Listing, the Reorganisation and the refinancing as described in Section 12.11.4.2 “The refinancing”. This estimate is based on Elkem’s balance sheet as of 31 December 2017 and assumes that Elkem’s net proceeds from the Listing will be NOK 5,000 million, that the total purchase price of Xinghuo Silicones and Yongdeng Silicon Materials will be RMB 3,274 million (NOK 4,126.1 million[157]), that the refinancing is carried out on the terms described in Section 12.11.4.2 “The refinancing”, and further assumes the settlement of all intra-group receivables.

12.7 Combined results of operations

The table below sets forth a summary of the Group’s combined statement of income for the years ended 31 December 2017 and 2016.

[157] This amount is based on the estimated purchase price presented in the Consolidated Financial Statements for the year ended 31 December 2017, as described in Section 6.4 “Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials”, and deviates from the rounded amounts presented elsewhere in this Prospectus, see Sections 5 “Reasons for the Offering and the listing” and 10 “Capitalisation and Indebtedness”. The final purchase price will be determined at the time of completion of the IPO.

In NOK millions	Year ended 31 December 2017	2016
Revenues	21,132.6	16,721.6
Other operating income	235.6	199.2
Total operating income	**21,368.2**	**16,920.8**
Raw materials and energy for smelting	(10,824.5)	(8,941.8)
Employee benefit expenses	(3,144.8)	(2,817.3)
Other operating expenses	(4,245.3)	(3,625.3)
Gross operating profit (loss)	**3,153.6**	**1,536.4**
Amortisation and depreciation	(1,244.0)	(1,217.3)
Impairment loss	(16.8)	(77.8)
Other gains and losses	43.6	57.3
Operating profit (loss)	**1,936.4**	**298.7**
Income from associates and joint ventures	34.1	22.1
Finance income	30.4	36.6
Foreign exchange gains (losses)	(7.7)	49.7
Finance expenses	(474.5)	(486.7)
Profit before income tax	**1,518.8**	**(79.7)**
Income tax (expense) benefit	(269.4)	(188.6)
Profit (loss) for the year	**1,249.4**	**(268.2)**

Elkem's combined results of operations for the year ended 31 December 2017 compared with the year ended 31 December 2016 are discussed below. The discussion includes the results of the divisional segments and is based on the Combined Financial Statements.

12.7.1 Revenue

Revenue increased by NOK 4,411.0 million, or 26.4%, from NOK 16,721.6 million for the year ended 31 December 2016 to NOK 21,132.6 million for the year ended 31 December 2017 principally as a result of improved revenues from all divisions. Generally, all divisions experienced higher sales prices, improved sales volumes and improvements in product mix which in the aggregate contributed to the Group's revenue improvements.

The table below sets out Elkem's combined revenue[158] by operating segment for the years ended 31 December 2017 and 2016. The figures below represent revenue earned on external sales to customers, and do not reflect intra-Group sales or related party transactions. The discussion that follows includes a discussion of intra-Group sales as well in order to reflect the Group's overall production and sales capacity. Such intra-Group sales were eliminated upon consolidation.

(in NOK millions)	Year ended 31 December 2017	2016
Silicones	9,922.5	7,547.7
Silicon Materials	5,006.4	4,049.7
Foundry Products	4,033.2	3,467.9
Carbon	1,357.2	1,172.8
Other	813.3	483.6
Total revenues	**21,132.6**	**16,721.6**

12.7.1.1 Silicones

Revenue from the Silicones division increased by NOK 2,374.7 million, or 31.5%, from NOK 7,547.7 million for the year ended 31 December 2016 to NOK 9,922.5 million for the year ended 31 December 2017, principally as a result of strong volume increases in specialty products worldwide and in commodity products in China, attributable to improved results from Xinghuo Silicones, combined with positive price trends in all market segments and regions.

[158] Revenue from sale of goods and other revenue (other revenue mainly consist of sale of services and energy).

In addition, for the year ended 31 December 2017, the Silicones division earned revenue of NOK 10 million from sales to other operating divisions within the Group, which was an increase of NOK 8 million as compared to the year ended 31 December 2016.

12.7.1.2 Silicon Materials

Revenue from the Silicon Materials division increased by NOK 956.7 million, or 23.6%, from NOK 4,049.7 million for the year ended 31 December 2016 to NOK 5,006.4 million for the year ended 31 December 2017 principally as a result of the inclusion of full year figures for Elkem Rana for 2017 in addition to improved sales pricing for silicon and ferrosilicon in 2017 compared to 2016.

In addition, for the year ended 31 December 2017, the Silicon Materials division earned revenue of NOK 1,334.9 million from sales to other operating divisions within the Group, which was an increase of NOK 190.1 million as compared to the year ended 31 December 2016. The main sales to other operating divisions within the Group related to the sale of silicon to the Silicones division.

12.7.1.3 Foundry Products

Revenue from the Foundry Products division increased by NOK 565.3 million, or 16.3%, from NOK 3,467.9 million for the year ended 31 December 2016 to NOK 4,033.2 million for the year ended 31 December 2017 principally as a result of higher sales prices for ferrosilicon to customers in the steel industry and increased sales volumes of specialty products. The acquisition of a new production entity in India in December 2016 contributed NOK 131.7 million for 2017.

In addition, for the year ended 31 December 2017, the Foundry Products division earned revenue of NOK 175.1 million from sales to other operating divisions within the Group, which was an increase of NOK 32.2 million as compared to the year ended 31 December 2016.

12.7.1.4 Carbon

Revenue from the Carbon division increased by NOK 184.4 million, or 15.7%, from NOK 1,172.8 million in the year ended 31 December 2016 to NOK 1,357.2 for the year ended 31 December 2017 as a result of stable prices and increased sales volumes of Søderberg electrode paste, ramming paste and elgraph.

In addition, for the year 31 December 2017, the Carbon division earned revenue of NOK 214.5 million from sales to other divisions within the Group, which was an increase of NOK 18.3 million as compared to the year ended 31 December 2016.

12.7.1.5 Other

Revenue from the Other financial segment increased by NOK 329.7 million, or 68.2%, from NOK 483.6 million for the year ended 31 December 2016 to NOK 813.3 million for the year ended 31 December 2017 primarily due to increased revenues from sales and logistics activities, higher power prices and reduced loss on power hedging compared to 2016.

12.7.2 Other operating income

Other operating income increased by NOK 36.4 million, or 18.3%, from NOK 199.2 million for the year ended 31 December 2016 to NOK 235.6 million for the year ended 31 December 2017 principally as a result of increased other revenue for Silicones. The increase related to an insurance settlement received in 2017 and an increase in tax credit relating to research and development in 2017 compared to 2016. Increased income from Elkem Technology and an insurance settlement in Bjølvefossen also contributed to the increase.

12.7.3 Raw materials and energy for smelting

The cost of raw materials and energy for smelting increased by NOK 1,882.7 million, or 21.1%, from NOK 8,941.8 million for the year ended 31 December 2016 to NOK 10,824.5 million for the year ended 31 December 2017 principally as a result of an increase in raw material costs following increased sales volumes.

12.7.4 Employee benefit expenses

Employee benefit expenses increased by NOK 327.5 million, or 11.6%, from NOK 2,817.3 million for the year ended 31 December 2016 to NOK 3,144.8 million for the year ended 31 December 2017 principally as a result of higher headcount, mainly due to the acquisition or inclusion of new entities, in addition to inflation effects.

12.7.5 Other operating expenses

Other operating expenses increased by NOK 620.0 million, or 17.1%, from NOK 3,625.3 million for the year ended 31 December 2016 to NOK 4,245.3 million for the year ended 31 December 2017 principally as a result of the acquisition or inclusion of new entities.

12.7.6 Gross operating profit (loss)/Operating EBITDA

Gross operating profit (loss)/Operating EBITDA increased by NOK 1,617.2 million, or 105.3%, from 1,536.4 million for the year ended 31 December 2016 to NOK 3,153.6 million for the year ended 31 December 2017 primarily as a result of improved financial performance in Silicones, as well as Silicon Materials and Foundry Products. The primary drivers for improved gross operating profit (loss)/Operating EBITDA were higher sales prices, improved sales volumes and a more favourable product mix. Improved results from Xinghuo Silicones also contributed significantly to the increase.

The table below sets out Elkem's combined gross operating profit (loss) by operating segment for the years ended 31 December 2017 and 2016.

	Year ended 31 December	
(in NOK millions)	**2017**	**2016**
Silicones	1,515.4	402.3
Silicon Materials	804.0	602.2
Foundry Products	707.4	502.6
Carbon	273.7	275.3
Other	(118.8)	(253.6)
Eliminations	(28.1)	7.6
Total gross operating profit (loss) / Operating EBITDA	**3,153.6**	**1,536.4**

12.7.6.1 Silicones

Gross operating profit/Operating EBITDA from the Silicones division increased by NOK 1,113.1 million, or 276.7%, from NOK 402.3 million for the year ended 31 December 2016 to NOK 1,515.4 million for the year ended 31 December 2017 principally as a result of specialty products and commodities sales volume increases and positive price trends in the second half of the year, as well as strong results from Xinghuo Silicones. The overall silicones market demand remained very strong combined with tighter supply especially in Europe and China, which led to strong price increases.

12.7.6.2 Silicon Materials

Gross operating profit/Operating EBITDA from the Silicon Materials division increased by NOK 201.8 million, or 33.5%, from NOK 602.2 million for the year ended 31 December 2016 to NOK 804.0 million for the year ended 31 December 2017 principally as a result of the inclusion of Elkem Rana full year figures in 2017 and considerable improvements in Yongdeng Silicon Materials' profitability following improved silicon pricing.

12.7.6.3 Foundry Products

Gross operating profit/Operating EBITDA from the Foundry Products division increased by NOK 204.8 million, or 40.7%, from NOK 502.6 million for the year ended 31 December 2016 to NOK 707.4 million for the year ended 31 December 2017 principally as a result of higher sales prices for ferrosilicon to customers in the steel industry and increased sales volumes of specialty products. Production issues in two of the major plants had a negative impact on operating profit in 2017, as did the very strong ISK currency.

12.7.6.4 Carbon

Gross operating profit/Operating EBITDA for the Carbon division remained flat at NOK 275.3 million in the year ended 31 December 2016 and NOK 273.7 million in the year ended 31 December 2017. Volume increases had a positive effect, but were offset by a reduction in contribution margin, mainly for electrode paste. This was caused by a strong price increase for pitch, which is one of the main raw materials for that product.

12.7.6.5 Other

Gross operating loss/Operating EBITDA from the Other segment decreased by NOK 134.8 million, or 53.2%, from a loss of NOK 253.6 million for the year ended 31 December 2016 to a loss of NOK 118.8 million for the year ended 31 December 2017, primarily due to reduced loss on currency hedges.

12.7.7 Amortisation and depreciation

Amortisation and depreciation increased by NOK 26.8 million, or 2.2%, from NOK 1,217.3 million for the year ended 31 December 2016 to NOK 1,244.0 million for the year ended 31 December 2017.

12.7.8 Impairment loss

The Group recognised an impairment for the year ended 31 December 2017 in the amount of NOK 16.8 million primarily relating to a write down of fixed assets at the Bjølvefossen plant, and an impairment for the year ended 31 December 2016 in the amount of NOK 77.8 million primarily relating to Xinghuo Silicones.

12.7.9 Other gains and losses

Other gains and losses decreased by NOK 13.6 million from a gain of NOK 57.3 million for the year ended 31 December 2016 to a gain of NOK 43.6 million for the year ended 31 December 2017, principally as a result of change in fair value of power contracts and changes in operating foreign exchange gain/loss.

12.7.10 Operating profit/(loss)

Operating profit increased by NOK 1,637.7 million, or 548.0%, from NOK 298.7 million for the year ended 31 December 2016 to NOK 1,936.4 million for the year ended 31 December 2017 principally as a result of the movements discussed above.

12.7.11 Income from associates and joint ventures

Income from associates and joint ventures increased by NOK 12 million, or 54.3%, from NOK 22.1 million for the year ended 31 December 2016 to NOK 34.1 million for the year ended 31 December 2017.

12.7.12 Finance income

Finance income decreased by NOK 6.1 million, or 16.8%, from NOK 36.6 million for the year ended 31 December 2016 to NOK 30.4 million for the year ended 31 December 2017 principally as a result of lower interest income.

12.7.13 Foreign exchange gains

Foreign exchange gains decreased by NOK 57.4 million from a gain of NOK 49.7 million for the year ended 31 December 2016 to loss of NOK 7.7 million for the year ended 31 December 2017.

12.7.14 Finance expenses

Finance expenses decreased by NOK 12.2 million, or 2.5%, from NOK 486.7 million for the year ended 31 December 2016 to NOK 474.5 million for the year ended 31 December 2017 principally as a result of lower interest costs.

12.7.15 Income tax

The Group incurred tax expense in the amount of NOK 269.4 million for the year ended 31 December 2017, as compared to NOK 188.6 million for the year ended 31 December 2016. The increase in tax incurred was primarily caused by an increase in profit before tax.

12.7.16 Profit/(Loss) for the year

Profit for the year ended 31 December 2017 was NOK 1,249.4 million compared to a loss of NOK 268.2 million for the year ended 31 December 2016 as a result of the reasons discussed above.

12.8 Consolidated results of operations for the year ended 31 December 2016 compared with year ended 31 December 2015

The table below sets forth a summary of the Group's consolidated statement of income for the years ended 31 December 2016 and 2015.

In NOK millions	Year ended 31 December 2016	2015
Revenues	14,045.4	14,361.4
Other operating income	180.8	179.7
Total operating income	**14,226.2**	**14,541.1**
Raw materials and energy for smelting	(6,899.0)	(6,847.0)
Employee benefit expenses	(2,560.0)	(2,439.0)
Other operating expenses	(3,149.4)	(3,048.1)
Gross operating profit (loss)	**1,617.8**	**2,207.0**
Amortisation and depreciation	(717.8)	(674.4)
Impairment loss	(11.8)	(1.8)
Other gains and losses	52.4	(221.0)
Operating profit (loss)	**940.6**	**1,309.8**
Income from associates and joint ventures	22.1	21.3
Finance income	22.6	57.5
Foreign exchange gains (losses)	49.7	32.5
Finance expenses	(88.5)	(154.1)
Profit (loss) before income tax	**946.5**	**1,267.1**
Income tax (expense) benefit	(188.6)	(424.7)
Profit (loss) for the year from continued operations	**758.0**	**842.4**
Profit (loss) for the year from discontinued operations	0	7.1
Profit (loss) for the year	**758.0**	**835.3**

Elkem's consolidated results of operations for the year ended 31 December 2016 compared with the year ended 31 December 2015 are discussed below. The discussion includes the results of the divisional segments and is based on the Consolidated Financial Statements.

12.8.1 Revenue

Revenue decreased by NOK 316 million, or 2.2%, from NOK 14,361.4 million for the year ended 31 December 2015 to NOK 14,045.4 million for the year ended 31 December 2016. This decrease was principally a result of decreases in sales prices, partly offset by increased sales volumes, across most segments. The decrease in revenue was particularly attributable to a decrease in revenue in Elkem's Silicon Materials division, where revenue decreased by NOK 270.5 million, or 6.4%, from NOK 4,225.3 million in 2015 to NOK 3,954.8 million in 2016 primarily due to lower sales prices for silicon, as further described below, partly offset by an increase in sales volumes from 133.5 kMT in 2015 to 146.3 kMT in 2016.

The table below sets out Elkem's consolidated revenue[159] by operating segment for the years ended 31 December 2016 and 2015. The figures below represent revenue earned on external sales to customers, and do not reflect intra-Group sales or related party transactions. The discussion that follows includes a discussion of intra-Group sales in order to reflect the Group's overall production and sales capacity. Such intra-Group sales were eliminated upon consolidation.

In NOK millions	Year ended 31 December 2016	2015
Silicones	4,966.3	4,936.8
Silicon Materials	3,954.8	4,225.3
Foundry Products	3,467.9	3,475.4
Carbon	1,172.7	1,200.5

[159] Revenue from sale of goods and other revenue (other revenue mainly consist of sale of services and energy).

Other	483.5	523.3
Total revenue	**14.045.4**	**14,361.4**

12.8.1.1 Silicones

Revenue from the Silicones division remained relatively flat at NOK 4,936.8 million for the year ended 31 December 2015 and NOK 4,966.3 million for the year ended 31 December 2016. Positive product mix developments and currency effects were offset by overall volume and sales price decreases. The sales volume decreased by 6.3 kMT from 126.8 kMT in 2015 to 120.5 kMT in 2016, due in part to limited availability during a regulatory maintenance shutdown affecting Roussillon. Sales prices decreased due to raw material and energy cost decreases.

In addition, for the year ended 31 December 2016, the Silicones division earned revenue of NOK 2.2 million from sales to other operating divisions within the Group, which was an increase of NOK 2.2 million as compared to the year ended 31 December 2015.

12.8.1.2 Silicon Materials

Revenue from the Silicon Materials division decreased by NOK 270.5 million, or 6.4%, from NOK 4,225.3 million for the year ended 31 December 2015 to NOK 3,954.8 million for the year ended 31 December 2016 principally as a result of a drop in the sales prices of silicon as a result of a peak in 2015 when prices reached a high level partly due to production limitations in Brazil impacting exports to Europe, and resulting in an undersupply of Si-99, and the subsequent fall in prices when production limitations were resolved and production capacity came on stream again. Sales volumes in the Silicon Materials division increased from 133.5 kMT in 2015 to 146.3 kMT in 2016 which was attributable to a significant increase in sales volumes to customers in the chemical and aluminium industries.

In addition, for the year ended 31 December 2016, the Silicon Materials division earned revenue of NOK 520.4 million from sales to other operating divisions within the Group, which was an increase of NOK 36.4 million as compared to the year ended 31 December 2015, due mainly to sales to the Silicones division.

12.8.1.3 Foundry Products

Revenue from the Foundry Products division remained relatively flat at NOK 3,475.4 million for the year ended 31 December 2015 and NOK 3,467.9 million for the year ended 31 December 2016. The division experienced a drop in the sales prices of ferrosilicon in 2016. Increased sales volumes of specialty foundry products compensated for most of the revenue loss from lower ferrosilicon sales prices.

In addition, for the year ended 31 December 2016, the Foundry Products division earned revenue of NOK 143.0 million from sales to other operating divisions within the Group, which was a decrease of NOK 25.8 million as compared to the year ended 31 December 2015.

12.8.1.4 Carbon

Revenue from the Carbon division decreased by NOK 27.8 million, or 2.3%, from NOK 1,200.5 million in the year ended 31 December 2015 to NOK 1,172.8 million in the year ended 31 December 2016, as a result of reduced revenues of NOK 65 million from Søderberg electrode paste and ramming paste, which were partially offset by increased revenues from prebaked electrodes resulting from an increase in sales prices of 31% from 2015 to 2016, as well as increased sales volumes and increased revenues in the amount of NOK 46 million from the sales of products from carboderivados.

In addition, for the year 31 December 2016, the Carbon division earned revenue of NOK 196.1 million from sales to other divisions within the Group, which was an increase of NOK 14.3 million as compared to the year ended 31 December 2015.

12.8.1.5 Other

Revenue from the Other financial segment decreased by NOK 39.8 million, or 17.6%, from NOK 523.3 million for the year ended 31 December 2015 to NOK 483.5 million for the year ended 31 December 2016 primarily due to reduced income from sales and logistics as well as hedging losses.

12.8.2 Other operating income

Other operating income remained flat at NOK 179.7 million for the year ended 31 December 2015 and NOK 180.8 million for the year ended 31 December 2016.

12.8.3 Raw materials and energy for smelting

The cost of raw materials and energy for smelting remained relatively flat at NOK 6,847.0 million for the year ended 31 December 2015 and NOK 6,899.0 million for the year ended 31 December 2016, despite increased sales volumes, principally because of declines in market prices for key raw materials, including methyl chloride, platinum, and coal, among others, as well as energy.

12.8.4 Employee benefit expenses

Employee benefit expenses increased by NOK 121 million, or 5.0%, from NOK 2,439.0 million for the year ended 31 December 2015 to NOK 2,560.0 million for the year ended 31 December 2016 principally as a result of an increase in salaries and other benefits due to an increase in headcount of approximately 180. The increased headcount was mainly a consequence of Elkem's acquisitions of the Minex foundry and Fesil Rana Metall.

12.8.5 Other operating expenses

Other operating expenses increased by NOK 101.3 million, or 3.3%, from NOK 3,048.1 million for the year ended 31 December 2015 to NOK 3,149.4 million for the year ended 31 December 2016 principally as a result of increased costs for external services.

12.8.6 Gross operating profit (loss)/Operating EBITDA

Elkem's gross operating profit/Operating EBITDA decreased by NOK 589.2 million, or 26.7%, from NOK 2,207.0 million for the year ended 31 December 2015 to NOK 1,617.8 million for the year ended 31 December 2016 principally as a result of significant declines in Operating EBITDA in Silicon Materials and Foundry Products principally due to lower sales prices in 2016 compared to 2015, partly offset by an increase in sales volumes as described above.

The table below sets out Elkem's consolidated gross operating profit (loss)by operating segment for the years ended 31 December 2016 and 2015.

	Year ended 31 December	
(in NOK millions)	**2016**	**2015**
Silicones	413.0	469.8
Silicon Materials	673.0	907.2
Foundry Products	502.6	717.1
Carbon	275.3	275.0
Other	(253.6)	(151.9)
Eliminations	7.6	(10.1)
Total Gross Operating Profit (loss)	**1,617.8**	**2,207.0**

12.8.6.1 Silicones

Gross operating profit/Operating EBITDA decreased by NOK 56.8 million, or 12.1%, from NOK 469.8 million for the year ended 31 December 2015 to NOK 413.0 million for the year ended 31 December 2016 primarily as a result of negative price and volume effects as selling prices decreased following raw material and energy cost decreases, as described above, and raw material sourcing issues impacted volumes of commodities available for sale. Such negative impacts were partially offset by lower raw material and energy costs as described above as well as positive product mix effects as Elkem actively managed product allocations in favour of specialty products.

12.8.6.2 Silicon Materials

Gross operating profit/Operating EBITDA from the Silicon Materials division decreased by NOK 234.2 million, or 25.8%, from NOK 907.2 million for the year ended 31 December 2015 to NOK 673.0 million for the year ended 31 December 2016 principally as a result of lower selling prices resulting from a decline in reference prices for Si-99, for the reasons described above, offset by an increase in sales volumes attributable to strong 2016 production volumes and increased sales to customers in the chemicals and aluminium industries.

12.8.6.3 Foundry Products

Gross operating profit/Operating EBITDA from the Foundry Products division decreased by NOK 214.5 million, or 29.9%, from NOK 717.1 million for the year ended 31 December 2015 to NOK 502.6 million for the year ended 31 December 2016 principally as a result of lower selling prices for ferrosilicon due to the decline in reference prices for

FeSI-75, as discussed above. Improved production processes and higher sales of specialty products compensated for some of the negative effect of lower ferrosilicon sales prices.

12.8.6.4 Carbon

Gross operating profit/Operating EBITDA for the Carbon division was unchanged from NOK 275.0 million in the year ended 31 December 2015 to NOK 275.3 million in the year ended 31 December 2016. The positive effect of additional volumes from Carboderivados and increased sales prices and volumes of prebaked electrodes were offset by reduced sales of Søderberg electrode paste and ramming paste.

12.8.6.5 Other

Gross operating loss/Operating EBITDA from the Other segment decreased by NOK 101.7 million, or 67.0%, from a loss of NOK 151.9 million for the year ended 31 December 2015 to a loss of NOK 253.6 million for the year ended 31 December 2016, primarily due to hedging effects of currency resulting in weaker Operating EBITDA in 2016 in both power and currency, in addition to 2015 being positively impacted by the receipt of government payments in connection with the EU's CO_2 Trading Scheme for the years 2013 and 2014.

12.8.7 Amortisation and depreciation

Amortisation and depreciation increased by NOK 43.4 million, or 6.4%, from NOK 674.4 million for the year ended 31 December 2015 to NOK 717.8 million for the year ended 31 December 2016 principally due to increased depreciation of assets in the Silicones and Foundry Products divisions.

12.8.8 Impairment loss

The Group recognised an impairment for the year ended 31 December 2016 in the amount of NOK 11.8 million primarily relating to write down of assets in the Foundry Products division and Silicon Materials division, and an impairment for the year ended 31 December 2015 in the amount of NOK 1.8 million.

12.8.9 Other gains and losses

Other gains and losses increased by NOK 273.4 million from a loss of NOK 221.0 million for the year ended 31 December 2015 to a gain of NOK 52.4 million for the year ended 31 December 2016, principally as a result of gains in change in fair value commodity contracts, and a decrease in write downs on shares in 2016, following a NOK 30.4 million share write-down on shares in Bluestar Silicones Tianjin Co. Ltd, in 2015 partly offset by losses on cash flow hedges, a decline in net foreign exchange gains and an increase in operating foreign exchange losses.

12.8.10 Operating profit/(loss)

Operating profit decreased by NOK 369.2 million, or 28.2%, from NOK 1,309.8 million for the year ended 31 December 2015 to NOK 940.6 million for the year ended 31 December 2016 principally as a result of the movements discussed above.

12.8.11 Income from associates and joint ventures

Income from associates and joint ventures increased by NOK 0.8 million, or 3.8%, from NOK 21.3 million for the year ended 31 December 2015 to NOK 22.1 million for the year ended 31 December 2016.

12.8.12 Finance income

Finance income decreased by NOK 34.9 million, or 60.7%, from NOK 57.5 million for the year ended 31 December 2015 to NOK 22.6 million for the year ended 31 December 2016 principally as a result of a decrease in interest income related to loans to Elkem Solar AS which were sold to Bluestar Elkem Investment Co. Ltd. in 2015.

12.8.13 Foreign exchange gains

Foreign exchange gains increased by NOK 17.1 million, or 52.6%, from NOK 32.5 million for the year ended 31 December 2015 to NOK 49.7 million for the year ended 31 December 2016.

12.8.14 Finance expenses

Finance expenses decreased by NOK 65.6 million, or 42.6%, from NOK 154.1 million for the year ended 31 December 2015 to NOK 88.5 million for the year ended 31 December 2016 principally as a result of a reduction of external debt in the Silicones division.

12.8.15 Income tax

The Group incurred tax expense in the amount of NOK 188.6 million for the year ended 31 December 2016, as compared to NOK 424.7 million for the year ended 31 December 2015. The decrease in tax incurred was primarily caused by the decline in profit before income tax, a reduction in the tax rate and capitalisation of tax loss carry forwards.

12.8.16 Profit/(loss) for the year

Profit for the year ended 31 December 2016 was NOK 758.0 million compared to NOK 835.3 million for the year ended 31 December 2015. The decrease in profit of NOK 77.3 million was a result of the reasons discussed above.

12.9 Balance sheet as of 31 December 2017 compared to balance sheet as of 31 December 2016

The following table presents a summary balance sheet for Elkem as of 31 December 2017 and 2016 on a combined basis.

	As of 31 December	
In NOK millions	**2017**	**2016**
Property, plant and equipment	11,950.4	11,410.4
Goodwill	326.3	342.6
Other intangible assets	911.0	892.0
Deferred tax assets	89.6	67.3
Investment in joint ventures	97.9	109.0
Interest in associates and other companies	112.0	100.5
Derivatives	151.6	119.2
Other non-current assets	355.9	392.8
Total non-current assets	**13,994.6**	**13,433.8**
Inventories	4,099.2	3,792.3
Accounts receivable	2,518.4	1,952.5
Derivatives	33.4	56.4
Other current assets	2,090.9	1,621.9
Restricted deposits	1,019.8	915.0
Cash and cash equivalents	1,750.9	1,319.8
Total current assets	**11,512.7**	**9,657.9**
Total assets	**25,507.3**	**23,091.7**
Paid-in capital	2,918.2	3,088.2
Retained earnings	5,545.1	2,654.5
Non-controlling interest	101.6	87.6
Total equity	**8,564.9**	**5,830.3**
Non-current interest-bearing liabilities	4,585.0	5,113.5
Deferred tax liabilities	104.6	114.2
Pension liabilities	444.8	425.5
Derivatives	379.0	561.1
Provisions and other non-current liabilities	426.2	506.0
Total non-current liabilities	**5,939.5**	**6,720.3**
Accounts payable	2,650.4	2,310.5
Income tax payables	138.9	99.6
Interest-bearing current liabilities	3,647.3	4,204.2
Bills payable	2,649.8	2,418.9
Derivatives	246.7	128.0
Provisions and other current liabilities	1,669.8	1,379.8
Total current liabilities	**11.002.9**	**10,541.1**
Total equity and liabilities	**25,507.3**	**23,091.7**

12.9.1 Combined figures for 31 December 2017 compared with combined figures for 31 December 2016

Total non-current assets increased by NOK 560.8 million, or 4.2%, from NOK 13,433.8 million as of 31 December 2016 to NOK 13,994.6 million as of 31 December 2017, primarily due to an increase in property, plant and equipment.

Total current assets increased by NOK 1,854.7 million, or 19.2%, from NOK 9,657.9 million as of 31 December 2016 to NOK 11,512.6 million as of 31 December 2017. The increase in total current assets mainly related to increases in other current assets, accounts receivables and cash.

Total equity increased by NOK 2,734.6 million, or 46.9%, from NOK 5,830.3 million as of 31 December 2016 to NOK 8,564.9 million as of 31 December 2017, primarily as a result of total comprehensive income for the year and conversion of liabilities of NOK 1,571 million offset by dividends to shareholders of NOK 196 million (including NOK 26.1 million in dividends to non-controlling interests). Total non-current liabilities decreased by NOK 780.8 million, or 11.6% from NOK 6,720.3 million as of 31 December 2016 to NOK 5,939.5 million as of 31 December 2017, mainly as a result of decreases in non-current interest-bearing liabilities and derivatives. Total current liabilities increased by NOK 461.8 million, or 4.4%, from NOK 10,541.1 million as of 31 December 2016 to NOK 11,002.9 million as of 31 December 2017, primarily as a result of increases in accounts and bills payable and provisions and other current liabilities.

12.10 Balance sheet as of 31 December 2016 compared to balance sheet as of 31 December 2015

The following table presents a summary of the balance sheet for Elkem as of 31 December 2016 and 2015 on a consolidated basis.

	As of 31 December	
In NOK millions	**2016**	**2015**
Property, plant and equipment	5.909.1	5,602.2
Goodwill	342.6	244.1
Other intangible assets	693.0	643.5
Deferred tax assets	67.3	324.0
Investment in joint ventures	109.0	67.5
Interest in associates and other companies	100.5	96.0
Derivatives	119.2	40.5
Other non-current assets	370.7	217.2
Total non-current assets	**7,711.4**	**7,235.0**
Inventories	3,339.4	3,302.2
Accounts receivable	1,870.8	1,864.0
Derivatives	56.4	14.3
Other current assets	604.7	755.7
Cash and cash equivalents	1,230.7	1,305.6
Total current assets	**7,101.9**	**7,241.9**
Total assets	**14,813.3**	**14,476.9**
Paid-in capital	3,088.2	3,088.2
Retained earnings	4,283.3	2,955.6
Non-controlling interest	87.6	123.2
Total equity	**7,459.0**	**6,167.0**
Interest-bearing non-current liabilities	2,834.9	3,051.9
Deferred tax liabilities	114.2	124.5
Pension liabilities	425.5	393.7
Derivatives	561.1	925.9
Provisions and other non-current liabilities	463.6	262.2
Total non-current liabilities	**4,399.2**	**4,758.2**
Accounts payable	1,527.6	1,448.6
Income tax payables	99.4	128.5
Interest-bearing current liabilities	278.0	328.0
Derivatives	128.0	615.2
Provisions and other current liabilities	922.1	1,031.4
Total current liabilities	**2,955.1**	**3,551.6**
Total equity and liabilities	**14,813.3**	**14,476.9**

12.10.1 Consolidated figures for 31 December 2016 compared with consolidated figures for 31 December 2015

Total non-current assets increased by NOK 476.4 million, or 6.6%, from NOK 7,235.0 million as of 31 December 2015 to NOK 7,711.4 million as of 31 December 2016, primarily due to an increase in property, plant and equipment. Total current assets decreased by NOK 140 million, or 1.9%, from NOK 7,241.9 million as of 31 December 2015 to NOK 7,101.9 million as of 31 December 2016. The decrease in total current assets mainly related to a decrease in other current assets as well as a decrease in cash and cash equivalents.

Total equity increased by NOK 1,292.0 million, or 21.0%, from NOK 6,167.0 million as of 31 December 2015 to NOK 7,459.0 million as of 31 December 2016, primarily as a result of an increase in retained earnings. Total non-current liabilities decreased by NOK 359.0 million, or 7.5% from NOK 4,758.2 million as of 31 December 2015 to NOK 4,399.2 million as of 31 December 2016, mainly as a result of a decrease in non-current interest bearing liabilities and derivatives, offset by an increase in provision recorded in a newly acquired company, Elkem Rana. Total current liabilities decreased by NOK 596.5 million, or 16.8%, from NOK 3,551.6 million as of 31 December 2015 to NOK 2,955.1 million as of 31 December 2016, primarily as a result of a decrease in derivatives.

12.11 Liquidity and capital resources

12.11.1 General

Elkem's liquidity requirements primarily relate to investments in the maintenance and refurbishment of its existing production capacity, brownfield and greenfield expansion of its production capacity, payment of interest on its existing debt and funding of its working capital requirements. Elkem's principal sources of liquidity are cash generated by its operations and debt financing from banks and other financial institutions. Elkem's goal is to have an efficient capital structure at all times in order to mitigate its overall financial exposure, ensure financial capacity to pay dividends and maintain its ability to pursue selective growth opportunities. Elkem generally targets a leverage ratio in the range of 1.5 – 2.0x. In addition, Elkem's policy is to have sufficient liquidity reserves to cover known capital needs for the next 12 to 18 months. The liquidity reserve, defined as cash and available credit lines, is expected to be no less than 10% of Elkem's annual turnover.

Elkem's cash balance, based on its Combined Financial Statements as of 31 December 2017, amounted to NOK 1,751 million, and was mainly comprised of the following currencies: NOK, CNY and EUR. A portion of the cash balance is held at subsidiary level and in the local operating currency of those subsidiaries to cover daily liquidity requirements for the subsidiaries rather than being part of Elkem's central cash pool.

Elkem's ability to generate cash from operations depends on its future operating performance, which is, in turn, dependent, to some extent, on general economic, financial, competitive, market regulatory and other facts, many of which are beyond the Group's control, as well as other facts described in Section 2 "Risk Factors". Cash flow hedging is based on a combination of contracted cash flows (actual transactions) and en bloc hedging for expected cash flows based on rolling 12-month forecasts. Contracted net cash flows for up to three months in foreign currencies are normally hedged for 90% of their value. For expected net cash flows between 4 to 12 months, Elkem's target is to hedge 45% of their value. This hedge percentage may vary between 25% and 75% based on the operating margin Elkem can secure and sensitivity to risk of breaching covenants. Forward contracts are the main financial instruments used to hedge currency risk. The hedging portfolio is generally rebalanced on a weekly basis.

In addition to the cash balance, Elkem had, as of 31 December 2017, a revolving credit facility of EUR 200 million (NOK 1,969 million) and a term loan of EUR 275 million (NOK 2,707 million) and certain other facilities with undrawn borrowing capacity of NOK 307 million. As of 31 December 2017, the revolving credit facility was undrawn. In connection with the Listing, Elkem has entered into new loan facilities, which include facilities with an aggregate principal amount of EUR 1,150 million (NOK 11,321.5 million), to refinance existing indebtedness as well as to finance general corporate purposes and working capital needs. As Elkem's main sales revenues are in EUR and USD, its policy is primarily to have interest bearing debt in these currencies to match incoming cash flows. The policy also calls for floating interest rates, as these are expected to provide Elkem with a natural hedge because interest rates tend to go down in an economic downturn and rise in an economic upturn. Elkem does not believe that its liquidity, cash and capital resources have changed significantly between 31 December 2017 and the date of the Prospectus. The refinancing referred to above, which will take place shortly after Listing, will impact Elkem's outstanding indebtedness. However, the maturity profile will be extended and the revolving credit facility will increase from EUR 200 million (NOK 1,865 million) to EUR 250 million (NOK 2,461 million), hence Elkem considers the overall impact will be positive. See Section 12.11.4 "Financing arrangements".

Elkem has projects which are entitled to government grants. These projects include R&D funding, CO2 allowance, and energy recovery, among others. Grants are received for specific projects and recorded as other operating income or as net of investments. In 2017, 2016 and 2015 Elkem received grants in the aggregate amount of NOK 232 million, NOK 215 million and NOK 200 million.

Elkem believes that its operating cash flows and borrowing capacity will be sufficient to meet its requirements and commitments for the foreseeable future. The Company's actual financing requirements depend on a number of factors, many of which are beyond its control.

12.11.2 Cash flows – for the years ended 31 December 2017 and 2016

The following table presents primary components of Elkem's combined cash flows for the years ended 31 December 2017 and 2016.

In NOK millions	Years ended 31 December 2017	2016
Cash flow from operating activities	2,231.0	1,025.7
Cash flow from investing activities	(1,102.9)	(1,271.3)
Cash from financing activities	(713.7)	159.4
Change in cash and cash equivalents	**414.4**	**(86.2)**

12.11.2.1 Combined figures for year ended 31 December 2017 compared with combined figures for year ended 31 December 2016

Cash flow from operating activities increased by NOK 1,205.3 million from a cash inflow of NOK 1,025.7 million for the year ended 31 December 2016 to a cash inflow of NOK 2,231.0 million for the year ended 31 December 2017. The main factors driving this year-on-year change were significantly higher operating profit (NOK 1,936.4 million in 2017 vs NOK 298.7 million in 2016), offset by a net outflow in working capital between 2016 and 2017 due to increases in inventory and accounts receivable.

Cash flow used in investing activities decreased by NOK 168.4 million from a cash outflow of NOK 1,271.3 million for the year ended 31 December 2016 to a cash outflow NOK 1,102.9 million for the year ended 31 December 2017. The decrease was primarily attributable to net outflows from the acquisitions of Rana and Minex, net of cash acquired, in 2016, followed by fewer such outflows in 2017, offset by an increase in outflows attributable to investments in property, plant and equipment.

Cash flow used in financing activities increased by NOK 873.1 million from a cash inflow of NOK 159.4 million for the financial year ended 31 December 2016 to a cash outflow of NOK 713.7 million for the year ended 31 December 2017. This increase in outflows was primarily driven by net payments on interest bearing liabilities including bills payable and increases in outflows due to dividends paid to the owner of the parent, offset by net inflows in bills payable and restricted deposits.

12.11.3 Cash flows – for the years ended 31 December 2016 and 2015

The following table presents primary components of Elkem's consolidated cash flows for the years ended 31 December 2016 and 2015.

In NOK millions	Years ended 31 December 2016	2015
Cash flow from operating activities	1,304.0	1,820.2
Cash flow from investing activities	(1,199.0)	(1,063.6)
Cash from financing activities	(166.1)	(192.0)
Change in cash and cash equivalents	**(61.1)**	**564.6**

12.11.3.1 Consolidated figures for year ended 31 December 2016 compared with the year ended 31 December 2015

Cash flow from operating activities decreased by NOK 516.2 million from a cash inflow of NOK 1,820.2 million for the year ended 31 December 2015 to a cash inflow of NOK 1,304.0 million for the year ended 31 December 2016. The main factors driving this change were related to a decrease in operating profits of NOK 369.2 million, a negative change in fair value commodity contracts of NOK 174.5 million and a negative change in provisions, pension obligations and other of NOK 222.6 million, which were offset by a positive change in net working capital of NOK 269.4 million.

Cash flow used in investing activities increased by NOK 166.6 million from a cash outflow of NOK 1,063.6 million for the year ended 31 December 2015 to a cash outflow NOK 1,230.2 million for the year ended 31 December 2016. The increase was primarily attributable to acquisitions of subsidiaries in Norway and India resulting in an increase in cash outflow of NOK 456.0 million, which was partially offset by a reduction in investments in property, plant and equipment and intangible assets in the amount of NOK 312.1 million.

Cash flow used in financing activities decreased by NOK 25.9 million from a cash outflow of NOK 192.0 million for the financial year ended 31 December 2015 to a cash outflow of NOK 166.1 million for the year ended 31 December 2016.

The cash outflow of NOK 192.0 million for the financial year ended 31 December 2015 resulted almost entirely from dividends paid to the shareholders in the amount of NOK 1,900.0 million and the repayment of loans and borrowings in the amount of NOK 1,787.1 million which were significantly offset by cash flows in the amount of NOK 3,510.2 million received from loans and borrowings through a new refinancing agreement. The cash outflow of NOK 166.1 million in the year ended 31 December 2016 resulted primarily from the repayment of loans and borrowings in the amount of NOK 204.6 million which were partially offset by cash inflows from loans and borrowings in the amount of NOK 110.1 million.

12.11.3.2 Net Working Capital

The most significant components of Elkem's net working capital are inventories, accounts receivable and accounts payable. Inventories consist mainly of finished goods, semi-finished goods, raw materials, operating materials and some minor spare parts. Trade receivables include receivables mainly related to sale of finished goods. Accounts payable includes payables mainly related to purchase of raw materials, materials and services for the operation and power purchase.

Combined net working capital increased by NOK 166.7 million from NOK 3,704.7 million as at 31 December 2016 to NOK 3,871.4 million as at 31 December 2017. On a consolidated basis, net working capital increased by NOK 59 million from NOK 3,421 million as at 31 December 2015 to NOK 3,480 million as at 31 December 2016.

As a percentage of combined total operating income, net working capital decreased by 3.8% to 18.1% in 2017 from 21.9% in 2016. On a consolidated basis, net working capital as a percentage of total operating income decreased by 1.0% to 24.5% in 2016 from 23.5% in 2015.

12.11.4 Financing arrangements

12.11.4.1 Existing Indebtedness

Syndicated loan facilities

In 2015, Elkem entered into a syndicated loan facilities agreement in order to refinance its existing credit facilities and loans that were outstanding as of 30 June 2015 (the "**Syndicated Loan Facilities Agreement**"). The Syndicated Loan Facilities Agreement consists of a revolving credit facility of EUR 200 million (NOK 1,969 million) and a term loan of EUR 275 million (NOK 2,707 million). As of 31 December 2017, EUR 275 million (NOK 2,707 million) was outstanding under the term loan, while the revolving credit facility was undrawn. The interest rate for borrowings under the revolving credit facility is an interest rate per annum equal to EURIBOR, LIBOR or NIBOR (depending on currency drawn under the facility) plus a margin of 1.30%. The interest rate for the term loan is an interest rate per annum equal to EURIBOR plus a margin of 1.60%.

NOK 373.7 million loan from Nordic Investment Bank

On 15 October 2015, Elkem entered into a loan agreement with Nordic Investment Bank (NIB). The loan is an eight-year loan of NOK 373.7 million which was paid out in EUR. Elkem is contractually obligated to repay the loan in 15 semi-annual instalments, which first commenced on 31 October 2016 and will end on 31 October 2023. The loan is unsecured. The interest rate for the loan is six months EURIBOR plus a margin of 1.19% per annum. The loan agreement contains the same financial covenants and provisions as the Syndicated Loan Facilities Agreement. The loan will be refinanced by the New Loan Facilities Agreement.

Other loans

Other loan facilities on a drawn basis include the following:

- Elkem Carbon Malaysia has a loan facility with Handelsbanken, Singapore Branch, of USD 5.25 million (NOK 43 million), to finance the construction of the plant in Sarawak, Malaysia. The loan facility matures in 2018. The interest rate for borrowings under the loan is an interest rate per annum equal to LIBOR plus a margin of 2.50%. The facility is secured by a parent company guarantee from Elkem. There are no financial covenants. As of 31 December 2017, this facility was fully drawn.

- Elkem has, through its subsidiary ESi France, a loan facility with the governmental agency BPI, which finances mainly R&D grants. The current outstanding amount of the loan is EUR 3.65 million (NOK 36 million). The loan facility will expire in the second half of 2018 when the R&D tax credit is expected to be reimbursed by the French tax authorities. The interest rate for borrowings under the loan is an interest rate per annum equal to EURIBOR plus a margin of 1.00%. The facility is secured by receivables towards the French tax administration. There are no financial covenants.

- In addition to the facilities specified above, Elkem has certain loans and leasing facilities. As of 31 December 2017, total leasing arrangements were immaterial. With the exception of a loan of EUR 1 million (NOK 10 million), all other loans are unsecured. There are no financial covenants.

Other credit facilities

Other credit facilities include the following:

- Elkem has an overdraft facility with DNB of NOK 250 million. The interest rate for borrowings under the overdraft facility is an interest rate per annum equal to NIDR (Norwegian Interbank Deposit Rate) plus a margin of 1.50%. The facility is unsecured. There are no financial covenants. As of 31 December 2017, NOK 250 million of this facility was available to Elkem.

- Elkem Silicones France has an overdraft facility with Natixis of EUR 4 million (NOK 39 million). The facility is renewed automatically, subject to an annual review. The next annual review will take place in February 2019. The interest rate for borrowings under the overdraft facility is an interest rate per annum equal to the Euro Over Night Index Average plus a margin of 0.70%. There are no financial covenants. As of 31 December 2017, EUR 4 million (NOK 39 million) of this facility was available.

- In addition to the facilities specified above, as of 31 December 2017, Elkem had certain other credit lines amounting to NOK 70 million. These facilities are unsecured.

Elkem had, through its affiliate Aleaciones Yguazu, as of 31 December 2017 a long-term loan agreement with Sudameris, a local bank in Paraguay, in an aggregate principal amount of USD 9.9 million (NOK 81 million). The loan was related to construction of the new ferrosilicon plant in Paraguay. The loan carried an interest rate of 10% and matured in 2023, but was fully repaid in early 2018. The loan is secured by a pledge of all fixed assets in Aleaciones Yguazu.

Elkem also has USD 12.3 million (NOK 101 million) in indebtedness outstanding to its former joint arrangement partners in Paraguay, which does not carry any interest, and which is payable in installments from 2018 to 2024. The debt relates to the purchase of such partners' 50% interest in the joint arrangement, which Elkem completed in September 2017.

In addition to the loan facilities mentioned above, Elkem has agreements with SEB and DNB for the sale of receivables. Under these agreements, SEB and DNB purchase Elkem's receivables from certain pre-approved customers on a non-recourse basis. The receivables are purchased at a discounted value depending on the number of outstanding credit days. The facilities are based on the banks' individual credit assessment of the respective customers. The facilities are uncommitted and may be terminated at any time upon the banks' written notice. In case of termination, Elkem would have to fund its increased working capital requirements through cash or other facilities.

Chinese indebtedness

As of 31 December 2017, Xinghuo Silicones had total interest-bearing debt outstanding of RMB 5,626 million (NOK 7,090 million), consisting of RMB 2,286 million (NOK 2,881 million) in long term loans, RMB 1,379 million (NOK 1,737 million) in short term loans and bank notes of RMB 1,956 million (NOK 2,465 million). Net of cash and restricted deposits for the bank notes, Xinghuo Silicones' interest-bearing debt amounted to RMB 4,701 million (NOK 5,926 million). Xinghuo Silicones' long-term loans comprised five loans from Chinese banks and one financial lease with maturity dates ranging from 2018 to 2022 and interest rates ranging from 3.035% to 5.035%. The loans were guaranteed by either Bluestar or ChemChina. There were no financial covenants. Xinghuo's short-term loans comprised 12 loans from Chinese banks with maturity dates throughout the year ended 31 December 2018 and interest rates ranging from 4.350% to 4.785%. The loans were guaranteed by either Bluestar or ChemChina and there were no financial covenants. Xinghuo's bank notes were with a wide range of Chinese banks, were generally payable within the first six to seven months of 2018, and were partly secured by deposits ranging from 30% to 50% of the carrying amount.

As of 31 December 2017, Yongdeng Silicon Materials had total interest-bearing debt outstanding of RMB 356 million (NOK 449 million), consisting of a RMB 60 million (NOK 76 million) short-term credit line with Gansu Bank, a RMB 25 million (NOK 32 million) loan with Lanzhou Bank that matures in 2018 and early 2019, and bank notes of RMB 146 million (NOK 184 million). In addition, Yongdeng Silicon Materials owed inter-company debt to Bluestar of RMB 195 million (NOK 246 million), whereof RMB 71 million (NOK 89 million) is interest free. Net of cash and restricted deposits for bank notes, Yongdeng Silicon Materials' interest-bearing debt amounted to RMB 269 million (NOK 340 million).

As of 31 December 2017, on a combined basis, Elkem's total outstanding indebtedness (including NOK 7,539 million of existing indebtedness of Xinghuo Silicones and Yongdeng Silicon Materials) amounted to NOK 10,882 million.

12.11.4.2 The refinancing

In connection with the Listing, Elkem entered into a new loan facilities agreement, dated as of 13 February 2018, with four banks, Nordea, DNB Bank ASA, Citibank and Natixis. Such loan agreement, representing an aggregate principal amount of EUR 1,150 million (the "**New Loan Facilities Agreement**"), as further described below, will be used to refinance the facilities under the Syndicated Loan Facilities Agreement, as well as the other existing outstanding indebtedness described above (including a portion of the indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials) as well as to finance general corporate purposes and working capital needs. Any such refinancing of indebtedness in China will be subject to compliance with Chinese law and regulations relating to exchange controls, as well as the considerations described in the following paragraph. See Section 2.1.14 in "Risk Factors".

The debt obligations of Xinghuo Silicones and Yongdeng Silicon Materials that will be assumed by the Group as part of the Reorganisation consist of short-term and long-term bank loans, including bank bills, as described in Section 12.11.4.1 "Existing Indebtedness". Elkem intends to maintain certain local loan facilities in China following the Reorganisation in order to maintain certain local bank relationships and to facilitate the use of locally generated cash flows to service local debt. The exact level of existing Chinese debt that Elkem will deliberately maintain, irrespective of exchange controls, as opposed to refinancing, is currently uncertain. Elkem has, however, ensured through the New Loan Facilities Agreement that it has capacity to complete a full refinancing of the Chinese debt if needed. The New Loan Facilities Agreement covers the Group's total anticipated debt financing needs.

At the conclusion of the refinancing, which is expected to occur concurrently with, or shortly after, Listing, Elkem's outstanding indebtedness will consist principally of indebtedness outstanding under the New Loan Facilities Agreement and any debt remaining outstanding in China as described above.

The financial information presented below has been extracted from the Group's Combined Financial Statements as of and for the year ended 31 December 2017 and provides information about the Group's financial indebtedness on an actual basis as at 31 December 2017 and, in the "As adjusted" column, the Group's financial indebtedness as at the date hereof, on an adjusted basis to give effect to the material post-balance sheet events described in (i) and (ii) below. For a more detailed description of the Group's combined capitalisation on an actual and as adjusted basis, see Section 10 "Capitalisation and Indebtedness". As noted above, the exact amount of the Chinese indebtedness assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials that Elkem will refinance is currently uncertain, so Elkem has, for purposes of the tables below, assumed that the amounts of such indebtedness set forth in footnotes 3 and 9 below will be refinanced.

The "As adjusted" column reflects adjustments to the Group's financial indebtedness as of 31 December 2017 in respect of:

(i) The refinancing of the Group's Syndicated Loan Facilities Agreement (as defined below) (EUR 275 million) (NOK 2,707.3 million), the loan from the Nordic Investment Bank (NOK 306 million[160]) and the other loans and credit facilities as specified in Section 12.11.4.1 "Existing Indebtedness", including a portion of the indebtedness which will be assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials (NOK 5,152 million); and

(ii) the New Loan Facilities Agreement (as defined above) of up to EUR 1,150 million (NOK 11,321.5 million), the proceeds of which will be used to refinance the indebtedness referred to above (see Section 12.11.4.3 "Description of New Loan Facilities Agreement").

In NOK millions	**As at 31 December 2017[1]**	**Adjustment amount**	**As adjusted**
Total current debt:			
Guaranteed[2]	5,472	(4,344)[3]	1,128[3]
Secured[4]	36	-	36

[160] The amount has been adjusted for instalments, see Section 12.11.4 "Financing arrangements".

Unguaranteed and unsecured[5]	789	(538)[6]	251
Total current debt[7]:	**6,297**	**(4,882)**	**1,415**
Total non-current debt:			
Guaranteed[8]	1,903	(808)[9]	1,095[9]
Secured[10]	81	-	81
Unguaranteed and unsecured[11]	2,601	4,790[12]	7,391[12]
Total non-current debt[13]:	**4,585**	**3,982**	**8,567**
Total indebtedness	**10,882**	**(900)**	**9,982**

1 The data set forth in this column is derived from the statement of financial position set out in the Combined Financial Statements as at 31 December 2017.

2 All guaranteed current debt consists of debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, and includes bank financing of NOK 2,822.4 million consisting of various RMB loans to Xinghuo Silicones and Yongdeng Silicon Materials from Industrial and Commercial Bank of China, China Construction Bank, Shanghai Pudong Development Bank and Agricultural Bank of China, in addition to current bills payable of NOK 2,649.8 million. All guaranteed current debt is guaranteed by China National Bluestar (Group) Co. Ltd. with corresponding cross guarantees among entities within the China National Bluestar Group.

3 Repayment of outstanding guaranteed bank financing to Xinghuo Silicones and Yongdeng Silicon Materials with new current indebtedness drawn down under the New Loan Facilities Agreement. See above for a description of Elkem's intention to repay indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials. Although the amount of debt assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials to be refinanced remains uncertain, Elkem has, as of the date hereof, assumed that NOK 4,344 million will be refinanced, resulting in NOK 1,128 million of current debt assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials remaining outstanding.

4 Elkem has, through its subsidiary ESi France, a secured loan facility with the governmental agency BPI, which will expire in the second half of 2018. See above for further information about this loan. The loan is secured by receivables pledged to the French tax administration.

5 Unguaranteed and unsecured total current debt consist of financial leases of the Group's manufacturing equipment (NOK 1.2 million), loans from external parties other than banks (NOK 60.6 million), accrued interest to other related parties within the China National Bluestar Group (NOK 157.1 million), accrued interest (NOK 10.5 million) in addition to other existing bank financing (NOK 559.6 million).

6 Repayment of outstanding current portion of non-current indebtedness under the Syndicated Loan Facilities Agreement, the loan from the Nordic Investment Bank and the other loans and credit facilities as specified in Section 12.11.4.1 "Existing Indebtedness" above with new current indebtedness drawn under the New Loan Facilities Agreement. The amount relates to instalments due in 2018 and are therefore transferred to current indebtedness, see note 11 below for information about the non-current indebtedness under these loans.

7 Total current debt consist of unguaranteed and unsecured financial leases of the Group's manufacturing equipment (NOK 1.2 million), unguaranteed and unsecured bank financing (NOK 559.6 million), unguaranteed and unsecured loans from external parties other than banks (NOK 60.6 million), unguaranteed and unsecured accrued interest to other related parties within the China National Bluestar Group (NOK 157.1 million), unguaranteed and unsecured accrued interests (NOK 10.5 million), secured bank financing (NOK 36 million), guaranteed bank financing (NOK 2,822.4 million) and guaranteed current bills payable (NOK 2,649.8 million).

8 All guaranteed non-current debt consists of debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials, and includes bank financing of various RMB loans to Xinghuo Silicones and Yongdeng Silicon Materials from China Development Bank, China Construction Bank, the Export-import Bank of China, Bank of Jiujiang in addition to China and Overseas Financial lease Co. Ltd. assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials. All guaranteed non-current debt is guaranteed by China National Bluestar (Group) Co. Ltd. with corresponding cross guarantees among entities within the China National Bluestar Group.

9 Repayment of outstanding guaranteed bank financing to Xinghuo Silicones and Yongdeng Silicon Materials. See above for a description of Elkem's intention to repay indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials. Although the amount of debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials to be refinanced remains uncertain, Elkem has, as of the date hereof, assumed that NOK 808 million will be refinanced, resulting in NOK 1,095 million of non-current debt assumed in connection with the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials remaining outstanding.

10 As of 31 December 2017, Elkem had, through its affiliate Aleaciones Yguazu a long-term secured loan with Sudameris in an aggregate principal amount of USD 9.9 million equal to NOK 81 million. This loan was repaid in early 2018. The loan is secured by a pledge of all fixed assets in Aleaciones Yguazu.

11 Includes non-current the Syndicated Loan Facilities Agreement, loan from the Nordic Investment Bank, the loan Elkem Carbon Malaysia has with Handelsbanken (see Section 12.11.4.1 "Existing Indebtedness" above) in addition to certain loans held by ERIMSA. Such debt will be refinanced with the proceeds of the New Loan Facilities Agreement. None of the unguaranteed and unsecured non-current debt relates to the debt assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials.

12 Additional funds to be drawn down under the New Loan Facilities Agreement which, together with the refinancing of the NOK 2,601 million in outstanding indebtedness described in note 11, will be equal to NOK 7,391 million in new non-current indebtedness to be drawn down under the New Loan Facilities Agreement.

13 Total non-current debt consists of unguaranteed and unsecured financial leases (NOK 401 million), unguaranteed and unsecured loans from external parties other than banks (NOK 79.5 million), unguaranteed and unsecured bank financing (NOK 2,514.0 million), secured bank financing (NOK 81.2 million) and guaranteed bank financing (NOK 1.903.0 million).

12.11.4.3 Description of New Loan Facilities Agreement

The New Loan Facilities Agreement consists of three facilities: (i) a single currency loan facility in an aggregate amount of EUR 400 million (NOK 3,938 million) (the "**Facility A Loan**"), (ii) a multicurrency revolving loan facility in an aggregate amount of EUR 250 million (NOK 2,461 million) (the "**Facility B Loan**") and (iii) a multicurrency term loan facility in an aggregate amount of EUR 500 million (NOK 4,922 million) (the "**Facility C Loan**"). The Facility A Loan and the Facility B Loan mature five years following the date of the agreement, whereas the Facility C Loan has a tenor of up to 18 months. The Facility C Loan will be refinanced in domestic or international debt capital markets after the Listing. Elkem has received several refinancing proposals from the banks and will conclude on the refinancing strategy after the Listing based on size, pricing and target maturity profile.

The Facility A Loan, Facility B Loan and Facility C Loan, respectively, under the New Loan Facilities Agreement are unsecured. The interest rates for borrowings under the New Loan Facilities Agreement are an interest rate per annum equal to EURIBOR, LIBOR or NIBOR (depending on currency drawn under the facility) plus a margin of 1.50%. for the Facility A Loan, 1.20% for the Facility B Loan and for the Facility C Loan the margin will be 0.90% per annum from the date of the New Loan Facilities Agreement and increase by 0.10 percentage points per annum on each date which falls at three-monthly intervals after the date of the New Loan Facilities Agreement.

The New Loan Facilities Agreement contain two financial covenants. The ratio of Operating EBITDA to Consolidated Net Interest Payable, as defined therein, for each measurement period, which period is calculated as the 12 months ending on the last day of a financial quarter, must not be less than 4.0:1.0. Additionally, the ratio of total equity to total assets must be more than 30% at all times.

The New Loan Facilities Agreement contains a mandatory prepayment clause that will apply upon change of control. Change of control is defined as China National Bluestar Co. Ltd. ceasing, directly or indirectly, to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, more than 50% of the maximum number of votes that might be cast at a general meeting of the Company, or hold beneficially more than 50% of the issued share capital and/or the economic interest of the Company, or after the Listing has occurred, the shares in the Company cease to be listed on the Oslo Stock Exchange or on the principal stock exchange in any of Copenhagen, Frankfurt, London, Paris or Stockholm.

In addition, the New Loan Facilities Agreement is conditional upon the Listing to occur and contains customary provisions for these types of facilities, including restrictions on assets disposals, a negative pledge and financial support to non-group companies. Finally, the New Loan Facilities Agreement contains a cross default clause in relation to financial indebtedness of any of Elkem's subsidiaries in excess of specified levels.

12.11.4.4 Intra-Group indebtedness

There is internal debt between Elkem and its subsidiaries, both as direct loans, and as receivables under Elkem’s cash pool arrangement. There are no external payment obligations related to the internal debt. There are no securities (upstream guarantees) provided from the subsidiaries for the Company’s debt. There are no restrictions on the use of capital between Elkem and other companies within the Group, although after the Reorganisation the Group will be required to comply with applicable exchange controls in China. See Section 2.1.14 “Risk Factors – The Group may be unable to remit funds out of China due to exchange controls implemented in late 2016 with the effect of restricting capital movement out of China.”

12.11.5 Capital expenditures

Elkem defines capital expenditure as cash outflows related to investments in its plants and facilities. Capital expenditures are categorised as either strategic investments or reinvestments. Strategic investments generally consist of investments which result in capacity increases at Elkem’s existing plants or that involve an investment made to meet demand in a new geographic or product area. Reinvestments generally consist of maintenance capital expenditure to maintain existing activities or that involve investments designed to improve health, safety or the environment.

Elkem’s capital expenditure as a percentage of total operating income amounted to 6.0% and 5.3%, on a combined basis, for the years ended 31 December 2017 and 2016 and 5.6% and 7.1%, on a consolidated basis, for the years ended 31 December 2016 and 2015. For the year 2018, the Group expects its capital expenditure for reinvestments and strategic investments to be somewhat higher than in 2017. These amounts cover a portfolio of small and medium sized projects and only become contractually committed once work commences on that particular project. For the construction project of Elkem's new ferrosilicon plant in Paraguay, the outstanding capital expenditure up to completion of the project amounted to USD 1.6 million (NOK 13 million).

Elkem’s capital expenditures are generally financed from cash flow generation and, where necessary, recurring credit facilities. Elkem expects to finance its capital expenditures in 2018 through cash flows generated throughout the year. In addition to ongoing strategic projects, Elkem is continuously evaluating both reinvestment needs and strategic investment opportunities. See Section 9.3 “Strategy” for information regarding Elkem’s investments.

The following table show Elkem’s historical levels of capital expenditure on a combined basis for the years ended 31 December 2017 and 2016 and on a consolidated basis for the years ended 31 December 2016 and 2015.

In NOK millions	Year ended 31 December			
	2017 (Combined)	2016 (Combined)	2016 (Consolidated)	2015 (Consolidated)
Capital expenditure	1,279.8	900.3	796.3	1,029.6
Strategic investments[1]	389.7	208.7	179.5	329.2
Reinvestment[2]	890.1	691.6	616.8	700.4

1 Strategic investment is defined as an investment made to meet demand in new market areas (geographic and/or category) or an investment in plants which yields capacity increases.

2 Reinvestment is investment required to maintain existing activity (maintenance investment) and health, safety and environment investment (HSE). HSE investment is compulsory or voluntary investments which primarily involve measures to improve health, safety and the environment

Capital expenditure on a combined basis increased by NOK 379.5 million in the year ended 31 December 2017 as compared to the year ended 31 December 2016, which reflected an increase in both strategic expenditure and re-investments. The strategic investments increased by NOK 181.0 million, whereas. re-investments increased by NOK 198.5 million in total.

Capital expenditure on a consolidated basis decreased by NOK 233.3 million in the year ended 31 December 2016 as compared to the year ended 31 December 2015. The decrease in capital expenditure in the year ended 31 December 2016 related to lower strategic investments of NOK 149.7 million, and lower re-investments of NOK 83.6 million.

For a more detailed analysis of Elkem's investments, including capital expenditure as well as investments in connection with business combinations, see Section 13 "Investments".

The table below shows the amounts capitalised and the amounts expensed on research and development costs, including improvement projects and technical customer support, respectively:

In NOK millions	Year ended 31 December		
	2017[1]	2016[1]	2015[2]
Expensed	386.6	367.0	250.6
Capitalized amount	53.5	52.3	52.9
Total R&D spending	**440.1**	**419.3**	**303.5**

1 The figures are extracted from the Combined Financial Statements.

2 The figures are extracted from the Consolidated Financial Statements.

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from an internal development project is recognised if the group can demonstrate technically feasibility of completing the intangible asset, has the intention to complete it, the ability to use it, can demonstrate that it will generate probable future economic benefits and the cost can be reliably measured. Development projects which do not qualify as an intangible asset are recognised as an expense in the period in which they are incurred.

In the year ended 31 December 2017, on a combined basis, Elkem spent 2.1% of its revenues on R&D activity.

For further information on the investments in Xinghuo and Yongdeng, please see Section 6 "Reorganisation".

12.11.6 Financial indebtedness and other contractual obligations

The following table presents, by major category of commitment and obligations outstanding, the maturity of the borrowings and other commitments of Elkem as of 31 December 2017 and certain other information. See also Section 10 "Capitalisation and Indebtedness". For more information on interest rates applicable to the borrowings set out below, please see Section 12.11.4 "Financing arrangements". Table 12.11.6 (a) shows the maturity of borrowings and other commitments of Elkem as of 31 December 2017, prior to the refinancing, while table 12.11.6 (b) shows the maturity of borrowings and other commitments adjusted for the refinancing post Listing, as described in section 12.11.4. The NOK 900 million difference in total amortisation amount between Table 12.11.6 (a) and Table 12.11.6 (b) is due to the NOK 900 million net proceeds expected to be received by Elkem in the Listing. See Section 10 "Capitalisation and Indebtedness."

Table 12.11.6 (a): Maturity of borrowings and other commitments prior to refinancing[1]

In NOK millions

	2018	2019	2020	2021	2022	2023[1]	Total
Term loan:							
Amortisation	647	612	2,955	771	131	115	5,231
Interest	164	156	145	51	10	45	571
Total term loan	811	768	3,100	822	141	160	5,802
Revolving credit facility:							
Amortisation	9	-	-	-	-	-	9
Interest	-	-	-	-	-	-	-
Total revolving credit facility	9	-	-	-	-	-	9
Bank overdrafts:							
Amortisation	2,822	-	-	-	-	-	2,822
Interest	151	-	-	-	-	-	151
Total bank overdrafts	2,973	-	-	-	-	-	2,973
Accounts payable:							
Amortisation	2,650	-	-	-	-	-	2,650
Interest	-	-	-	-	-	-	-
Total accounts payable	2,650	-	-	-	-	-	2,650
Bills payable:							
Amortisation	2,650	-	-	-	-	-	2,650
Interest	-	-	-	-	-	-	-
Total bills payable	2,650	-	-	-	-	-	2,650
Finance leases:							
Amortisation	1	1	-	-	-	-	2
Interest	-	-	-	-	-	-	-
Total finance leases	1	1	-	-	-	-	2
Total:							
Amortisation	8,779	606	2,955	771	131	115	13,364
Interest	315	156	145	51	10	45	722
Total	9,094	769	3,100	822	141	160	14,086

1 Also includes maturities after 2023

Table 12.11.6 (b): Maturity of borrowings and other commitments after refinancing[1]

In NOK millions

	2018	2019	2020	2021	2022	2023[1]	Total
Term loan:							
Amortisation	1,247[2]	4,161[3]	373[4]	53[4]	13[4]	3,966[5]	9,812
Interest	288	238	82	61	59	59	786
Total term loan	1,534	4,398	455	114	72	4,025	10,599
Revolving credit facility:							
Amortisation	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total revolving credit facility	-	-	-	-	-	-	-
Bank overdrafts:							
Amortisation	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total bank overdrafts	-	-	-	-	-	-	-
Accounts payable:							
Amortisation	2,650	-	-	-	-	-	2,650[6]
Interest	-	-	-	-	-	-	-
Total accounts payable	2,650	-	-	-	-	-	2,650[6]
Bills payable:							
Amortisation	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Total bills payable	-	-	-	-	-	-	-
Finance leases:							
Amortisation	1	1	-	-	-	-	2[7]
Interest	-	-	-	-	-	-	-
Total finance leases	1	1	-	-	-	-	2[7]
Total:							
Amortisation	3,898	4,161	373	53	13	3,966	12,464
Interest	288	238	82	61	59	59	786
Total	4,185	4,398	455	114	72	4,025	13,250

1 Also includes maturities after 2023.
2 Term loan amortisation in 2018 mainly relates to Chinese indebtedness which will be rolled over.
3 Term loan amortization in 2019 mainly relates to the bridge loan, or the Facility C Loan, which will be refinanced, and Chinese loans which will be refinanced. See Section 12.11.4.3 "Description of New Loan Facilities Agreement".
4 Term loan amortisation between 2020 – 2022 will be repaid from cashflow.
5 Term loan amortisation in 2023 will be refinanced in domestic or international debt capital markets.
6 Accounts payable 2018 will be repaid from cashflow but new obligations will arise based on ongoing business operations.
7 Finance leases amortisation will be repaid.

12.12 Quantitative and qualitative disclosure about market risk management

Elkem is exposed to a variety of financial risks such as currency risk, liquidity risk, interest rate risk, credit risk and risks relating to prices of finished goods and raw materials. The market risks affect Elkem's income and the value of financial instruments held. Elkem operates in an international and cyclical industry and all financial risks related to its operations are monitored and handled centrally.

12.12.1 Currency risk

Elkem has sales revenue and operating costs in various currencies. The prices of finished goods are to a large extent determined in international markets, primarily in USD, RMB and EUR. This is partly offset by purchase of raw materials denominated in the same currencies. Elkem has net positive cash flows in most currencies, but has a net cost position in some currencies, mainly Norwegian kroner, Canadian dollar, Brazilian real and Iceland krona.

Elkem's policy is to hedge foreign exchange risk against its functional currency to even out fluctuations in results and cash flow. Its target is to hedge net cash flows for zero to three months on a 90% hedging ratio. Net cash flows for four to 12 months are hedged on a rolling basis based on a 45% hedging ratio target. The hedging ratio for four to 12 months may vary between 25% and 75%. Elkem has decided to increase the hedging ratio for EUR and USD to 75% for 2018. In 2017, Elkem realised a loss of NOK 41.4 million from this hedging program (in 2016 a loss of NOK 175.6 million). Elkem uses hedge accounting for all cash flow hedges over three months.

Elkem presents its accounts in Norwegian kroner but it has underlying assets and liabilities in various currencies. These effects are monitored and managed centrally. In 2017 Elkem had a loss of NOK 7.7 million (in 2016 a gain of NOK 49.7 million and in 2015 a gain of NOK 32.5 million) on foreign exchange from financing recognised in financial items.

The sensitivity related to financial instruments on Elkem's profit or loss is based on a strengthening / weakening of all currencies by 10% against the Norwegian kroner, which is the presentation currency for Elkem. If the Norwegian kroner strengthened by 10% against all other currencies, the isolated effect on financial instruments would have been a reduced profit before tax, on a combined basis, of approximately NOK 205 million in 2017 (NOK 320 million in 2016) and, on a consolidated basis, NOK 582 million in 2015.

The sensitivity related to financial instruments on Elkem's balance sheet is based on a weakening or strengthening of all currencies by 10% against the Norwegian kroner, which is the presentation currency for Elkem. If the Norwegian kroner strengthened by 10% against all other currencies, the isolated effect on financial instruments on the balance sheet would have produced reduced equity, on a combined basis, of NOK 580 million in 2017 (NOK 785 million in 2016) and, on a consolidated basis, would have produced increased equity of NOK 64 million in 2015. This effect does not include the effects from the sensitivity on profit or loss as calculated above.

12.12.2 Price risk

Elkem is exposed to fluctuations in market prices both in its investment portfolio and in its operating business related to individual contracts. Elkem is exposed to changes in market price for raw materials and finished goods. It seeks to minimise its exposure by entering into sales and purchase contracts with similar duration and volume. Elkem's main production capacity is focused towards specialised products. These products require special types of raw materials that have fixed customer specifications. Therefore, Elkem has acquired several raw material sources and/or enters into medium to long-term contracts with raw material suppliers.

Some of Elkem's power purchase contracts are within the scope of IAS 39, and thus for financial reporting purposes treated as financial instruments. These financial instruments are measured on the balance sheet at fair value with value changes recognised through profit or loss. These contracts are either financial contracts for the purpose of hedging, or physical commodity contracts that do not meet the IAS 39 criteria for own use.

Changes in the fair value of commodity contracts reflect unrealised gains or losses and are calculated as the difference between the market price and the contract price, discounted to present value. Valuation techniques are used for available market information as much as possible. Techniques that reflect how the market could be expected to price instruments are used in non-observable markets.

Elkem's portfolio of commodity contracts consists mostly of physical energy contracts. Electric power is a key input factor for Elkem. Elkem’s estimated future power exposure is therefore partly hedged by long-term power contracts, in addition to several contracts in the medium-term. Optimisation of 24-hour, seasonal and capacity utilisation variations are solved through utilising financial and physical contracts that are traded bilaterally, or on the Nasdaq OMX. The purpose of the hedging activities is to reduce volatility in the power cost and increase the predictability of the cost base. Fair value of commodity contracts is especially sensitive to future changes in energy prices.

12.12.3 Interest rate risk

Elkem's interest rate risk arises from borrowings from external financial institutions. Elkem’s debt is mainly drawn in EUR, RMB and USD. Elkem is exposed to fluctuating interest-rates. Elkem has a floating rate interest policy. Industry conditions are cyclical and prices and sales volumes for Elkem’s products tend to correlate with general economic conditions. During an economic downturn, sales prices and volumes are expected to go down, while prices and volumes tend to go up during an economic upturn. Interest rates have historically shown a similar pattern. Therefore, a floating interest rate policy is seen as appropriate from a financial risk perspective. Consequently, with floating interest rates Elkem will normally be in a position to benefit from lower interest rates in an economic downturn. A floating rate policy will however leave Elkem exposed to increased future interest rates.

12.12.4 Counterparty risk

Credit risk is the risk of financial losses to the group if customer or counterparty fail to meet contractual obligations. For the Elkem this arises mainly from trade receivables and financial trading counterparties.

Trade receivables are generally secured by credit insurance from a reputable credit insurance company. Credit limits for each customer and overdue receivables are monitored at the Group level. For customers where credit insurance cannot be obtained, other methods are generally used to secure the sales proceeds, such as prepayment, letter of credit, documentary credit or guarantees. In particular, when selling in countries with high political risk, or to remote customers, trade finance products are used to reduce the credit risk. Approximately 85-90% of Elkem's turnover outside China is covered by credit insurance, trade finance or prepayments. Elkem realised credit losses of NOK 10.4 million in 2017 (NOK 9.9 million in 2016 and NOK 6 million in 2015). The maximum exposure to credit risk for the group is NOK 2.5 million per 31 December 2017.

Evaluation of financial counterparties is based on external credit ratings from Moody's and/or Standard and Poor's. The policy is that financial counterparties should have a rating equal to, or higher than, A- (or the equivalent) from the rating agencies.

12.12.5 Liquidity risk

Liquidity risk is the risk that Elkem will encounter difficulty in meeting the obligations associated with its financial liabilities. Elkem is exposed to liquidity risk related to its operations and financing.

Elkem's cash flow will fluctuate due to economic conditions and financial performance. In order to mitigate the operational liquidity risk, Elkem has cash and revolving credit facilities with banks. As of 31 December 2017 Elkem had unrestricted cash of NOK 1.8 billion. In addition, it had revolving credit facilities amounting to NOK 3.0 billion, of which NOK 2.4 billion was undrawn.

12.13 Critical accounting policies and estimates

The preparation of the financial statements according to IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Estimates and judgments are evaluated on a continually basis, and are based on historical experiences and other factors that are believed to be reasonable under the circumstances. Elkem makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual outcome. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

12.13.1 Estimated value of goodwill

Elkem performs annual tests to assess the value of goodwill. The recoverable amount from cash generating units is determined on the basis of present-value calculations of expected annual cash flows. These calculations require the use of estimates for cash flows and the choice of discount rate before tax for discounting the cash flows. Additional information is disclosed in Note 12 to the Financial Statements.

12.13.2 Deferred tax assets

Elkem performs annual tests for impairment of deferred tax assets. Part of the basis for recognising deferred tax assets is based on applying the loss carried forward against future taxable income. This requires the use of estimates for calculating future taxable income.

12.13.3 Power contracts

Fair value for power contracts are based on assumptions derived from observable prices for comparable instruments. See Note 26 to the Combined Financial Statements and the Consolidated Financial Statements for changes in assumptions used for valuations. Net booked value as of 31 December 2017 was negative NOK 196.8 million (See Note 26 to the Combined Financial Statements and the Consolidated Financial Statements for further details and Note 27 to the Combined Financial Statements and the Consolidated Financial Statements for sensitivity analysis).

12.14 Significant changes

There has been no significant change in the Group's financial or trading position since 31 December 2017, except as discussed in Section 12.6 "Recent developments and trends".

13 INVESTMENTS

13.1 Principal historic investments

The table below provides an overview of the Group's principal historic investments for the years ended 31 December 2015, 2016, 2017 and up to the date of this Prospectus. None of the principal historic investments presented below relates to Xinghuo Silicones and Yongdeng Silicon Materials.

In NOK millions

Description	**Gross investment amount**	**Division (category)**	**Source of funds**	**Governmental grant**	**Year completed**
Construction of Carbon plant in Sarawak (Asia)	80.6[1]	Carbon (strategic)	Cash flows from operations	None	2016
New turbine and generator in Bjølvefossen (Europe)	116.0[2]	Foundry Products (strategic)	Cash flow from operations and governmental grant	54.8	2016
Land and mining rights purchase for quartz (Europe)	39.9[3]	Silicon Materials (strategic)	Cash flows from operations	None	2015
Refurbishment of furnaces in Salten (Europe)	154.3[4]	Silicon Materials (re-investment)	Cash flows from operations and government grant	115.5	2017
New calsiner at Fiskaa plant (Europe)	43.5[5]	Carbon (strategic)	Existing funds	None	2015
Release coating and textile coating capacity increase (Europe)	75.5[6]	Silicones (strategic)	Cash flows from operations	None	2017
Relocation of Brazilian plant to Joinville (South America)	59.2[7]	Silicones (strategic)	Cash flows from operations and tax credit	None	2016
Upgrade of Roussillon plant (Europe)	117.5[8]	Silicones (strategic)	Cash flows from operations	None	2017
Total	**686.5**			**170.3**	

1 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 80.6 million (2016).

2 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 80.3 million (2015), NOK 22.4 million (2016) and NOK 0.8 million (2017). The remaining amount was paid prior to 2015.

3 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 27.9 million (2015). The remaining amount was paid prior to 2015.

4 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 104.2 million (2015), NOK 21.8 million (2016) and NOK 14.5 million (2017). The remaining amount was paid prior to 2015.

5 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 39.0 million (2015). The remaining amount was paid prior to 2015.

6 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 37.6 million (2015), NOK 5.6 million (2016) and NOK 12.1 million (2017). The remaining amount was paid prior to 2015.

7 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 32.2 million (2015) and NOK 26.9 million (2016).

8 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 21.5 million (2015), NOK 20.4 million (2016) and NOK 9.3 million (2017). The remaining amount was paid prior to 2015.

13.1.1 Business combinations

The table below provides an overview of the Group's principal historic investments concerning business combinations for the years ended 31 December 2015, 2016, 2017 and up to the date of this Prospectus. The table excludes common control investments. Investment amounts for Fesil Rana and Minex were paid in the year of completion whereas the purchase price for Igazú Alloys was settled with an interest free loan payable in instalments beginning in 2018 (see Section 12.11.4.1 "Existing Indebtedness"). None of the principal historic investments concerning business combinations presented below relates to Xinghuo Silicones and Yongdeng Silicon Materials.

In NOK millions

Description	Gross investment amount	Division (category)	Source of funds	Goodwill	Year completed
Acquisition of Fesil Rana (Europe)	349.8	Silicon Materials (strategic)	Cash flows from operations	61.9	2016
Acquisition of Minex (Asia)	109.6	Foundry Products (strategic)	Cash flows from operations	36.1	2016
Acquisition of 50% ownership in Igazú Alloys S.A. (South America)	84.5	Foundry Products (strategic)	Cash flows from operations	-	2017
Total	**543.9**			**98.0**	

13.2 Ongoing investments

The table below provides an overview of the Group's principal ongoing investments as of the date of this Prospectus. None of the principal ongoing investments presented below relates to Xinghuo Silicones and Yongdeng Silicon Materials.

In NOK millions

Description	Gross investment amount	Division (category)	Source of funds	Governmental grant	Expected completion
Energy recovery and cleaning sulphur from three calciners at the Carbon Fiskaa plant (Europe)	135.9[1]	Carbon (strategic)	Existing funds	89.0	2018
Capacity increase within electrical insulation elastomers (Europe)	39.9[2]	Silicones (strategic)	Cash flows from operations	None	2018
Revamping and increasing capacity of the rubber production lines in St. Fons (Europe)	148.1[3]	Silicones (strategic)	Cash flows from operations	None	2018
Construction of ferrosilicon plant in Paraguay (South America)	292.9[4]	Foundry products (strategic)	Existing funds and intragroup financing	None	2018
Capacity increases and relocation of Elkem Foundry China (Asia)	85.7[5]	Foundry Products (strategic)	Shareholder equity and intragroup financing	None	2018
Technical and environmental upgrades at the Elkem Rana plant (Europe)	139.4[6]	Silicon Materials (strategic)	Cash flows from operations	None	2019
Shanghai plant and offices expansion (Asia)	75.2[7]	Silicones (strategic)	Cash flows from operations	None	2018
Total	**917.1**			**89.0**	

1 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 7.9 million (2015), NOK 31.9 million (2016) and NOK 69.8 million (2017). The expected remaining investment amount is NOK 3.8 million and is committed.

2 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 38.7 million (2017). The expected remaining investment amount is NOK 1.2 million and is committed.

3 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 21.1 million (2015), NOK 79.3 million (2016) and NOK 45.3 million (2017). The expected remaining investment amount is NOK 2.4 million and is committed.

4 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 19.3 million (2015), NOK 39.9 million (2016) and NOK 96.5 million (2017). Certain amounts were also paid prior to 2015 The expected remaining investment amount is NOK 12.5 million and is committed.

5 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 8.6 million (2016) and NOK 72.0 million (2017). The expected remaining investment amount is NOK 5.1 million and is committed.

6 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 8.4 million (2017). The expected remaining investment amount is NOK 131.0 million and is committed.

7 The following breakdown shows how much of the gross investment amount was paid in each year: NOK 2.5 million (2017). The expected remaining investment amount is NOK 72.7 million and is committed.

13.3 Future planned/committed investments

The table below provides an overview of the Group's principal planned/committed investments as of the date of this Prospectus.

In NOK millions

Description	Committed investment amount (purchase price)[1]	Division (category)	Source of funds	Expected completion	Expected remaining investment amount (purchase price)
Acquisition of Xinghuo Silicones (Asia)	3,445.6	Silicones (strategic)	Net proceeds from the Offering	2018[2]	3,445.6
Acquisition of Yongdeng Silicon Materials (Asia)	680.5	Silicon Materials (strategic)	Net proceeds from the Offering	2018[3]	680.5
Total	**4,126.1**				**4,126.1**

1 This amount is based on the estimated purchase price presented in the Consolidated Financial Statements for the year ended 31 December 2017, as described in Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials", and deviates from the rounded amounts presented elsewhere in this Prospectus, see Sections 5 "Reasons for the Offering and the listing" and 10 "Capitalisation and Indebtedness". The final purchase price will be determined at the time of completion of the IPO.

2 Completion of the transaction is conditional only upon a completed IPO and will close contemporaneously with the IPO. See Section 6.2 "Transfer of Xinghuo Silicones to Elkem" for further information. See also Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials".

3 Completion of the transaction is conditional only upon a completed IPO and will close contemporaneously with the IPO. See Section 6.3 "Transfer of Yongdeng Silicon Materials to Elkem" for further information. See also Section 6.4 "Accounting treatment of the acquisition of Xinghuo Silicones and Yongdeng Silicon Materials".

13.4 Additional information about certain investments

In addition to the investments set forth in the tables presented in Sections 13.1 - 13.3 above, Elkem routinely makes smaller investments that individually are not considered by the Management as material and so are not included in the above tables. This is the case, in particular, with respect to a number of small capital expenditures made with respect to Xinghuo Silicones and Yongdeng Silicon Materials in the years ended 31 December 2017 and 2016, none of which were material in terms of individual amount. Such capital expenditures, on a combined basis, amounted to NOK 269.0 million in 2017 (of which NOK 178.3 million were re-investments and NOK 90.6 million were strategic investments) and NOK 98 million in 2016 (of which NOK 74.7 million were re-investments and NOK 29.2 million were strategic investments).

14 BOARD OF DIRECTORS, MANAGEMENT, EMPLOYEES AND CORPORATE GOVERNANCE

14.1 Introduction

The General Meeting is the highest authority of the Company. All shareholders in the Company are entitled to attend and vote at General Meetings of the Company and to table draft resolutions for items to be included on the agenda for a General Meeting.

The overall management of the Group is vested in the Board of Directors and the Group's senior Management. In accordance with Norwegian law, the Board of Directors is responsible for, among other things, supervising the general and day-to-day management of the Group's business, ensuring proper organisation, preparing plans and budgets for its activities ensuring that the Group's activities, accounts and assets management are subject to adequate controls and undertaking investigations necessary to perform its duties.

Elkem has agreed with its employees not to establish a corporate assembly, a supervisory body contemplated under the Norwegian Public Limited Companies Act for companies with more than 200 employees and which, among other things, elects the Board of Directors. Under Norwegian corporate law, a corporate assembly serves as another layer of oversight over a company, between the board of directors and shareholders. Norwegian law provides that the employees of a Norwegian public limited liability company with more than 200 employees and no corporate assembly may elect up to one-third of the members of the board of directors (with a minimum of two members of the board of directors) plus an additional board member or two board observers. As a result of the decision not to have a corporate assembly, the Board of Directors will, in accordance with Norwegian law, be elected at general meetings and will assume all responsibilities otherwise attributable to the corporate assembly. In addition, Elkem's Norwegian employees will have the right to elect two board members and two observers to the Board of Directors in accordance with Norwegian law (the Regulation Relating to Employee Representation dated 18 December 1998) and subject to the consent by the Norwegian Industrial Democracy Board (*Nw.: Bedriftsdemokratinemnda*). The employee-elected members shall be elected by and among Elkem's Norwegian employees.

The Board of Directors has two sub-committees: an audit committee and a remuneration committee (see Sections 14.10 "Audit committee" and 14.11 "Remuneration committee"). In addition, the Articles of Association provide for a nomination committee (see Section 14.9 "Nomination committee").

The Management is responsible for the day-to-day management of the Group's operations in accordance with Norwegian law and instructions set out by the Board of Directors. Among other responsibilities, the Group's chief executive officer, or CEO, is responsible for keeping the Group's accounts in accordance with prevailing Norwegian legislation and regulations and for managing the Group's assets in a responsible manner. In addition, the CEO must according to Norwegian law brief the Board of Directors about the Group's activities, financial position and operating results at a minimum of one time per month.

14.2 The Board of Directors

14.2.1 Overview of the Board of Directors

The Articles of Association provide that the Board of Directors shall consist of a minimum of 3 and a maximum of 10 Board Members elected by the Company's shareholders. The names, positions and current term of office of the Board Members as at the date of this Prospectus are set out in the table below.

Name	Position	Served since	Term expires
Michael Koenig	Chairperson	2016	2019
Olivier de Clermont Tonnerre	Board Member	2011	2019
Guihua Pei	Board Member	2018	2019
Einar Støfringshaug	Board Member (employee representative)	2002	2018
Marianne Færøyvik	Board Member (employee representative)	2016	2018

Additionally, the table below sets out the names, positions and term of office for the persons who have been appointed as additional Board Members subject to, and with effect from, the Listing.

Name	Position	Served since	Term expires
Dag J. Opedal	Board Member	2018	2019
Anja-Isabel Dotzenrath	Board Member	2018	2019
Caroline Grégoire Sainte-Marie	Board Member	2018	2019

In addition to the Board Members, Per Tronvoll and Terje Andre Hanssen are employee-elected observers to the Board of Directors. There are also eight employee-elected deputy Board Members.

The composition of the Board of Directors is in compliance with the independence requirements of the Corporate Governance Code (as defined below), meaning that (i) the majority of the shareholder elected members of the Board of Directors are independent of the Company's executive management and material business contacts, (ii) at least two of the shareholder elected Board Members are independent of the Company's main shareholders (shareholders holding more than 10% of the Shares in the Company), and (iii) no member of the Company's Management serves on the Board of Directors.

The Company's registered business address, Drammensveien 169, 0277 Oslo, Norway, serves as c/o address for the Board Members in relation to their directorship of the Company.

As at the date of this Prospectus, none of the Board Members holds any Shares, options or other rights to acquire Shares. See Section 14.5 "Bonus programme and share incentive scheme" for a description of the Company's long term share incentive programme adopted by the Board of Directors.

14.2.2 Brief biographies of the Board Members

Set out below are brief biographies of the Board Members who will constitute the Board of Directors subject to, and with effect from Listing, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside the Company and names of companies and partnerships of which a Board Member is or has been a member of the administrative management or supervisory bodies or partner in the previous five years.

Michael Koenig, Chairperson

Michael Koenig has been the chairperson of Elkem AS since September 2016. Mr. Koenig is currently the chief executive officer of China National Bluestar (Group) Co., Ltd., a position he has held since January 2016. Mr. Koenig also serves as a member of the board of directors of China National Bluestar (group) Co. Ltd., Adisseo and Quenos. Mr. Koenig has extensive professional experience from the Bayer group in which he has held various positions, including chief executive officer of Bayer Group Greater China and Head of Polycarbonates Business Unit of Bayer MaterialScience. Mr. Koenig also served as a member of the board of directors of Bayer AG from 2013 until 2015 and as the chairperson of the board of directors of Currenta from 2013 until 2015. Hence, Mr. Koenig has accumulated rich experience in running large multinational corporations. Mr. Koenig holds a degree in chemical engineering from the Chemical Engineering Department of the TU Dortmund University in Germany. Mr. Koenig is a German citizen, residing in China.

Current directorships and senior management positions	*China National Bluestar (Group) Co. Ltd (chief executive officer and board member), Adisseo (board member) and Qenos (board member).*
Previous directorships and senior management positions last five years	*Bayer AG (board member) and Currenta (chairperson).*

Olivier de Clermont Tonnerre, Board Member

Olivier de Clermont Tonnerre has since January 2011 held the position as chief strategic and as corporate development officer at National China Bluestar Corp., in addition to executive strategic adviser at Elkem Silicones Service France. Mr. de Clermont Tonnerre is a member of the board of directors of National China Bluestar Corp. (since 2007), Bluestar Elkem Luxembourg (since 2007), Elkem (since 2011), REC Solar (since 2015) and Syngenta (since 2017). Mr. de Clermont Tonnerre has extensive professional experience from the Rhone-Poulenc group and Rhodia group in which he held several executive positions for worldwide SBU's such as Surfactants, Food Additives and then Silicones-Silica-Rare Earth based in France and in the USA. Mr. de Clermont Tonnerre was a member of Rhodia executive committee, chief executive officer of Silicones-Silica- rare earth and also supervising the Rhodia group sales & marketing excellence program, before he joined the Bluestar group in 2007 after the acquisition of the Rhodia silicones business by Bluestar. Mr. de Clermont Tonnerre was then appointed as chief executive officer of Bluestar Silicones until 2010. Mr. de Clermont Tonnerre holds a degree in chemical engineering from Toulouse Institut Polytechniques (France), a Master in Economics from Paris- Nanterre University (France) and an MBA from INSEAD (France). Mr. de Clermont Tonnerre is a French citizen, and resides in France.

Current directorships and senior management positions	*REC Solar (board member), Bluestar Elkem Luxembourg (board member), National China Bluestar Corp. (board member and executive officer), Renovalys France (Board member), Syngenta (board member) and Nouvel Institut Franco-Chinois de Lyon (board member).*
Previous directorships and senior management positions last five years	*Bluestar Silicones International Luxembourg (board member).*

Guihua Pei, Board Member

Guihua Pei is currently the chief legal officer of China Bluestar (Group) Co. Ltd and has served as chairperson of the board of supervisors in Bluestar Adisseo Company. Ms. Guihua Pei graduated with a doctor degree of law from China University of Political Science and Law in January 2014, and has qualification in the legal profession in China. Ms. Guihua Pei has also worked as a judge in the Dongcheng District People's Court of Beijing for ten years and as the first-class prosecutor in the Beijing People's Procuratorate for five years. Ms. Guihua PEI is a Chinese citizen, residing in China.

Current directorships and senior management positions	*China National Bluestar (Group) Co. Ltd. (CLO) and Bluestar Adisseo Company Ltd. (chairperson of the supervisory board).*
Previous directorships and senior management positions last five years	*None.*

Dag J. Opedal, Board member

Dag J. Opedal has extensive managerial experience from previous positions in several Norwegian public and private companies. Mr. Opedal is the former chief executive officer of Orkla ASA, EVP Norgesgruppen ASA, president of Ferd Capital, and managing director for Stabburet AS. Mr. Opedal has also been a board member of Carlsberg, Jotun, REC, Sapa / Alcoa (JV) and Telenor ASA. In addition, Mr. Opedal was the Chairperson of Elkem AS from 2006 to 2009. Mr. Opedal has a degree in economics from the Norwegian School of Economics (NHH), in addition to an MBA from INSEAD business school in France. Mr. Opedal is a Norwegian citizen, currently residing in Norway.

Current directorships and senior management positions	*Nammo AS (board member), FSN Capital (executive advisor), Kavli Holding AS (board member), Kavli Foundation (board member), Odin Forvaltning AS (board member), Cosmetics Group (chairperson), PM Retail AS (chairperson), Byggimpuls AS (chairperson), Hypervig AS (chairperson), Styreinstitutt (board member), Holly Holding AS (chairperson), Bertel O. Steen Holding AS (board member), BOS Invest (chairperson), BOS Industri (chairperson), Vita AS (chairperson), Buddy Holding AS (chairperson), Viking Outdoor Footwear AS (chairperson), Alcaran AS (chairperson) and Fruvika AS (chairperson).*
Previous directorships and senior management positions last five years	*Vizrt AS (chairperson), Telenor ASA (board member), Norwegian Church Aid (board member), Meltwater (chairperson of supervisory board), AK-maskiner AS (chairperson) and Validus AS (chairperson).*

Anja-Isabel Dotzenrath, Board member

Anja Isabel Dotzenrath has more than 25 years of industrial and top management consulting experience in the energy and chemical industry, with extensive expertise in strategy development, transformation, post-merger integration and finance. She has worked across a range of geographies, including Central and Eastern Europe, the U.S. and Asia. Ms. Dotzenrath has been the CEO of E.ON Climate & Renewables at E.ON SE since April 2017 responsible for E.ON's industrial-scale renewable energy activities and one of the three business pillars of E.ON. Prior to this, she served as the chief operating officer at E.ON Climate & Renewables and as a member of the board of E.ON's integrated conventional generation and renewables business. Ms. Dotzenrath joined E.ON in 2011. She has a degree in Electrical Engineering and Business Administration, both from RWTH Aachen University. Ms. Dotzenrath is a German citizen, residing in Germany.

Current directorships and senior management positions	*E.ON Climate & Renewables GmbH (chief executive officer).*
Previous directorships and senior management positions last five years	*E.ON Climate & Renewables GmbH (board Member), E.ON Kraftwerke GmbH (fully authorised representative), E.On Kernkraft GmbH (fully authorised representative) and E.ON Inhouse Consulting (managing director).*

Caroline Grégoire Sainte-Marie, Board member

Caroline Grégoire Sainte-Marie has built extensive managerial and board experience throughout her career, having held chief executive, presidential and other highly-ranked positions in several large corporations, as well as serving multiple board memberships. Since May of 2017, Caroline Grégoire has held the position as senior advisor with HIG Capital Europe. Caroline Grégoire has several current directorship positions, including independent director of Groupama SA France and as a member of Wienberger AG's board of directors, where she also is a member of the audit committee and the strategy committee. Further, Caroline Grégoire is also on the board of directors of CALYOS and of FLSmidth, where she is a member of the Technology Committee and Audit Committee as well. In addition, Caroline Grégoire is the founding partner of Definnov SAS. Caroline Grégoire is a graduate of Institut d'Études Politiques Paris and Université Droit Paris Sorbonne. Caroline Grégoire is a French citizen, currently residing in France.

Current directorships and senior management positions	*Groupama S.A. (board member), FLSmidth (board member), Wienberger AG (board member) and CALYOS (board member).*
Previous directorships and senior management positions last five years	*Safran S.A. (board advisor) and Eramet S.A. (board member).*

Einar Støfringshaug, Board member (Employee representative)

Einar Støfringshaug has been an employee of Elkem since 1974 and an employee representative director of the board of Elkem since 2002. He also serves as the company's chief trade union representative. During his employment at Elkem Bjølvefossen, Mr. Støfringshaug has held positions as employee representative at the internal board of Elkem Bjølvefossen (1993-2002). Mr. Støfringshaug is a member of Industri Energi and has participated in various training programs relating to his positions in Elkem. Mr. Støfringshaug served as a deputy board member of Orkla ASA from 2006 until 2011. Mr. Støfringshaug is a Norwegian citizen, residing in Ålvik, Norway.

Current directorships and senior management positions	*None*
Previous directorships and senior management positions last five years	*None.*

Marianne Færøyvik, Board member (Employee representative)

Marianne Færøyvik has been with Elkem AS since 1995 and has been an employee representative director of the board of Elkem since 2016. Prior to this, she was a deputy board member at the Elkem board of directors. Ms. Færøyvik has worked with engineering, technical development, project procurement, production improvement and manufacturing analysis in Elkem and is currently a senior chemical engineer. She is educated at the Norwegian University of Science and Technology (NTNU) and has a Ph.D. in Inorganic Chemistry, also from NTNU. Ms. Færøyvik is a Norwegian citizen, residing in Oslo, Norway.

Current directorships and senior management positions	*None*
Previous directorships and senior management positions last five years	*None.*

14.3 Management

14.3.1 Overview

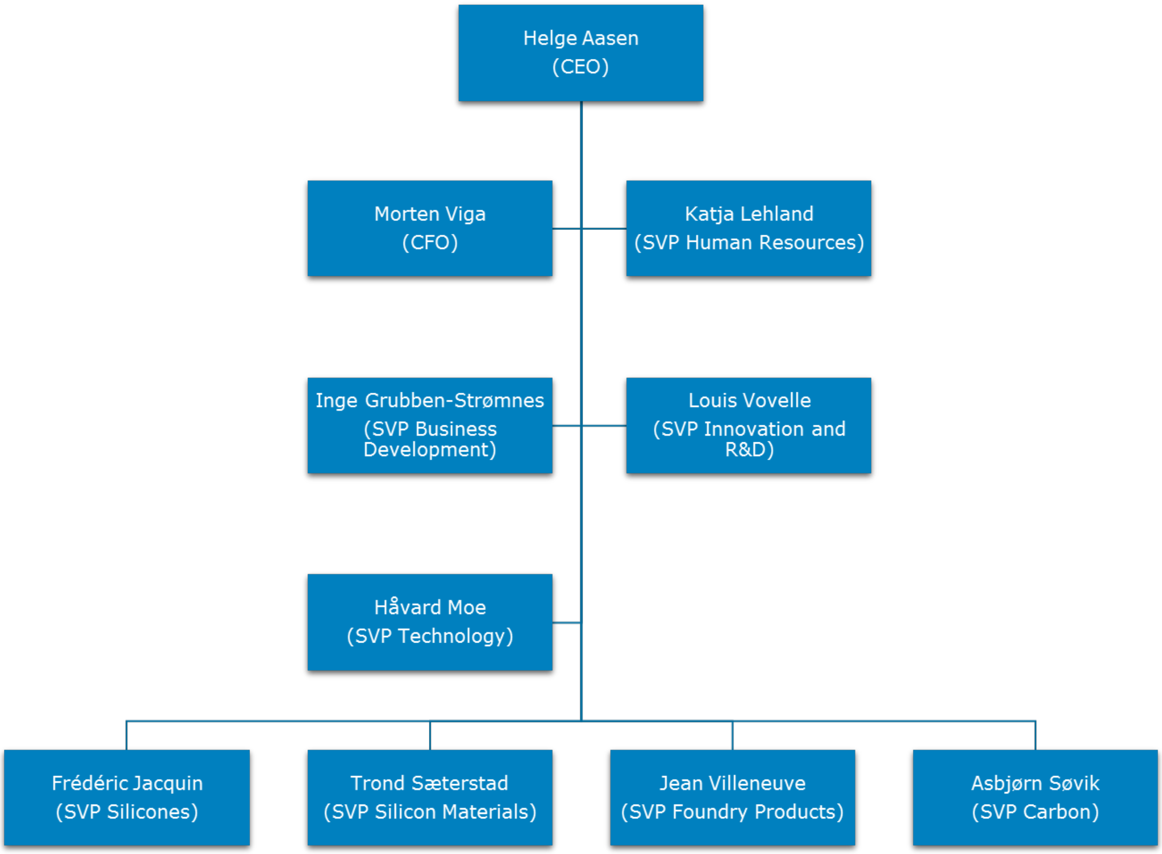
Elkem's Management team consists of 10 individuals. As of the date of this Prospectus, no member of Management holds any Shares, options or other rights to acquire Shares. All members of Management are eligible to and may participate in the Retail Offering. See Section 14.5 "Bonus programme and share incentive scheme" for a description of the Company's long term share incentive programme adopted by the Board of Directors.

The names of the members of Management as of the date of this Prospectus, and their respective positions, are presented in the table below:

Name	**Current position within the group**	**Employed with the Group since**
Helge Aasen	CEO	1990
Morten Viga	CFO	2001
Katja Lehland	SVP Human Resources	2006
Inge Grubben-Strømnes	SVP Business development	2005
Louis Vovelle	SVP Innovation and R&D	2004
Håvard Moe	SVP Technology	2008
Frédéric Jacquin	SVP Silicones	2004
Trond Sæterstad	SVP Silicon Materials	1997
Jean Villeneuve	SVP Foundry Products	1979
Asbjørn Søvik	SVP Carbon	1995

The Company's registered business address, Drammensveien 169, 0277 Oslo, Norway, serves as c/o address for the members of the Management in relation to their employment with the Group.

The following chart sets out the Management's organisational structure:



14.3.2 Brief biographies of the members of the Management

Set out below are brief biographies of the members of the Management, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside the Group and names of companies and partnerships of which a member of the Management is or has been a member of the administrative, management or supervisory bodies or partner the previous five years.

Helge Aasen, CEO

Helge Aasen has 27 years of experience in the international materials and metals and mining industry. He has been the Chief Executive Officer of Elkem since 2009. Mr. Aasen has worked both at plants and in corporate functions internationally and in Norway. He has held the posts as SVP of Elkem Carbon division (2000 - 2007), after which he was appointed CEO of Elkem Solar AS. Helge Aasen holds an MSc in Engineering from the Norwegian University of Science and Technology (NTNU), and has participated in the executive leadership development program at IMD in Switzerland. Mr. Aasen has been with Elkem since 1990, and in the course of his years at Elkem, he has acquired a very broad industrial experience of most of the company's different functions, from sales through operations to logistics and purchasing. Mr. Aasen is a Norwegian citizen, and resides in Norway.

Current directorships and senior management positions	*China National Bluestar (Group) Co. Ltd. (board member) and Norsk Industri (chairperson).*
Previous directorships and senior management positions last five years	*None.*

Morten Viga, CFO

Morten Viga has been the Chief Financial Officer of Elkem since 2006. Mr. Viga has worked in Elkem since 2001. He held the post as Financial Director of Elkem Silicon/Ferrosilicon before he was appointed CFO for Elkem. Morten Viga has 29 years of experience in the international materials, metals and mining and oil and gas industries. Mr. Viga holds an MSc in Economics and Business Administration from the Norwegian School of Economics (NHH). In the course of his years at Elkem, he has acquired a broad experience from corporate level and from divisional and plant level. Mr. Viga is a Norwegian citizen, and resides in Norway.

Current directorships and senior management positions	*North Sea Container Line AS (board member).*
Previous directorships and senior management positions	*None.*

last five years	

Katja Lehland, SVP Human Resources

Katja Lehland has been the Chief Human Resources Officer of Elkem since 2011. Mrs. Lehland has worked in Elkem since 2006. Prior to her position in Elkem, Mrs. Lehland held several international HR Director-positions in Nokia, United Biscuits and Schindler where she served on the companies' management teams and has also held several board positions. Mrs. Lehland has during her career acquired an extensive international business experience. Mrs. Lehland holds a BSc in Economics and Marketing and has completed high-level executive management development programs. Mrs. Lehland is a Finnish citizen, and resides in Norway.

Current directorships and senior management positions	*Elkem Solar AS (board member) and Riviera Asset Management (deputy board member).*
Previous directorships and senior management positions last five years	*None*

Inge Grubben-Strømnes, SVP Business Development

Inge Grubben-Strømnes has been the SVP of Business development of Elkem since 2008. Mr. Grubben-Strømnes has worked with strategy and business development in Elkem since 2005. He has also been the CEO of Elkem Solar AS since 2012. Prior to his position in Elkem, he worked with McKinsey & Company for 4 years. Mr. Grubben-Strømnes holds an MSc in Zoology and a Bachelor in Biology from the Norwegian University of Science and Technology and an MBA from EM-Lyon. Mr. Grubben-Strømnes is a Norwegian citizen, and resides in Norway.

Current directorships and senior management positions	*REC Solar Holding AS (board member), Bluestar Elkem Solar S.á r.l. (board member), Elkem Solar AS (board member) and Solin Development B.V. (board member).*
Previous directorships and senior management positions last five years	*FiN AS (board member), Elkem Chartering AS (board member) and Elkem Solar AS (chief executive officer).*

Louis Vovelle, SVP Innovation and R&D

Louis Vovelle has been the SVP of Innovation and R&D of Elkem since 2015. Mr. Vovelle has worked both in corporate and divisional functions internationally. He has held the post as R&D Director for Bluestar Silicones International (2007-2010), after which he was appointed Vice President for Innovation and Strategy of Bluestar Silicones International (2010-2015). Mr. Vovelle holds an Engineer diploma in Chemistry from the Ecole Nationale Supérieure de Chimie de Paris (1983), a PhD in Physics from Ecole Centrale de Lyon (1987), and has participated in the General Management Programme at CEDEP-INSEAD in France (1998 - 1999). In the course of his years of experience as R&D director and Vice President in international companies (Rhône-Poulenc, Rhodia, Bluestar), he has developed a sustainable innovation and R&D vision for developing new products and new processes. During the last years at Bluestar Silicones International and Elkem, an extensive R&D collaborative network has been created supported by Open Innovation with international universities, high schools and clusters in chemistry and materials. Mr. Vovelle is a French citizen, and resides in France.

Current directorships and senior management positions	*Axelera collaborative cluster (chemistry & environment) (board member), Techtera collaborative cluster (materials) (president) and Lyon Polymer Science & Engineering (University of Lyon) (deputy board member).*
Previous directorships and senior management positions last five years	*None.*

Håvard Moe, SVP Technology

Håvard Moe has been the SVP of Elkem Technology since 2008. Mr. Moe has worked with R&D, engineering, corporate procurement and industrial projects in Elkem. Prior to his position in Elkem, he held various management positions in ABB and Statoil. Mr. Moe has a broad international experience from technology development and execution of complex industrial projects. He has been in involved in all of Elkem's large projects since 2008, including Elkem Solar, energy recovery projects in Thamshavn and Chicoutimi, and two furnace upgrade projects in Salten. He has also supported Elkem's owners, both Orkla and Bluestar, in quality assurance of their expansion projects in Europe and China. Mr. Moe holds an MSc in Mechanical Engineering and a PhD in Chemical Engineering from the Norwegian University of Science and Technology (NTNU), and has participated in the transition to general management programme at INSEAD in France. Mr. Moe is a Norwegian citizen, and resides in Norway.

Current directorships and senior management positions	*Elkem Solar AS (board member) and Eyde Nettverket (board member).*
Previous directorships and senior management positions last five years	*None.*

Frédéric Jacquin, SVP Silicones

Frédéric Jacquin has been the SVP of Silicones of Elkem since 2015. Mr. Jacquin has previously worked 11 years in Bluestar Silicones International. He held the position as Vice President of Marketing and Sales before he was appointed CEO of the Silicones division in early 2015. He has a 28 years of experience with specialty chemicals and has thereby acquired a broad and international experience in specialty chemicals business development and industrial marketing. Mr. Jacquin holds an Executive MBA from the ESSEC French Business School and a Magistere in Marketing and Communication from La Sorbonne French University (Celsa). Mr. Jacquin is a French citizen, and resides in France.

Current directorships and senior management positions	*Bluestar Silicones International S.à r.l. (board member), Bluestar Silicones Brasil Ltda. (board member), Bluestar Silicones France SAS (chief executive officer), Bluestar Silicones Shanghai Co. Ltd. (chairperson), Bluestar Silicones Hong Kong Trading Co., Ltd. (board member), Bluestar Silicones USA Corp. (board member).*
Previous directorships and senior management positions last five years	*None.*

Trond Sæterstad, SVP Silicon Materials

Trond Sæterstad has been the SVP of Silicones Materials of Elkem since 2012. Mr. Sæterstad has previously held the position as Senior Vice President of Elkem Solar AS and has been the former plant manager at Elkem plants both for Silicon and Ferroalloy before he was appointed Head of Silicones Materials. Mr. Sæterstad holds an MSc in Chemical Engineering from the Norwegian University of Science and Technology (NTNU), and Business Economist from the Norwegian Business School (BI). He has 31 years of experience in the international processing and metals and mining industries. He has also participated in the leadership development program in IMD in Switzerland. He has broad industrial experience from different management positions in Elkem, Vale as Managing Director, Akzo Nobel in operation and Statoil as project engineer. Mr. Sæterstad is a Norwegian citizen, and resides in Norway.

Current directorships and senior management positions	*Elkem Rana AS (board member and chief executive officer), Elkem Silicones (board member), Arctic Cluster Team (chairperson) and Industry Cluster of Process Industry northern Norway (chairperson).*
Previous directorships and senior management positions last five years	*Helgeland Lean Senter (board member).*

Jean Villeneuve, SVP Foundry Products

Jean Villeneuve has been the SVP of Foundry Products of Elkem since 2011. Prior to this he held the position as General Manager Americas from 2008-2011. Mr. Villeneuve has worked in Elkem since 1979, although with a break between 1989-1993, and has 37 years of experience in the international engineering and metals and mining industries. He has worked as Plant Manager for Elkem Chicoutimi and as General Manager Americas before he was appointed Head of Foundry Products. Mr. Villeneuve holds a Bachelor's degree in unified engineering on electrical option from the University of Chicoutmi in Quebec, Canada. He has also participated in a leadership program at the Center for Creative Leadership in Colorado Springs. Mr. Villeneuve is a Canadian citizen, and resides in Canada.

Current directorships and senior management positions	*Elkem Materials, Inc. (board member) Elkem Metal Canada Inc. (chairperson) and Igazú Alloys S.A. (board member).*
Previous directorships and senior management positions last five years	*Idem (board member).*

Asbjørn Søvik, SVP Carbon

Asbjørn Søvik has been the SVP of Carbon of Elkem since 2007. Mr. Søvik has worked in Elkem since 1995 and was previously head of business development in Elkem corporate. He has an extensive international management experience from plants and divisions in the United States, Brazil and Norway, through his 25 years of experience in the international materials and mining industry. He has a broad knowledge of most of Elkem's different functions, such as Raw Materials, Energy, Operations and M&S. Mr. Søvik holds an MSc in Engineering from the Norwegian University of Science and Technology (NTNU) and an MBA from IESE in Spain. Mr. Søvik is a Norwegian citizen, and resides in Norway.

Current directorships and senior management positions	*None.*
Previous directorships and senior management positions last five years	*None.*

14.4 Remuneration and benefits

14.4.1 Remuneration of the Board of Directors

The total payments to the board members in 2017 were NOK 513.5 thousand. The table below sets out the remuneration paid to the board members in 2017 (NOK thousand).

Name and position	Remuneration paid in 2017
Michael Koenig (Chairperson)	-
Zhigang Hao	-
Yougen Ge	-
Olivier de Clermont Tonnerre	-
Sverre Sellæg Tysland	166.0
Helge Aasen	-
Einar Støfringshaug (employee representative)	164.8
Marianne Færøyvik (employee representative)	164.8

In addition, NOK 82.2 thousand was paid to each of the employee observers on the Board of Directors, Per Tronvoll and Terje Andre Hanssen. The employee representatives have received ordinary salary in addition to the above listed board remuneration.

14.4.2 Remuneration of the Management

Elkem offers competitive remuneration to the Management based on current market standards, company and individual performance. In addition to the basic salary, the Management also participates in the bonus program as set forth in Section 14.5 "Bonus programme and share incentive scheme" below. The total remuneration paid to the Management in 2017 was NOK 46,400 thousand.

The table below sets out the remuneration to the CEO of Elkem in 2017 (NOK thousand):

Name	Position	Salary[1]	Bonus[2]	Other remuneration	Pensions costs	Total remuneration
Helge Aasen	CEO	5.419.6	4.931.9	158.7	692.5	11,202.7

1 Including holiday pay.
2 Including retention fee.

14.5 Bonus programme and share incentive scheme

14.5.1 Bonus programme

Elkem has a bonus scheme for the Management. The bonus is based on achievement of targets relating to (i) Elkem cash flow from operations (40%), (ii) Operating EBITDA for Elkem (40%) and (iii) individual targets set through discussions between the individual and the CEO (20%). Payment of bonus is dependent on achievement of at least 75% of budget. Maximum bonus requires achievement of 125% of budget. Bonus payable under the bonus scheme is capped at 50% of the Management's base salaries and 100% of the CEO's base salary.

14.5.2 Share incentive scheme

The Board has resolved to implement a long term share incentive scheme for the members of the Management and certain other key employees in the Group.

Options will be granted on an individual basis to selected recipients. Each option will give the option holder the right to subscribe or purchase one ordinary Share in the Company. The number of options granted, the exercise price, the vesting schedule and the expiry dates are determined in the individual grant letters. It is expected that options will be granted with an exercise price equal to the market price of the Shares at the time of grant and with vesting over a period of three years from grant (i.e. one-third vesting each year). Vested options may be exercised at any time in the period starting on the day following the day of the Company's release of its annual and quarterly results and for 15 Norwegian business days thereafter. Should the employment with an option holder be terminated, unvested options shall lapse and vested options must be exercised within certain deadlines. The Company may honour options when exercised by deliver either new Shares, treasury Shares or settlement in cash, at the discretion of the Company.

Participants may not in any calendar year realise a total gain on exercise of options which is in excess of two times (four times for the CEO) the employee's base salary.

The Board of Directors has been granted an authorisation to issue shares or to acquire treasury shares for the purpose of, inter alia, implementing such share incentive program. See section 17.6 "Authorisations to increase the share capital and to issue Shares" and section 17.7 "Authorisation to acquire treasury Shares" for further information on these authorisations.

At the date of this Prospectus, no options have been granted to any members of Management.

14.5.3 IPO bonus scheme

In connection with the Listing, Helge Aasen (CEO), Morten Viga (CFO), Inge Grubben-Strømnes (SVP Business Development) and Frédéric Jacquin (SVP Silicones) and Zhang Lijun (CEO of Xinghuo Silicones) may be eligible for bonuses. The IPO bonus scheme relates to Elkem's enterprise value whereby bonuses for any the aforementioned persons is dependent on the enterprise value of Elkem reflected in the final Offer Price. If the enterprise value exceeds a certain threshold, then each of the above Management members will be entitled to an IPO bonus equal to 0.5 times the Management member's 2017 base salary. For Helge Aasen (CEO) and Morten Viga (CFO) this minimum threshold do not apply if they subscribe for Shares in the Offering for an amount equal to at least their respective net of tax base salary for 2017, in which case they will be entitled to a minimum IPO bonus equal to 1.5 times their respective 2017 base salary. The IPO bonus will increase to 2 times the 2017 base salary with increasing enterprise values up to a second threshold. In the event the enterprise value reflected in the final Offer Price exceeds the second threshold, an additional discretionary bonus may be granted to each individual. The bonuses, if any, will be paid after completion of the IPO.

14.6 Benefits upon termination

The Management have entered into service agreements pursuant to which they are entitled to 12 months' base salary as severance pay if their employments are terminated by the employer. The severance pay is paid in addition to the contractual notice period of 6 months and is conditional upon the member of the Management not challenging the validity of the termination. The CEO is entitled to an additional 18 months' severance pay (total severance pay of 30 months' base salary) as compensation for waiving his rights to employment protection ensuing from Chapter 15 of the Working Environment Act.

None of the Board Members or the members of the nomination committee have service contracts with the issuer or any of its subsidiaries and none will be entitled to any benefits upon termination of office.

14.7 Pension and retirement benefits

For the year ended 31 December 2017, the costs of pensions for members of the Management who are employed in Elkem AS were NOK 2.4 million, including top hat pension costs as described below. The Company has no pension or retirement benefits for its Board Members.

In addition to the defined contribution pension scheme which includes all employees in Elkem, the members of the Management (except Jean Villeneuve, Louis Vovelle and Frédéric Jacquin) participate in a top hat pension scheme, where annual contributions are equal to 15% of the Management's pensionable income above 12G ("G" is the National Insurance Basic Amount, at the date of this Prospectus 1G equals NOK 93,634). The top hat pension scheme is unfunded, but secured by a bank guarantee established by the Company. Jean Villeneuve participates in the pension scheme established in Elkem Métal Canada Inc. and in a top hat pension scheme created for him only, authorised by Elkem. Louis Vovelle and Frédéric Jacquin participate in the ordinary pension scheme and top hat pension scheme established in ESi (former BSI).

Elkem also has unfunded lifelong pension obligations towards former board members and officers and their surviving spouses.

For more information regarding pension and retirement benefits, see note 6 to the Combined Financial Statements and the Consolidated Financial Statements, included as Appendix B and C, respectively.

14.8 Employees

As of the date of this Prospectus, Elkem has 6,114 employees (in FTE), including employees of Xinghuo Silicones and Yongdeng Silicon Materials.

The table below shows the development in the numbers of full-time employees per division as at 31 December 2017, 2016 and 2015. For an overview of the development in the total number of full-time employees on an average monthly basis, see note 5 to the Combined Financial Statements and the Consolidated Financial Statements.

	As at 31 December		
	2017	2016	2015
Silicones division	3,098	3,064	1,466[1]
Silicon Materials division	1,422	1,452	792[2]
Foundry Products division	812	736	627
Carbon division	426	420	405
Other	356	350	338
Total employees	**6,114**	**6,022**	**3,628**

1 Figures excluding Xinghuo Silicones.
2 Figures excluding Yongdeng Silicon Materials.

The table below provides an overview by percentage of geographic location of the full-time employees for the year ended 31 December 2017.

	As at 31 December
	2017
Asia	46%
Europe	44%
America	9%
Africa	1%
Rest of the world	0%
Total employees	**100%**

14.9 Nomination committee

The Articles of Association provide for a nomination committee composed of two or three members. The nomination committee will subject to, and with effect from, Listing consist of Sverre Sellæg Tysland (chairperson), Anne Kjølseth Ekerholdt and Hao Zhigang. The nomination committee shall give recommendations for the shareholder-elected Board Members and the members of the nomination committee and make recommendations for remuneration to the Board Members and the members of the nomination committee.

14.10 Audit committee

The Board of Directors has established an audit committee composed of two Board Members. The audit committee will subject to, and with effect from, Listing consist of Dag J. Opedal (chairperson) and Olivier de Clermont Tonnerre. The primary purposes of the audit committee are to:

- assist the Board of Directors in discharging its duties relating to the safeguarding of assets, the operation of adequate system and internal controls, the control processes and the preparation of accurate financial reporting and statements in compliance with applicable legal requirements, corporate governance and accounting standards; and

- provide support to the Board of Directors on the risk profile and risk management of the Group.

The audit committee reports and makes recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations.

14.11 Remuneration committee

The Board of Directors has established a remuneration committee composed of Board Members. The remuneration committee will subject to, and with effect from, Listing consist of Michael Koenig (chairperson), Anja-Isabel Dotzenrath and Caroline Gregoire. The primary purpose of the remuneration committee is to assist and facilitate the decision making of the Board of Directors in matters relating to the remuneration of the executive management of the Group, reviewing recruitment policies, career planning and management development plans, and prepare matters relating to other material employment issues in respect of the executive management.

The remuneration committee reports and makes recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations.

14.12 Corporate governance

The Company has, with effect from the Listing, adopted and implemented a corporate governance regime which complies with the Norwegian Code of Practice for Corporate Governance, dated 30 October 2014 (the "**Corporate Governance Code**").

14.13 Conflict of interests etc.

During the last five years preceding the date of this Prospectus, none of the Board Members or the members of the Management has, or had, as applicable:

- any convictions in relation to indictable offences or convictions in relation to fraudulent offences
- received any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or was disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company, or
- been declared bankrupt or been associated with any bankruptcy, receivership or liquidation in his or her capacity as a founder, director or senior manager of a company.

Three of the Board Members, Michael Koenig, Olivier de Clermont Tonnerre and Guihua Pei are employed by Bluestar. By being employed by Bluestar, Michael Koenig, Olivier de Clermont Tonnerre and Guihua Pei have fiduciary duties to Bluestar and the Selling Shareholder that may conflict with the Company's interests. Helge Aasen is a shareholder elected board member of China National Bluestar (Group) Co. Ltd. As a board member of China National Bluestar (Group) Co. Ltd., Mr. Aasen may have fiduciary duties to Bluestar and the Selling Shareholder that may conflict with the Company's interests. In addition, Inge Grubben-Strømnes and Katja Lehland are both board members of Elkem Solar AS. Although not considered to be material to the Group, the Group has certain on-going business relationships with Elkem Solar AS. Through their positions with Elkem Solar AS, Mrs. Lehland and Mr. Grubben-Strømnes owe fiduciary duties to Elkem Solar AS that may conflict with the Company's interests.

To the Company's knowledge, there are currently no other actual or potential conflicts of interest between the Company and the private interests or other duties of any of the members of the Management or the Board of Directors, including any family relationships between such persons.

15 THE SELLING SHAREHOLDER

15.1 Bluestar Elkem International Co., Ltd. S.A.

As of the date of the Prospectus, the Selling Shareholder, Bluestar Elkem International Co., Ltd. S.A. (Bluestar), a company in the China National Chemical Corporation ("**ChemChina**") group, is the Company's sole shareholder. ChemChina is state-owned and an internationally leading chemical company.[161] Most of ChemChina's foreign enterprises, including the Selling Shareholder, are held through ChemChina's partially owned subsidiary, China National Bluestar (Group) Co. Ltd.[162], a leading[163] global specialty chemicals and advanced materials producer with production of new chemical materials, nutritional science and performance chemicals and intermediates. The Selling Shareholder's registered address is 1, rue Hildegaard von Bingen, L-1282 Luxembourg, Grand-Duchy of Luxembourg.

The Company has been since 2011, and will until completion of the Offering be, a wholly owned subsidiary of the Selling Shareholder. Following completion of the Offering, the Selling Shareholder will own a minimum of 60% of the Shares of the Company, assuming the Over-Allotment Option is not exercised, and a minimum of 54% if the Over-Allotment Option is exercised. While the Selling Shareholder will not have different voting rights than other shareholders following completion of the Offering, the Selling Shareholder will following completion of the Offering retain a majority interest in the Company (see Section 17.5 "Ownership structure").

Name	Registered address	Number of Shares held	Maximum number of Sale Shares offered	Number of Shares held following the Offering[2]	Percentage of issued share capital following the Offering[2]
Bluestar Elkem International Co., Ltd. S.A.[1]	7 A rue Robert Strumper, L-2557 Luxembourg, Grand-Duchy of Luxembourg	402,000,000	71,657,143	330,342,857	60%

1 Primary insider of the Company.

2 Assuming a sale of all Sale Shares offered and that the Offer Price is set at the high end of the Indicative Price Range.

The Selling Shareholder will enter into a lock-up agreement with the Joint Global Coordinators pursuant to which it will undertake that it will not, during a period ending 365 days after the date of the Underwriting Agreement (as defined in Section 20.1 "Overview of the Offering"), make certain dispositions in respect of Shares in the Company without the prior written consent of the Joint Global Coordinators (on behalf of the Joint Bookrunners), such consent not to be unreasonably withheld. See Section 20.18 "Lock-up" for further information.

[161] Based on ChemChina's own estimates.

[162] ChemChina owns 53.77% of China National Bluestar (Group) Co. Ltd. The remaining 46,23% is held by various minorities, whereby 13.44% is held by international investors whereby none holds more than 10% and 32.79% by domestic investors whereby one owns 17%, and the remaining investors holds about 15% in total.

[163] Based on China National Bluestar (Group) Co. own estimates.

16 RELATED PARTY TRANSACTIONS

16.1 Introduction

Below is a summary of the Group's related party transactions for the periods covered by the historical financial information included in this Prospectus and up to the date of this Prospectus. For further information on related party transactions of the Group, see note 28 of the Combined Financial Statements and the Consolidated Financial Statements, included in Appendix B and C, respectively, to this Prospectus. All related party transactions have been concluded at arm's length principles and the prices are set upon negotiation between the parties.

16.2 Transactions with related parties outside the Group

The main transactions between the Group and related parties outside the Group for the periods covered by the historical financial information include (i) sale of management and technology services to Elkem Solar, (ii) power supply and sale of raw materials to Elkem Solar, (iii) purchase of short and deep sea transport from North Sea Containerline AS and Elkem Chartering AS, (iv) purchase of warehousing for Combined Cargo Warehousing B.V. and (v) sale of silicone to companies within the China National Bluestar group.

Elkem also has loans from other related parties within China National Bluestar group. The main loans have been provided by Bluestar Silicones Investment Co. Ltd.

The outstanding balances as at 31 December 2017 are unsecured and the short term receivables and payables are interest free, with exception of the short term loans. The long term loans are interest bearing and the interests are calculated based on interbank rates (e.g. LIBOR and EURIBOR) plus a margin.

16.3 Information about eliminated transactions between related parties within the Group

The Group apply internationally accepted principles for transactions between related parties within the Group. In general, the Group seeks to use transaction based methods (comparable uncontrolled price, transactional net margin method, cost plus and resale price method) in order to set the price for the transaction. The Group's set-up for sales is based both on an agent structure and as a distribution network.

The Group's related party transactions can be divided as follows; (i) buy-sell off products, which include a) supply of raw materials to manufacturers, b) sale/supply of finished goods from one Group manufacturer to another, c) distribution of manufactured goods and d) flow-through; (ii) services, which include a) sales-agent/commission services, b) order handling services performed for a large part of the Group companies by one service company, c) general services, e.g. sourcing, technical support and management services, and d) toll manufacturing services; and (iii) financial services, including cash pool arrangements and intra group loans.

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

The intra group loans are normally interest bearing and interest is calculated based on interbank rates (e.g. NIBOR) plus a margin.

16.4 Transactions carried out with related parties in the years ended 31 December 2017, 2016 and 2015

16.4.1 Trade sales, trade purchases, sale of services, purchase of services, interest income and interest expenses

The table below sets out selected data from the Combined Financial Statements for the years ended 31 December 2017 and 2016, and selected data from the Consolidated Financial Statements for the year ended 31 December 2015. The information provided cover trade sales, trade purchases, sale of services, purchase of services, interest income and interest expenses between the Group and its related parties.

	2017[1]					
In NOK thousands	**Trade sales**	**Trade purchases**	**Sale of Services**	**Purchase of services**	**Interest income**	**Interest expenses**
Bluestar Elkem International Co., Ltd. S.A.	-	-	11,547	-	305	-
Joint arrangements and associates..................	-	-	59,426	(144,146)	2,076	-
Other related parties within China National Bluestar group..	492,988	(547,999)	81,458	(3,986)	-	-

Total	**492,988**	**(547,999)**	**152,431**	**148,132**	**2,381**	**-**

1 The figures are extracted from the Combined Financial Statements.

In NOK thousands	2016[1]					
	Trade sales	**Trade purchases**	**Sale of Services**	**Purchase of services**	**Interest income**	**Interest expenses**
Bluestar Elkem International Co., Ltd. S.A.	-	-	324	-	-	-
Joint arrangements and associates	121,245	(41,917)	103,160	(177,850)	2,556	-
Other related parties within China National Bluestar group	183,848	(318,890)	17,269	(37,109)	-	(535)
Total	**305,092**	**(360,807)**	**120,753**	**(214,960)**	**2,556**	**(535)**

1 The figures are extracted from the Combined Financial Statements.

In NOK thousands	2015[1]					
	Trade sales	**Trade purchases**	**Sale of Services**	**Purchase of services**	**Interest income**	**Interest expenses**
Bluestar Elkem International Co., Ltd. S.A.	-	-	893	-	-	-
Joint arrangements and associates	-	-	3	(155,097)	3,129	-
Other related parties within China National Bluestar group	145,394	(243,596)	100,845	(11,340)	30,905	(48,336)
Total	**145,394**	**(243,596)**	**101,741**	**(166,437)**	**34,034**	**(48,336)**

1 The figures are extracted from the Consolidated Financial Statements.

16.4.2 Loans from or to related parties

The table below sets out data from the Combined Financial Statements of loans from and to related parties of the Group for the years ended, 31 December 2017 and 2016.

In NOK thousands	**Year ended 31 December**	
	2017	**2016**
Loans to joint arrangements	8,920	52,682
Receivables to joint arrangements	-	14,269
Loans to other related parties within China National Bluestar group	-	-
Loans from other related parties within China National Bluestar group	(6,873)	(767,582)
Accrued interest on loans from other related parties within China National Bluestar group	(157,076)	(150,766)
Receivables from Bluestar Elkem International Co., Ltd S.A	-	324
Payables to joint arrangements and associates	(10,039)	(12,656)
Receivables from joint arrangements and associates	5,387	2,227
Payables to other related parties within China National Bluestar group	(448,528)	(368,307)
Receivables from other related parties within China National Bluestar group	1,399,926	617,181

The table below sets out data from the Consolidated Financial Statements of loans from and to related parties of the Group for the years ended, 31 December 2017, 2016 and 2015.

In NOK thousands	**Year ended 31 December**		
	2017	**2016**	**2015**
Loans to joint arrangements	8,920	52,682	81,442
Receivables to joint arrangements	-	14,269	-
Loans from other related parties within China National Bluestar group	(6,873)	(7,416)	(6,693)
Accrued interest on loans from other related parties within China National Bluestar group	-	-	-
Receivables from Bluestar Elkem International Co., Ltd S.A	-	324	400
Payables to joint arrangements and associates	(10,039)	(12,656)	(9,070)

Receivables from joint arrangements and associates	5,387	2,227	-
Payables to other related parties within China National Bluestar group	(79,474)	(24,918)	(50,569)
Receivables from other related parties within China National Bluestar group	59,421	32,980	51,535

16.5 Transactions carried out with related parties in the period following 31 December 2017

Apart from the agreements entered into in connection with the Reorganisation, the Group has not entered into any new related party agreements in the period following 31 December 2017.

17 CORPORATE INFORMATION AND DESCRIPTION OF THE SHARE CAPITAL

The following is a summary of certain corporate information and material information relating to the Shares and share capital of the Company and certain other shareholder matters, including summaries of certain provisions of the Articles of Association and applicable Norwegian law in effect as of the date of this Prospectus. The summary does not purport to be complete and is qualified in its entirety by the Articles of Association, included in Appendix A to this Prospectus, and applicable law.

17.1 Company corporate information

The Company's registered name is Elkem ASA. The Company is a public limited liability company organised and existing under the laws of Norway pursuant to the Norwegian Public Limited Companies Act. The Company's registered office is in the municipality of Oslo, Norway. The Company was incorporated in Norway on 2 January 1904 as a private limited liability company and was converted into a public limited liability company on 23 February 2018 and at the same time changed its name from Elkem AS to Elkem ASA. The Company's registration number in the Norwegian Register of Business Enterprises is 911 382 008.

The Shares, including the Offer Shares, have been created under the Norwegian Public Limited Companies Act. The Offer Shares are registered in book-entry form with the VPS under ISIN NO 001 0816093. The Company's register of shareholders in the VPS is administrated by DNB Bank ASA (the VPS Registrar).

The Company's registered office is located at Drammensveien 169, N-0277 Oslo, Norway and the Company's main telephone number at that address is +47 22 45 01 00 and its telefax number is +47 22 45 01 11. The Company's website can be found at www.elkem.com. The content of www.elkem.com is not incorporated by reference into or otherwise forms part of this Prospectus.

17.2 Legal structure

Elkem is the ultimate parent company in the Group. Elkem is an operating entity. The Group comprises 72 legal entities in Europe, Asia, the Americas and Africa, in addition to 3 affiliated entities. The following table sets out information about the Company's significant subsidiaries:

Company	Country of incorporation	% holding
Elkem Carbon AS	Norway	100%
Elkem Carbon (China) Comp Ltd.	China	100%
Elkem Participacòes Indústria e Comércio Limitada	Brazil	100%
NorenoComercial Importada e Exportadora Limitada	Brazil	100%
Elkem Ferroveld JV	South-Africa	50%
Euro Nordic Logistics BV	Netherlands	100%
Combined Cargo Warehousing BV	Netherlands	33%
Euro Nordic Agencies Belgium NV	Belgium	50%
Euro Partnership BV	Netherlands	50%
North Sea Container Line AS	Norway	50%
Elkem Foundry Invest AS	Norway	100%
Elkem Uruguay S.A	Uruguay	100%
Tifwer Trade S.A.	Uruguay	100%
Aleaciones Yguazú S.A.	Paraguay	100%
Elkem Iceland Ltd.	Iceland	100%
Elkem International AS	Norway	100%
Elkem International Trade (Shanghai) Co. Ltd.	China	100%
Elkem Japan K.K	Japan	100%
Elkem Metal Canada Inc	Canada	100%
Elkem Oilfield Chemicals FZCO	United Arab Emirates	51%
Elkem Rana AS	Norway	100%
Elkem Silicones Shanghai Co. Limited	China	100%
Elkem Silicones Hong Kong Trading Co. Limited	Hong Kong	100%
Elkem Silicones France SAS	France	100%
Elkem Silicones Germany GmbH	Germany	100%
Elkem Siliconas España S.A.U	Spain	100%
Elkem Siliconi Italia S.r.l.	Italy	100%
Elkem Silicones USA Corp.	U.S.	100%
Elkem Silicones (UK) Ltd.	UK	100%
Elkem Silicones Brasil Ltda.	Brazil	100%
Elkem S.r.l.	Italy	100%

Elkem South Asia Private Limited	Indonesia	100%
Elkem Materials Inc.	United States	100%
Explotacion de Rocas Industriales y Minerales S.A.	Spain	100%
Salten Energigjenvinning AS	Norway	50%

As at the date of this Prospectus, the Group is of the opinion that its holdings in the entities specified above are likely to have a significant effect on the assessment of its own assets and liabilities, financial condition or profits and losses.

See Section 6.1.3 "Group chart prior to and after the Reorganisation" for an illustration of the Group structure prior to and after completion of the Reorganisation.

17.3 Share capital and share capital history

As of the date of this Prospectus, the Company's share capital is NOK 2,010 million divided into 402 million Shares with each Share having a nominal value of NOK 5.00. All the Shares have been created under the Norwegian Public Limited Companies Act, and are validly issued and fully paid.

The Company has one class of shares. As of the date of this Prospectus, there are no share options or other rights to subscribe or acquire Shares issued by the Company. See Sections 14.5 "Bonus programme and share incentive scheme" and 17.6 "Authorisations to increase the share capital and to issue Shares" for a description of the Company's share incentive scheme under which the members of the Management and certain other key employees in the Group may be granted options, and the Board of Directors authorisation to issue new Shares in connection with the share incentive scheme.

Neither the Company nor any of its subsidiaries directly or indirectly owns shares in the Company. See Section 17.7 "Authorisation to acquire treasury Shares" for a description of the authorisation granted to the Board of Directors to acquire treasury Shares.

The table below shows the development in the Company's share capital for the period covered by the historical financial information, i.e. from the financial year ended 31 December 2014 to the date hereof:

Date of resolution	Type of change	Change in share capital (NOK)	Subscription price (NOK)	Nominal value (NOK)	New number of Shares	New share capital (NOK)
23 February 2018	share split	N/A	N/A	5.00	402 million	2,010 million

As at 1 January 2015, the Company's share capital consisted of one share with a nominal value of NOK 2,010 million. In an extraordinary general meeting in the Company held on 23 February 2018, the share was split into 402 million Shares. Other than as set out above there have been no changes to the Company's share capital or the number of Shares in the Company during the period covered by the historical financial information and up to the date of this Prospectus.

17.4 Admission to trading

The Company expects to apply for admission to trading of its Shares on the Oslo Stock Exchange on 12 March 2018. It is expected that the board of directors of the Oslo Stock Exchange will approve the listing application of the Company on or about 15 March 2018, subject to certain conditions being met. See Section 20.15 "Conditions for completion of the Offering – Listing and trading of the Offer Shares".

The Company currently expects commencement of trading in the Shares on the Oslo Stock Exchange on an "if issued/if sold" basis, on or around 22 March 2018, and on an unconditional basis on or around 26 March 2018. The Company has not applied for admission to trading of the Shares on any other stock exchange or regulated market.

17.5 Ownership structure

As of the date of this Prospectus, the Company has only one shareholder, the Selling Shareholder, which owns 100% of the Company's outstanding Shares.

Shareholders owning 5% or more of the Shares have an interest in the Company's share capital which is notifiable pursuant to the Norwegian Securities Trading Act. See Section 18.7 "Disclosure obligations" for a description of the disclosure obligations under the Norwegian Securities Trading Act.

Following the completion of the Offering, the Company is not aware of any persons or entities other than the Selling Shareholder who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

No particular measures are initiated to ensure that control is not abused by large shareholders. Minority shareholders are protected against abuse by relevant regulations in inter alia the Norwegian Public Limited Companies Act and the Norwegian Securities Act. See Section 17.11 "Certain aspects of Norwegian corporate law" and 18.10 “Compulsory acquisition” for further information.

17.6 Authorisations to increase the share capital and to issue Shares

In the Extraordinary General Meeting held on 23 February 2018, the Board of Directors was granted two authorisations to increase the share capital of the Company by issuing New Shares:

- The Board of Directors has been granted an authorisation to increase the share capital by up to NOK 965,000,000 to be used in connection with the Offering. The authorisation is valid until the earlier of 45 days following the first day of Listing and 30 June 2018.

- In addition, the Board of Directors has been granted an authorisation to increase the share capital by up to NOK 40,000,000 to be used in connection with the issuance of new Shares under the Company's share incentive scheme, see Section 14.5 “Bonus programme and share incentive scheme”. The authorisation does not cover capital increases against contribution in kind or capital increases in connection with mergers.

17.7 Authorisation to acquire treasury Shares

In the Extraordinary General Meeting held on 23 February 2018, the Board of Directors was granted an authorisation to repurchase the Company’s own shares within a total nominal value of up to NOK 200,000,000. The maximum amount that can be paid for each share is NOK 150 and the minimum is NOK 1. The authorisation is valid until the annual General Meeting in 2019, but not later than 30 June 2019. The authorisation can be used to acquire shares as the Board of Directors deems appropriate, provided, however, that acquisition of shares shall not be by subscription.

17.8 Other financial instruments

Neither the Company nor any of its subsidiaries has issued any options, warrants, convertible loans or other instruments that would entitle a holder of any such instrument to subscribe for any shares in the Company or its subsidiaries. Furthermore, neither the Company nor any of its subsidiaries has issued subordinated debt or transferable securities other than the Shares and the shares in its subsidiaries which will be held, directly or indirectly, by the Company or, in the case of joint venture companies, by it and its partners.

17.9 Shareholder rights

The Company has one class of Shares in issue, and in accordance with the Norwegian Public Limited Companies Act, all Shares in that class provide equal rights in the Company. Each of the Company’s Shares carries one vote. The rights attaching to the Shares are described in Section 17.10 “The articles of association and certain aspects of Norwegian law”.

17.10 The articles of association and certain aspects of Norwegian law

17.10.1 The Articles of Association

The Articles of Association are set out in Appendix A to this Prospectus. Below is a summary of certain provisions of the Articles of Association.

Objective of the Company

Pursuant to section 3 of the Articles of Association, the objective of the Company is to develop and engage in industry, mining, trade and transportation as well as exploration and exploitation of natural resources. The Company may also develop, acquire and exploit patents, inventions and technical knowhow. The Company may participate directly or by other means in companies engaged in activities outlined above or activities that promote or support such objects.

Registered office

The Company’s registered office is in the municipality of Oslo, Norway.

Share capital and nominal value

The Company’s share capital is NOK 2,010,000,000.00 divided into 402,000,000 Shares, each Share with a nominal value of NOK 5.00. The Shares are registered with the Norwegian Central Securities Depository (VPS).

Board of Directors

The Board of Directors shall consist of a minimum of three and a maximum of ten members.

Restrictions on transfer of Shares

The Articles of Association do not provide for any restrictions on the transfer of Shares, or a right of first refusal for the Company. Share transfers are not subject to approval by the Board of Directors.

General meetings

Documents relating to matters to be dealt with by the Company’s general meeting, including documents which by law shall be included in or attached to the notice of the general meeting, do not need to be sent to the shareholders if such documents have been made available on the Company’s website. A shareholder may nevertheless request that documents which relate to matters to be dealt with at the general meeting are sent to him/her.

Nomination committee

The Company shall have a nomination committee. See Section 14.9 “Nomination committee”.

17.11 Certain aspects of Norwegian corporate law

General meetings

Through the general meeting, shareholders exercise supreme authority in a Norwegian company. In accordance with Norwegian law, the annual general meeting of shareholders is required to be held on or prior to 30 June of each year. Norwegian law requires that written notice of annual general meetings setting forth the time of, the venue for and the agenda of the meeting be sent to all shareholders with a known address no later than 21 days before the annual general meeting of a Norwegian public limited liability company listed on a stock exchange or a regulated market shall be held, unless the articles of association stipulate a longer deadline, which is not currently the case for the Company.

A shareholder may vote at the general meeting either in person or by proxy appointed at their own discretion. Although Norwegian law does not require the Company to send proxy forms to its shareholders for general meetings, the Company plans to include a proxy form with notices of general meetings. All of the Company's shareholders who are registered in the register of shareholders maintained with the VPS as of the date of the general meeting, or who have otherwise reported and documented ownership to Shares, are entitled to participate at general meetings.

Apart from the annual general meeting, extraordinary general meetings of shareholders may be held if the Board of Directors considers it necessary. An extraordinary general meeting of shareholders must also be convened if, in order to discuss a specified matter, the auditor or shareholders representing at least 5% of the share capital demands this in writing. The requirements for notice and admission to the annual general meeting also apply to extraordinary general meetings. However, the annual general meeting of a Norwegian public limited liability company may with a majority of at least two-thirds of the aggregate number of votes cast, as well as at least two-thirds of the share capital represented at a general meeting resolve that extraordinary general meetings may be convened with a 14 days' notice period until the next annual general meeting provided that the Company has procedures in place allowing shareholders to vote electronically.

Voting rights – amendments to the Articles of Association

Each of the Company's shares carries one vote. In general, decisions that shareholders are entitled to make under Norwegian law or the Articles of Association may be made by a simple majority of the votes cast. In the case of elections or appointments, the person(s) who receive(s) the greatest number of votes cast are elected. However, as required under Norwegian law, certain decisions, including resolutions to waive preferential rights to subscribe in connection with any share issue in the Company, to approve a merger or demerger of the Company, to amend the Articles of Association, to authorize an increase or reduction in the share capital, to authorize an issuance of convertible loans or warrants by the Company or to authorize the Board of Directors to purchase Shares and hold them as treasury shares or to dissolve the Company, must receive the approval of at least two-thirds of the aggregate number of votes cast as well as at least two-thirds of the share capital represented at a general meeting. Norwegian law further requires that certain decisions, which have the effect of substantially altering the rights and preferences of any shares or class of shares, receive the approval by the holders of such shares or class of shares as well as the majority required for amending the Articles of Association.

Decisions that (i) would reduce the rights of some or all of the Company's shareholders in respect of dividend payments or other rights to assets or (ii) restrict the transferability of the Shares, require that at least 90% of the share capital represented at the general meeting in question vote in favour of the resolution, as well as the majority required for amending the Articles of Association.

In general, only a shareholder registered in the VPS is entitled to vote for such Shares. Beneficial owners of the Shares that are registered in the name of a nominee are generally not entitled to vote under Norwegian law, nor is any person who is designated in the VPS register as the holder of such Shares as nominees. Investors should note that there are varying opinions as to the interpretation of the right to vote on nominee registered shares. In the Company's view, a nominee may not meet or vote for Shares registered on a nominee account (NOM-account). A shareholder must, in order to be eligible to register, meet and vote for such Shares at the general meeting, transfer the Shares from such NOM-account to an account in the shareholder's name. Such registration must appear from a transcript from the VPS at the latest at the date of the general meeting.

There are no quorum requirements that apply to the general meetings.

Additional issuances and preferential rights

If the Company issues any new Shares, including bonus share issues, the Articles of Association must be amended, which requires the same vote as other amendments to the Articles of Association. In addition, under Norwegian law, the Company's shareholders have a preferential right to subscribe for new Shares issued by the Company. Preferential rights may be derogated from by resolution in a general meeting passed by the same vote required to amend the Articles of Association. A derogation of the shareholders' preferential rights in respect of bonus issues requires the approval of all outstanding Shares.

The general meeting may, by the same vote as is required for amending the Articles of Association, authorize the Board of Directors to issue new Shares, and to derogate from the preferential rights of shareholders in connection with such issuances. Such authorization may be effective for a maximum of two years, and the nominal value of the Shares to be issued may not exceed 50% of the registered nominal share capital when the authorization is registered with the Norwegian Register of Business Enterprises.

Under Norwegian law, the Company may increase its share capital by a bonus share issue, subject to approval by the Company's shareholders, by transfer from the Company's distributable equity or from the Company's share premium reserve and thus the share capital increase does not require any payment of a subscription price by the shareholders. Any bonus issues may be affected either by issuing new shares to the Company's existing shareholders or by increasing the nominal value of the Company's outstanding Shares.

Issuance of new Shares to shareholders who are citizens or residents of the United States upon the exercise of preferential rights may require the Company to file a registration statement in the United States under United States securities laws. Should the Company in such a situation decide not to file a registration statement, the Company's U.S. shareholders may not be able to exercise their preferential rights. If a U.S. shareholder is ineligible to participate in a rights offering, such shareholder would not receive the rights at all and the rights would be sold on the shareholder's behalf by the Company.

Minority rights

Norwegian law sets forth a number of protections for minority shareholders of the Company, including but not limited to those described in this paragraph and the description of general meetings as set out above. Any of the Company's shareholders may petition Norwegian courts to have a decision of the Board of Directors or the Company's shareholders made at the general meeting declared invalid on the grounds that it unreasonably favors certain shareholders or third parties to the detriment of other shareholders or the Company itself. The Company's shareholders may also petition the courts to dissolve the Company as a result of such decisions to the extent particularly strong reasons are considered by the court to make necessary dissolution of the Company.

Minority shareholders holding 5% or more of the Company's share capital have a right to demand in writing that the Board of Directors convene an extraordinary general meeting to discuss or resolve specific matters. In addition, any of the Company's shareholders may in writing demand that the Company place an item on the agenda for any general meeting as long as the Company is notified in time for such item to be included in the notice of the meeting. If the notice has been issued when such a written demand is presented, a renewed notice must be issued if the deadline for issuing notice of the general meeting has not expired.

Rights of redemption and repurchase of Shares

The share capital of the Company may be reduced by reducing the nominal value of the Shares or by cancelling Shares. Such a decision requires the approval of at least two-thirds of the aggregate number of votes cast and at least two-thirds of the share capital represented at a general meeting. Redemption of individual Shares requires the consent of the holders of the Shares to be redeemed.

The Company may purchase its own Shares provided that the Board of Directors has been granted an authorization to do so by a general meeting with the approval of at least two-thirds of the aggregate number of votes cast and at least two-thirds of the share capital represented at the meeting. The aggregate nominal value of treasury shares so acquired, and held by the Company must not exceed 10% of the Company's share capital, and treasury shares may only be acquired if the Company's distributable equity, according to the latest adopted balance sheet, exceeds the consideration to be paid for the shares. The authorisation by the General Meeting of the Company cannot be granted for a period exceeding 24 months.

Shareholder vote on certain reorganisations

A decision of the Company's shareholders to merge with another company or to demerge requires a resolution by the general meeting of the shareholders passed by at least two-thirds of the aggregate votes cast and at least two-thirds of the share capital represented at the general meeting. A merger plan, or demerger plan signed by the Board of Directors along with certain other required documentation, would have to be sent to all the Company's shareholders, or if the Articles of Association stipulate that, made available to the shareholders on the Company's website, at least one month prior to the general meeting to pass upon the matter.

Liability of board members

Members of the Board of Directors owe a fiduciary duty to the Company and its shareholders. Such fiduciary duty requires that the Board Members act in the best interests of the Company when exercising their functions and exercise a general duty of loyalty and care towards the Company. Their principal task is to safeguard the interests of the Company.

Members of the Board of Directors may each be held liable for any damage they negligently or wilfully cause the Company. Norwegian law permits the general meeting to discharge any such person from liability, but such discharge is not binding on the Company if substantially correct and complete information was not provided at the general meeting of the Company's shareholders passing upon the matter. If a resolution to discharge the Board Members from liability or not to pursue claims against such a person has been passed by a general meeting with a smaller majority than that required to amend the Articles of Association, shareholders representing more than 10% of the share capital or, if there are more than 100 shareholders, more than 10% of the shareholders may pursue the claim on the Company's behalf and in its name. The cost of any such action is not the Company's responsibility but can be recovered from any proceeds the Company receives as a result of the action. If the decision to discharge any of the Board Members from liability or not to pursue claims against the Board Members is made by such a majority as is necessary to amend the Articles of Association, the minority shareholders of the Company cannot pursue such claim in the Company's name.

Indemnification of board members

Neither Norwegian law nor the Articles of Association contains any provision concerning indemnification by the Company of the Board of Directors. The Company is permitted to purchase insurance for its Board Members against certain liabilities that they may incur in their capacity as such.

Distribution of assets on liquidation

Under Norwegian law, the Company may be wound-up by a resolution of the Company's shareholders at the general meeting passed by at least two-thirds of the aggregate votes cast and at least two-thirds of the share capital represented at the meeting. In the event of liquidation, the Shares rank equally in the event of a return on capital.

17.12 Shareholder agreements

There are no shareholders' agreements related to the Shares.

18 SECURITIES TRADING IN NORWAY

18.1 Introduction

The Oslo Stock Exchange was established in 1819 and is the principal market in which shares, bonds and other financial instruments are traded in Norway.

The Oslo Stock Exchange has entered into a strategic cooperation with the London Stock Exchange group with regards to, *inter alia*, trading systems for equities, fixed income and derivatives.

18.2 Trading and settlement

Trading of equities on the Oslo Stock Exchange is carried out in the electronic trading system Millennium Exchange. This trading system is in use by all markets operated by the London Stock Exchange, including the Borsa Italiana, as well as by the Johannesburg Stock Exchange.

Official trading on the Oslo Stock Exchange takes place between 09:00 hours (CET) and 16:20 hours (CET) each trading day, with pre-trade period between 08:15 hours (CET) and 09:00 hours (CET), closing auction from 16:20 hours (CET) to 16:25 hours (CET) and a post-trade period from 16:25 hours (CET) to 17:30 hours (CET). Reporting of after exchange trades can be done until 17:30 hours (CET).

The settlement period for trading on the Oslo Stock Exchange is two trading days (T+2). This means that securities will be settled on the investor's account in VPS two days after the transaction, and that the seller will receive payment after two days.

Oslo Clearing ASA, a wholly-owned subsidiary of SIX x-clear AG, a company in the SIX group, has a license from the Norwegian FSA to act as a central clearing service, and has from 18 June 2010 offered clearing and counterparty services for equity trading on the Oslo Stock Exchange.

Investment services in Norway may only be provided by Norwegian investment firms holding a license under the Norwegian Securities Trading Act, branches of investment firms from an EEA member state or investment firms from outside the EEA that have been licensed to operate in Norway. Investment firms in an EEA member state may also provide cross-border investment services into Norway.

It is possible for investment firms to undertake market-making activities in shares listed in Norway if they have a license to this effect under the Norwegian Securities Trading Act, or in the case of investment firms in an EEA member state, a license to carry out market-making activities in their home jurisdiction. Such market-making activities will be governed by the regulations of the Norwegian Securities Trading Act relating to brokers' trading for their own account. However, such market-making activities do not as such require notification to the Norwegian FSA or the Oslo Stock Exchange except for the general obligation of investment firms that are members of the Oslo Stock Exchange to report all trades in stock exchange listed securities.

18.3 Information, control and surveillance

Under Norwegian law, the Oslo Stock Exchange is required to perform a number of surveillance and control functions. The Surveillance and Corporate Control unit of the Oslo Stock Exchange monitors all market activity on a continuous basis. Market surveillance systems are largely automated, promptly warning department personnel of abnormal market developments.

The Norwegian FSA controls the issuance of securities in both the equity and bond markets in Norway and evaluates whether the issuance documentation contains the required information and whether it would otherwise be unlawful to carry out the issuance.

Under Norwegian law, a company that is listed on a Norwegian regulated market, or has applied for listing on such market, must promptly release any inside information directly concerning the company (i.e. precise information about financial instruments, the issuer thereof or other matters which are likely to have a significant effect on the price of the relevant financial instruments or related financial instruments, and which are not publicly available or commonly known in the market). A company may, however, delay the release of such information in order not to prejudice its legitimate interests, provided that it is able to ensure the confidentiality of the information and that the delayed release would not be likely to mislead the public. The Oslo Stock Exchange may levy fines on companies violating these requirements.

18.4 The VPS and transfer of shares

The Company's principal share register is operated through the VPS. The VPS is the Norwegian paperless centralized securities register. It is a computerized book-keeping system in which the ownership of, and all transactions relating to, Norwegian listed shares must be recorded. The VPS and the Oslo Stock Exchange are both wholly-owned by Oslo Børs VPS Holding ASA.

All transactions relating to securities registered with the VPS are made through computerized book entries. No physical share certificates are, or may be, issued. The VPS confirms each entry by sending a transcript to the registered shareholder irrespective of any beneficial ownership. To give effect to such entries, the individual shareholder must establish a share account with a Norwegian account agent. Norwegian banks, Norges Bank (being the Central Bank of Norway'), authorized securities brokers in Norway and Norwegian branches of credit institutions established within the EEA are allowed to act as account agents.

As a matter of Norwegian law, the entry of a transaction in the VPS is *prima facie* evidence in determining the legal rights of parties as against the issuing company or any third party claiming an interest in the given security. A transferee or assignee of shares may not exercise the rights of a shareholder with respect to such shares unless such transferee or assignee has registered such shareholding or has reported and shown evidence of such share acquisition, and the acquisition is not prevented by law, the relevant company's articles of association or otherwise.

The VPS is liable for any loss suffered as a result of faulty registration or an amendment to, or deletion of, rights in respect of registered securities unless the error is caused by matters outside the VPS' control which the VPS could not reasonably be expected to avoid or overcome the consequences of. Damages payable by the VPS may, however, be reduced in the event of contributory negligence by the aggrieved party.

The VPS must provide information to the Norwegian FSA on an ongoing basis, as well as any information that the Norwegian FSA requests. Further, Norwegian tax authorities may require certain information from the VPS regarding any individual's holdings of securities, including information about dividends and interest payments.

18.5 Shareholder register – Norwegian law

Under Norwegian law, shares are registered in the name of the beneficial owner of the shares. As a general rule, there are no arrangements for nominee registration and Norwegian shareholders are not allowed to register their shares in VPS through a nominee. However, foreign shareholders may register their shares in the VPS in the name of a nominee (bank or other nominee) approved by the Norwegian FSA. An approved and registered nominee has a duty to provide information on demand about beneficial shareholders to the company and to the Norwegian authorities. In case of registration by nominees, the registration in the VPS must show that the registered owner is a nominee. A registered nominee has the right to receive dividends and other distributions, but cannot vote in general meetings on behalf of the beneficial owners.

18.6 Foreign investment in shares listed in Norway

Foreign investors may trade shares listed on the Oslo Stock Exchange through any broker that is a member of the Oslo Stock Exchange, whether Norwegian or foreign.

18.7 Disclosure obligations

If a person's, entity's or consolidated group's proportion of the total issued shares and/or rights to shares in a company listed on a regulated market in Norway (with Norway as its home state, which will be the case for the Company) reaches, exceeds or falls below the respective thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 or 90% of the share capital or the voting rights of that company, the person, entity or group in question has an obligation under the Norwegian Securities Trading Act to notify the Oslo Stock Exchange and the issuer immediately. The same applies if the disclosure thresholds are passed due to other circumstances, such as a change in the company's share capital.

18.8 Insider trading

According to Norwegian law, subscription for, purchase, sale or exchange of financial instruments that are listed, or subject to the application for listing, on a Norwegian regulated market, or incitement to such dispositions, must not be undertaken by anyone who has inside information, as defined in Section 3-2 of the Norwegian Securities Trading Act. The same applies to the entry into, purchase, sale or exchange of options or futures/forward contracts or equivalent rights whose value is connected to such financial instruments or incitement to such dispositions.

18.9 Mandatory offer requirement

The Norwegian Securities Trading Act requires any person, entity or consolidated group that becomes the owner of shares representing more than one-third of the voting rights of a company listed on a Norwegian regulated market (with the exception of certain foreign companies) to, within four weeks, make an unconditional general offer for the purchase of the remaining shares in that company. A mandatory offer obligation may also be triggered where a party acquires the right to become the owner of shares that, together with the party's own shareholding, represent more than one-third of the voting rights in the company and the Oslo Stock Exchange decides that this is regarded as an effective acquisition of the shares in question.

The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares that exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered (or provided that the person, entity or consolidated group has not already stated that it will proceed with the making of a mandatory offer).

When a mandatory offer obligation is triggered, the person subject to the obligation is required to immediately notify the Oslo Stock Exchange and the company in question accordingly. The notification is required to state whether an offer will be made to acquire the remaining shares in the company or whether a sale will take place. As a rule, a notification to the effect that an offer will be made cannot be retracted. The offer and the offer document required are subject to approval by the Oslo Stock Exchange before the offer is submitted to the shareholders or made public.

The offer price per share must be at least as high as the highest price paid or agreed by the offeror for the shares in the six-month period prior to the date the threshold was exceeded. If the acquirer acquires or agrees to acquire additional shares at a higher price prior to the expiration of the mandatory offer period, the acquirer is obliged to restate its offer at such higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered. The settlement must be guaranteed by a financial institution authorised to provide such guarantees in Norway.

In case of failure to make a mandatory offer or to sell the portion of the shares that exceeds the relevant threshold within four weeks, the Oslo Stock Exchange may force the acquirer to sell the shares exceeding the threshold by public auction. Moreover, a shareholder who fails to make an offer may not, as long as the mandatory offer obligation remains in force, exercise rights in the company, such as voting in a general meeting, without the consent of a majority of the remaining shareholders. The shareholder may, however, exercise his/her/its rights to dividends and pre-emption rights in the event of a share capital increase. If the shareholder neglects his/her/its duty to make a mandatory offer, the Oslo Stock Exchange may impose a cumulative daily fine that runs until the circumstance has been rectified.

Any person, entity or consolidated group that owns shares representing more than one-third of the votes in a company listed on a Norwegian regulated market (with the exception of certain foreign companies) is obliged to make an offer to purchase the remaining shares of the company (repeated offer obligation) if the person, entity or consolidated group through acquisition becomes the owner of shares representing 40%, or more of the votes in the company. The same applies if the person, entity or consolidated group through acquisition becomes the owner of shares representing 50% or more of the votes in the company. The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares which exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered (provided that the person, entity or consolidated group has not already stated that it will proceed with the making of a mandatory offer).

Any person, entity or consolidated group that has passed any of the above mentioned thresholds in such a way as not to trigger the mandatory bid obligation, and has therefore not previously made an offer for the remaining shares in the company in accordance with the mandatory offer rules is, as a main rule, obliged to make a mandatory offer in the event of a subsequent acquisition of shares in the company.

18.10 Compulsory acquisition

Pursuant to the Norwegian Public Limited Companies Act and the Norwegian Securities Trading Act, a shareholder who, directly or through subsidiaries, acquires shares representing 90% or more of the total number of issued shares in a Norwegian public limited company, as well as 90% or more of the total voting rights, has a right, and each remaining minority shareholder of the company has a right to require such majority shareholder, to effect a compulsory acquisition for cash of the shares not already owned by such majority shareholder. Through such compulsory acquisition the majority shareholder becomes the owner of the remaining shares with immediate effect.

If a shareholder acquires shares representing more than 90% of the total number of issued shares, as well as more than 90% of the total voting rights, through a voluntary offer in accordance with the Securities Trading Act, a compulsory acquisition can, subject to the following conditions, be carried out without such shareholder being obliged to make a mandatory offer: (i) the compulsory acquisition is commenced no later than four weeks after the acquisition of shares through the voluntary offer, (ii) the price offered per share is equal to or higher than what the offer price would have been in a mandatory offer, and (iii) the settlement is guaranteed by a financial institution authorized to provide such guarantees in Norway.

A majority shareholder who effects a compulsory acquisition is required to offer the minority shareholders a specific price per share, the determination of which is at the discretion of the majority shareholder.

Should any minority shareholder not accept the offered price, such minority shareholder may, within a specified deadline of not less than two months, request that the price be set by a Norwegian court. The cost of such court procedure will, as a general rule, be the responsibility of the majority shareholder, and the relevant court will have full discretion in determining the consideration to be paid to the minority shareholder as a result of the compulsory acquisition. However, where the offeror, after making a mandatory or voluntary offer, has acquired more than 90% of the voting shares of a company and a corresponding proportion of the votes that can be cast at the general meeting, and the offeror pursuant to Section 4-25 of the Norwegian Public Limited Companies Act completes a compulsory acquisition of the remaining shares within three months after the expiry of the offer period, it follows from the Norwegian Securities Trading Act that the redemption price shall be determined on the basis of the offer price for the mandatory/voluntary offer unless specific reasons indicate another price.

Absent a request for a Norwegian court to set the price or any other objection to the price being offered, the minority shareholders would be deemed to have accepted the offered price after the expiry of the specified deadline.

18.11 Foreign exchange controls

There are currently no foreign exchange control restrictions in Norway that would potentially restrict the payment of dividends to a shareholder outside Norway, and there are currently no restrictions that would affect the right of shareholders of a company that has its shares registered with the VPS who are not residents in Norway to dispose of their shares and receive the proceeds from a disposal outside Norway. There is no maximum transferable amount either to or from Norway, although transferring banks are required to submit reports on foreign currency exchange transactions into and out of Norway into a central data register maintained by the Norwegian customs and excise authorities. The Norwegian police, tax authorities, customs and excise authorities, the National Insurance Administration and the Norwegian FSA have electronic access to the data in this register.

19 TAXATION

Set out below is a summary of certain Norwegian and United States tax matters related to an investment in the Company. The summary regarding Norwegian and United States taxation is based on the laws in force in Norway and United States as at the date of this Prospectus, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retrospective basis.

The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the shares in the Company. Shareholders who wish to clarify their own tax situation should consult with and rely upon their own tax advisers. Shareholders resident in jurisdictions other than Norway and shareholders who cease to be resident in Norway for tax purposes (due to domestic tax law or tax treaty) should specifically consult with and rely upon their own tax advisers with respect to the tax position in their country of residence and the tax consequences related to ceasing to be resident in Norway for tax purposes. The statements in the summary only apply to shareholders who are beneficial owners of the Shares.

Please note that for the purpose of the summary below, a reference to a Norwegian or non-Norwegian shareholder refers to the tax residency rather than the nationality of the shareholder.

19.1 Norwegian taxation

19.1.1 Taxation of dividends

Norwegian Personal Shareholders

Dividends distributed to shareholders who are individuals residing in Norway for tax purposes ("**Norwegian Personal Shareholders**") are taxable in Norway for such shareholders currently at an effective tax rate of 30.59% to the extent the dividend exceeds a tax-free allowance; i.e. dividends received, less the tax free allowance, shall be multiplied by 1.33 which are then included as ordinary income taxable at a flat rate of 23%, increasing the effective tax rate on dividends received by Norwegian Personal Shareholders to 30.59%.

The allowance is calculated on a share-by-share basis. The allowance for each share is equal to the cost price of the share multiplied by a determined risk free interest rate based on the effective rate of interest on treasury bills (*Nw.: statskasseveksler*) with three months maturity plus 0.5 percentage points, after tax. The allowance is calculated for each calendar year, and is allocated solely to Norwegian Personal Shareholders holding shares at the expiration of the relevant calendar year.

Norwegian Personal Shareholders who transfer shares will thus not be entitled to deduct any calculated allowance related to the year of transfer. Any part of the calculated allowance one year exceeding the dividend distributed on the share ("excess allowance") may be carried forward and set off against future dividends received on, or gains upon realization, of the same share.

Norwegian Corporate Shareholders

Dividends distributed to shareholders who are limited liability companies (and certain similar entities) domiciled in Norway for tax purposes ("**Norwegian Corporate Shareholders**"), are effectively taxed at a rate of currently 0.69% (3% of dividend income from such shares is included in the calculation of ordinary income for Norwegian Corporate Shareholders and ordinary income is subject to tax at a flat rate of currently 23%).

Non-Norwegian Personal Shareholders

Dividends distributed to shareholders who are individuals not residing in Norway for tax purposes ("**Non-Norwegian Personal Shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident. The withholding obligation lies with the company distributing the dividends and the Company assumes this obligation.

Non-Norwegian Personal Shareholders residing within the EEA for tax purposes may apply individually to Norwegian tax authorities for a refund of an amount corresponding to the calculated tax-free allowance on each individual share (please see "Taxation of dividends – Norwegian Personal Shareholders" above). However, the deduction for the tax-free allowance does not apply in the event that the withholding tax rate, pursuant to an applicable tax treaty, leads to a lower taxation of the dividends than the withholding tax rate of 25% less the tax-free allowance.

If a Non-Norwegian Personal Shareholder is carrying on business activities in Norway and the shares are effectively connected with such activities, the shareholder will be subject to the same taxation of dividends as a Norwegian Personal Shareholder, as described above.

Non-Norwegian Personal Shareholders who have suffered a higher withholding tax than set out in an applicable tax treaty may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted.

Non-Norwegian Personal Shareholders should consult their own advisers regarding the availability of treaty benefits in respect of dividend payments, including the possibility of effectively claiming a refund of withholding tax.

Non-Norwegian Corporate Shareholders

Dividends distributed to shareholders who are limited liability companies (and certain other entities) domiciled outside of Norway for tax purposes ("**Non-Norwegian Corporate Shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident.

Dividends distributed to Non-Norwegian Corporate Shareholders domiciled within the EEA for tax purposes are exempt from Norwegian withholding tax provided that the shareholder is the beneficial owner of the shares and that the shareholder is genuinely established and performs genuine economic business activities within the relevant EEA jurisdiction.

If a Non-Norwegian Corporate Shareholder is carrying on business activities in Norway and the shares are effectively connected with such activities, the shareholder will be subject to the same taxation of dividends as a Norwegian Corporate Shareholder, as described above.

Non-Norwegian Corporate Shareholders who have suffered a higher withholding tax than set out in an applicable tax treaty may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted. The same will apply to Non-Norwegian Corporate Shareholders who have suffered withholding tax although qualifying for the Norwegian participation exemption.

Nominee registered shares will be subject to withholding tax at a rate of 25% unless the nominee has obtained approval from the Norwegian Tax Directorate for the dividend to be subject to a lower withholding tax rate. To obtain such approval the nominee is required to file a summary to the tax authorities including all beneficial owners that are subject to withholding tax at a reduced rate.

From 1 January 2019, new rules will apply with respect to the documentation of the applicability of reduced withholding tax rates. Inter alia, all Non-Norwegian Corporate Shareholders must document their entitlement to a reduced withholding tax rate by either (i) presenting an approved withholding tax refund application or (ii) present an approval from the Norwegian tax authorities confirming that the recipient is entitled to a reduced withholding tax rate. Such documentation must be provided to either the nominee or the account operator (VPS).

The withholding obligation in respect of dividends distributed to Non-Norwegian Corporate Shareholders and on nominee registered shares lies with the company distributing the dividends and the Company assumes this obligation.

Non-Norwegian Corporate Shareholders should consult their own advisers regarding the availability of treaty benefits in respect of dividend payments, including the possibility of effectively claiming a refund of withholding tax.

19.1.2 Taxation of capital gains on realisation of shares

Norwegian Personal Shareholders

Sale, redemption or other disposal of shares is considered a realization for Norwegian tax purposes. A capital gain or loss generated by a Norwegian Personal Shareholder through a disposal of shares is taxable or tax deductible in Norway. The effective tax rate on gain or loss related to shares realized by Norwegian Personal Shareholders is currently 30.59%; i.e. capital gains (less the tax free allowance) and losses shall be multiplied by 1.33 which are then included in or deducted from the Norwegian Personal Shareholder's ordinary income in the year of disposal. Ordinary income is taxable at a flat rate of 23%, increasing the effective tax rate on gains/losses realized by Norwegian Personal Shareholders to 30.59%.

The gain is subject to tax and the loss is tax deductible irrespective of the duration of the ownership and the number of shares disposed of.

The taxable gain/deductible loss is calculated per share as the difference between the consideration for the share and the Norwegian Personal Shareholder's cost price of the share, including costs incurred in relation to the acquisition or realization of the share. From this capital gain, Norwegian Personal Shareholders are entitled to deduct a calculated allowance provided that such allowance has not already been used to reduce taxable dividend income. Please refer to Section 19.1.1 "Taxation of dividends" above for a description of the calculation of the allowance. The allowance may only be deducted in order to reduce a taxable gain, and cannot increase or produce a deductible loss, i.e. any unused allowance exceeding the capital gain upon the realization of a share will be annulled. Unused allowance may not be set of against gains form realisation of other shares.

If the Norwegian Personal Shareholder owns shares acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

Special rules apply for Norwegian Personal Shareholders that cease to be tax-resident in Norway.

Norwegian Personal Shareholders may hold the Shares through a Norwegian share saving account (*Nw.: aksjesparekonto*). Gains derived upon the realization of Shares held through a share saving account will be exempt from Norwegian taxation and losses will not be tax deductible. Withdrawal of funds from the share saving account exceeding the Norwegian Personal Shareholder's paid in deposit, will be regarded as taxable income, subject to tax at an effective tax rate of 30.59%. Norwegian Personal Shareholders will be entitled to a calculated tax-free allowance provided that such allowance has not already been used to reduce taxable dividend income (please see "Taxation of dividends – Norwegian Personal Shareholders" above). The tax-free allowance is calculated based on the lowest paid in deposit in the account during the income year, plus any unused tax-free allowance from previous years. The tax-free allowance can only be deducted in order to reduce taxable income, and cannot increase or produce a deductible loss. Any excess allowance may be carried forward and set off against future withdrawals from the account or future dividends received on shares held through the account.

Norwegian Corporate Shareholders

Norwegian Corporate Shareholders are exempt from tax on capital gains derived from the realization of shares qualifying for participation exemption, including shares in the Company. Losses upon the realization and costs incurred in connection with the purchase and realization of such shares are not deductible for tax purpose.

Special rules apply for Norwegian Corporate Shareholders that cease to be tax-resident in Norway.

Non-Norwegian Personal Shareholders

Gains from the sale or other disposal of shares by a Non-Norwegian Personal Shareholder will not be subject to taxation in Norway unless the Non-Norwegian Personal Shareholder holds the shares in connection with business activities carried out or managed from Norway.

Non-Norwegian Corporate Shareholders

Capital gains derived by the sale or other realization of shares by Non-Norwegian Corporate Shareholders are not subject to taxation in Norway.

19.1.3 Net wealth tax

The value of shares is included in the basis for the computation of net wealth tax imposed on Norwegian Personal Shareholders. Currently, the marginal net wealth tax rate is 0.85% of the value assessed. The value for assessment purposes for listed shares is equal to 80% of the listed value as of 1 January in the year of assessment (i.e. the year following the relevant fiscal year). The value of debt allocated to the listed shares for Norwegian wealth tax purposes is reduced correspondingly (i.e. to 80%).

Norwegian Corporate Shareholders are not subject to net wealth tax.

Shareholders not resident in Norway for tax purposes are not subject to Norwegian net wealth tax. Non-Norwegian Personal Shareholders can, however, be taxable if the shareholding is effectively connected to the conduct of trade or business in Norway.

19.1.4 VAT and transfer taxes

No VAT, stamp or similar duties are currently imposed in Norway on the transfer or issuance of shares.

19.1.5 Inheritance tax

A transfer of shares through inheritance or as a gift does not give rise to inheritance or gift tax in Norway.

19.2 United States taxation

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Offer Shares by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Offer Shares that are U.S. Holders that will hold the Offer Shares as capital assets. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Offer Shares by particular investors (including consequences under the alternative minimum tax or Medicare tax on net investment income), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, indirectly or by attribution) 5 per cent. or more of the stock (by vote or value) of the Company, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Offer Shares as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons who receive Offer Shares as compensation for the performance of services, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Offer Shares in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Offer Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Offer Shares will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Offer Shares by the partnership.

Except as otherwise noted, this summary assumes that the Company was not a passive foreign investment company (a "**PFIC**") for U.S. federal income tax purposes for its most recent taxable year. is not a PFIC in the current year, and will not become a PFIC in the foreseeable future, which the Company believes to be the case. The Company's possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were to be a PFIC in any year, materially adverse consequences could result for U.S. Holders. See Section 19.2.3 "Passive Foreign Investment Company Considerations" below.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as on the income tax treaty between the United States and Norway (the "**Treaty**"), all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE OFFER SHARES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

19.2.1 Distributions

General

Distributions paid by the Company out of current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), before reduction for any Norwegian withholding tax paid by the Company with respect thereto, generally will be taxable to a U.S. Holder as dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Distributions in excess of current and accumulated earnings and profits will be treated as a non-taxable return of capital to the extent of the U.S. Holder's adjusted basis in the Offer Shares and thereafter as capital gain. However, the Company does not maintain calculations of its earnings and profits in accordance with U.S. federal income tax accounting principles. U.S. Holders should therefore assume that any distribution by the Company with respect to Offer Shares will be reported as ordinary dividend income. U.S. Holders should consult their tax advisers with respect to the appropriate U.S. federal income tax treatment of any distribution received from the Company.

Dividends paid by the Company generally will be taxable to a non-corporate U.S. Holder at the reduced rate normally applicable to long-term capital gains, provided the Company qualifies for the benefits of the Treaty and certain other requirements are met.

Dividends paid in NOK will be included in income in a U.S. dollar amount calculated by reference to the spot exchange rate in effect on the day the dividends are actually or constructively received by the U.S. Holder, regardless of whether the NOK are converted into U.S. dollars at that time.

Effect of Norwegian Withholding Taxes

For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Norwegian taxes withheld by the Company, and as then having paid over the withheld taxes to the Norwegian taxing authorities. As a result of this rule, the amount of dividend income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Company with respect to the payment.

A U.S. Holder generally will be entitled, subject to certain limitations, to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Norwegian income taxes withheld by the Company. U.S. Holders that are eligible for benefits under the Treaty will not be entitled to a foreign tax credit for the amount of any Norwegian taxes withheld in excess of the applicable Treaty rate, and with respect to which the holder is entitled to obtain a refund from the Norwegian taxing authorities. Dividends paid by the Company generally will constitute foreign source income in the “passive category income” basket for foreign tax credit purposes.

The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their tax advisers concerning the availability of foreign tax credits under their particular circumstances.

19.2.2 Sale or other Disposition

Upon a sale or other disposition of Offer Shares, a U.S. Holder generally will recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the U.S. Holder’s adjusted basis in the Offer Shares, in each case as determined in U.S. dollars on the relevant date. This capital gain or loss will be long-term capital gain or loss if the U.S. Holder’s holding period in the Offer Shares exceeds one year. Any gain or loss generally will be U.S. source. The deductibility of capital losses is subject to limitations. U.S. Holders should consult their tax advisers about how to account for proceeds on the sale or other disposition of Offer Shares that are not paid in U.S. dollars.

19.2.3 Passive Foreign Investment Company Considerations

A non-U.S. corporation will be a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to applicable “look-through rules,” either (i) at least 75 per cent. of its gross income is “passive income” or (ii) at least 50 per cent. of the average value of its assets is attributable to assets which produce passive income or are held for the production of passive income. For this purpose, “passive income” generally includes interests, dividends, royalties, rents and gains from securities transactions. The Company does not believe that it was a PFIC for its most recent taxable year and does not expect to become a PFIC in its current taxable year or in the foreseeable future. However, the Company’s possible status as a PFIC must be determined annually and therefore may be subject to change. If the Company were a PFIC, U.S. Holders of Offer Shares would be required (i) to pay a special U.S. addition to tax on certain distributions and gains on sale and (ii) to pay tax on any gain from the sale of Offer Shares at ordinary income (rather than capital gains) rates in addition to paying the special addition to tax on this gain. Additionally, dividends paid by the Company would not be eligible for the reduced rate of tax described above under Section 19.2.1 “Distributions”. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC regime.

19.2.4 Information Reporting and Backup Withholding

Payments of dividends on the Offer Shares and other proceeds from the sale or other disposition of Offer Shares by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. Backup withholding is not an additional tax. Any amounts of backup withholding will be allowed as a credit against a U.S. Holder's federal income tax liability, and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the IRS in a timely manner. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Offer Shares, including requirements related to the holding of certain "specified foreign financial assets".

20 THE TERMS OF THE OFFERING

20.1 Overview of the Offering

The Offering consists of (i) an offer of New Shares to raise gross proceeds of NOK 5,200 million by the issuance of up to 179,310,344 New Shares, each with a nominal value of NOK 5.00 and (ii) an offer of up to 71,657,143 Sale Shares, all of which are existing, validly issued and fully paid-up registered Shares with a nominal value of NOK 5.00, offered by the Selling Shareholder. In addition, the Managers may elect to over-allot a number of Additional Shares, equalling up to approximately 15% of the number of New Shares and Sale Shares sold in the Offering. The Selling Shareholder is expected to grant to the Managers an Over-Allotment Option, which may be exercised on behalf of the Managers by Morgan Stanley, as Stabilisation Manager, to purchase a corresponding number of Additional Shares to cover any such over-allotments. Assuming the Over-Allotment Option is exercised in full and that all the New Shares and Sale Shares are sold in the Offering, the Offering will amount to up to 267,402,757 Offer Shares.

The Offering consists of:

- An Institutional Offering, in which Offer Shares are being offered (a) to institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from prospectus and registration requirements, and (c) in the United States to QIBs, as defined in, and in reliance on Rule 144A of the U.S. Securities Act or another available exemption from registration under the U.S. Securities Act. The Institutional Offering is subject to a lower limit per application of NOK 2,000,000.

- A Retail Offering, in which Offer Shares are being offered to the public in Norway subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 1,999,999 for each investor. Investors who intend to place an order in excess of NOK 1,999,999 must do so in the Institutional Offering. Multiple applications by one applicant in the Retail Offering will be treated as one application with respect to the maximum application limit.

All offers and sales outside the United States will be made in compliance with Regulation S of the U.S. Securities Act.

This Prospectus does not constitute an offer of, or an invitation to purchase, Offer Shares in any jurisdiction in which such offer or sale would be unlawful. For further details, see "Important Information" and Section 21 "Selling and Transfer Restrictions".

The Bookbuilding Period in the Institutional Offering will take place from 12 March 2018 at 09:00 hours (CET) to 21 March 2018 at 14:00 hours (CET). The Application Period in the Retail Offering will take place from 12 March 2018 at 09:00 hours (CET) to 21 March 2018 at 12:00 hours (CET). The Company and the Selling Shareholder, in consultation with the Managers, reserve the right to shorten or extend the Bookbuilding Period and Application Period at any time and at their sole discretion. Any shortening of the Bookbuilding Period and/or the Application Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the prevailing expiration date of the Bookbuilding Period, provided, however, that in no event will the Bookbuilding Period and/or Application Period expire prior to 12:00 hours (CET) on 19 March 2018. Any extension of the Bookbuilding Period and/or the Application Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the first business day following the then prevailing expiration date of the Bookbuilding Period. An extension of the Bookbuilding Period and/or the Application Period can be made one or several times provided, provided, however, that in no event will the Bookbuilding Period and/or Application Period be extended beyond 14:00 hours (CET) on 29 March 2018. In the event of a shortening or an extension of the Bookbuilding Period and/or the Application Period, the allocation date, the payment due dates and the dates of delivery of Offer Shares will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed.

The Company and the Selling Shareholder have, together with the Managers, set an Indicative Price Range in the Offering from NOK 29 to NOK 35 per Offer Share. Assuming that the Offer Price is set at the mid-point of this range and that 162,500,000 New Shares and all the Sale Shares are sold in the Offering (i.e. excluding any over-allotments), the gross proceeds from the Offering will be approximately NOK 7,226 million. The Company and the Selling Shareholder, in consultation with the Managers, will determine the number of Offer Shares and the Offer Price on the basis of the bookbuilding process in the Institutional Offering and the number of applications received in the Retail Offering. The bookbuilding process, which will form the basis for the final determination of the number of Offer Shares and the Offer Price, will be conducted only in connection with the Institutional Offering. The Indicative Price Range may be amended during the Bookbuilding Period. Any such amendments to the Indicative Price Range will be announced through the Oslo Stock Exchange's information system.

The Company expects that it will, on or about 21 March 2018, together with the Selling Shareholder, enter into an underwriting agreement (the "**Underwriting Agreement**") with the Joint Global Coordinators (as representatives of the Managers) with respect to the Offering of the Offer Shares. On the terms and subject to the conditions set forth in the Underwriting Agreement and provided that the Offering has not been terminated prior thereto in accordance with the terms of the Underwriting Agreement, the Managers are expected to agree to procure purchasers for the Offer Shares or, failing which, to purchase the Offer Shares themselves, and the Company and the Selling Shareholder are expected to agree to sell the Offer Shares to purchasers procured by the Managers or, failing which, to the Managers themselves.

In addition, the Selling Shareholder is expected to grant to the Managers the Over-Allotment Option, which may be exercised on behalf of the Managers by the Stabilisation Manager, to purchase a number of Additional Shares, equalling up to approximately 15% of the final number of New Shares and Sale Shares at the Offer Price, exercisable, in whole or in part, no later than the 30th day following the time at which "if issued/if sold" trading in the Shares commences on the Oslo Stock Exchange, which is expected to be at 09:00 hours (CET) on 22 March 2018. The Over-Allotment Option will be granted to cover over-allotments, if any, made in connection with the Offering on the terms and subject to the conditions described in this Prospectus. In order to permit delivery in respect of over-allotments made, if any, the Selling Shareholder will, pursuant to the Underwriting Agreement, grant to the Stabilisation Manager an option (the "**Lending Option**") to require the Selling Shareholder to lend to the Stabilisation Manager, on behalf of the Managers, up to a number of Shares equal to the number of Additional Shares. See Section 20.11 "Over-allotment and stabilisation activities" for further details.

The Underwriting Agreement is expected to provide that the Managers may terminate the Underwriting Agreement (and thus the Managers' obligation to procure purchasers for, or failing which to themselves purchase the Offer Shares) if prior to 17:00 (CET) on 23 March 2018 one of the following events (each a "force majeure" event) occurs:

(i) a suspension or material limitation in trading in securities generally on the Oslo Stock Exchange, the New York Stock Exchange or the London Stock Exchange; (ii) a general moratorium on commercial banking activities declared by the federal, state or local regulatory authorities of Norway, the United Kingdom or any other member State of the European Union or the United States, or a material disruption in commercial banking or securities settlement or clearance services in Norway, the United Kingdom or any other member State of the European Union or the United States; (iii) an outbreak or escalation of hostilities or acts of terrorism involving Norway, the United Kingdom or any other member State of the European Union or the United States or a declaration by Norway, the United Kingdom or any other member State of the European Union or the United States of a national emergency or war; or (iv) any other calamity or crisis or any material adverse change in financial, political or economic conditions in Norway, the United Kingdom or any other member State of the European Union or the United States, if the effect of any such event specified in clauses (i) through (iv) above makes it impossible, in the judgment of the Joint Global Coordinators acting in good faith, taking into account general market conditions as a result of such events and the interest of investors in the Offer Shares, to proceed with the sale or delivery of the Offer Shares on the terms and in the manner contemplated in the Prospectus, provided that the Joint Global Coordinators shall, to the extent reasonably practicable under the circumstances, act in good faith and to consult with the Company and the Selling Shareholder before terminating the Underwriting Agreement.

Further, the Underwriting Agreement may terminate if, prior to 17:00 (CET) on 23 March 2018, a Manager (or Managers) defaults in its obligation to purchase the number of Offer Shares it has agreed to purchase under the Underwriting Agreement, and the aggregate number of such Offer Shares exceeds one-tenth of the total number of Offer Shares in which all Managers are obligated to purchase under the Underwriting Agreement, and arrangements satisfactory to the Joint Global Coordinators, the Company and the Selling Shareholder for the purchase of such Offer Shares have not been made.

Unless the Underwriting Agreement has been terminated, delivery of the Offer Shares to investors being allocated Offer Shares in the Offering is expected to take place on or about 26 March 2018 in the Retail Offering subject to due payment for allocated Offer Shares having been received from investors, and 26 March 2018 in the Institutional Offering (on a delivery versus payment basis).

The Offer Shares allocated in the Offering are expected to be traded on the Oslo Stock Exchange on a conditional "if issued/if sold" basis from and including 22 March 2018 to and including 23 March 2018. Trades during this period will, in accordance with the ordinary settlement cycle for trades over the Oslo Stock Exchange, be settled on T+2 (T being the trade date). Accordingly, any trade made on 22 March 2018 will be settled on 26 March 2018. Should any of the termination events described above occur in the period from commencement of conditional trading (expected to take place on 22 March 2018) to

commencement of unconditional trading in the Shares (expected to take place on 26 March 2018 as described below), and the Underwriting Agreement is terminated, no trades that have occurred in the Shares will be settled, and investors will have no right to compensation for any loss suffered as a result of such cancellation and payments made will be returned without any interest or other compensation. All dealings in the Shares prior to settlement and delivery are at the sole risk of the parties concerned.

Depending on the policy of their respective bank or investment firm, investors wanting to trade their allocated Offer Shares through an internet account prior to commencement of unconditional trading in the Shares on 26 March 2018, may be prevented from such trading. Investors wanting to trade their allocated Offer Shares through an internet account prior to commencement of unconditional trading are therefore urged to confirm the possibility of such trading with their own account operator.

Completion of the Offering is conditional upon, among other conditions, the Company satisfying the listing conditions and being listed on the Oslo Stock Exchange. See Section 20.15 "Conditions for completion of the Offering – Listing and trading of the Offer Shares".

See Section 20.17 "Expenses of the Offering and the Listing" for information regarding fees expected to be paid to the Managers and costs expected to be paid by the Company in connection with the Offering and pursuant to the Underwriting Agreement. The Underwriting Agreement is also expected to provide that the Company, the Selling Shareholder and Bluestar Elkem Investment Co., Ltd. will indemnify the Managers against certain losses and liabilities arising out of or in connection with the Offering.

20.2 Timetable

The timetable set out below provides certain indicative key dates for the Offering (subject to shortening or extensions):

Bookbuilding Period commences	12 March 2018 at 09:00 hours (CET)
Bookbuilding Period expires	21 March 2018 at 14:00 hours (CET)
Application Period (Retail Offering) commences	12 March 2018 at 09:00 hours (CET)
Application Period (Retail Offering) expires	21 March 2018 at 12:00 hours (CET)
Allocation of the Offer Shares	On 21 March 2018
Pricing of the Offer Shares	On or about 21 March 2018
Publication of the results of the Offering	On or about 21 March 2018
Distribution of allocation notes/contract notes	On or about 22 March 2018
First day of Listing of the Shares	On 22 March 2018
Commencement of conditional trading in the Shares	On or about 22 March 2018
Accounts from which payment will be debited in the Retail Offering to be sufficiently funded	On 22 March 2018
Registration of the Company's new share capital in the Norwegian Register of Business Enterprises	On or about 23 March 2018
Payment date in the Retail Offering	On 23 March 2018
Delivery of the Offer Shares in the Retail Offering	On or about 26 March 2018
Payment date and delivery of Offer Shares in the Institutional Offering	On or about 26 March 2018
Commencement of unconditional trading in the Shares	On or about 26 March 2018

Note that the Company and the Selling Shareholder, in consultation with the Managers, reserve the right to shorten or extend the Bookbuilding Period and the Application Period at their sole discretion. In the event of a shortening or an extension of the Bookbuilding Period and/or the Application Period, the allocation date, the payment due dates and the dates of delivery of Offer Shares will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed.

20.3 Resolution relating to the Offering and the issue of New Shares

In the Extraordinary General Meeting held on 23 February 2018, the Board of Directors was granted the following authorisation to increase the share capital of the Company by up to NOK 965,000,000 million in connection with the Listing (unofficial translation from Norwegian):

(i) *Pursuant to Section 10-14 of the Norwegian Public Limited Companies Act the board of directors is granted an authorisation to increase the Company's share capital by a maximum of NOK 965,000,000.*

(ii) *The authorisation is valid from the time it is registered in the Norwegian Register of Business Enterprises until the earlier of 45 days following the first day of listing of the Company's shares on the Oslo Stock Exchange and 30 June 2018.*

(iii) *The shareholders' pre-emption right to the new shares set out in Section 10-4 of the Norwegian Public Limited Companies Act can be deviated from.*

(iv) *The authorisation does not cover capital increases against contribution in kind cf. Section 10-2 of the Norwegian Public Limited Companies Act.*

(v) *The authorisation does not cover capital increases in connection with mergers cf. Section 13-5 of the Norwegian Public Limited Companies Act.*

Following the expiry of the Bookbuilding Period and the Application Period, the Company and the Selling Shareholder will consider on or about 21 March 2018 and, if thought fit, approve completion of the Offering and, in consultation with the Managers, determine the final Offer Price and the number of and allocation of the Offer Shares. If the Company and the Selling Shareholder determines that the Offering shall be completed, then the Board of Directors will proceed to increase the share capital of the Company by issuance of the New Shares. The New Shares are expected to be issued on or about 23 March 2018.

The existing shareholders' pre-emptive rights to subscribe for and be allocated Shares will be will be deviated from in order to be able to issue the New Shares to investors in the Offering.

20.4 The Institutional Offering

20.4.1 Determination of the number of Offer Shares and the Offer Price

The Company and the Selling Shareholder have, together with the Managers, set an Indicative Price Range for the Offering from NOK 29 to NOK 35 per Offer Share. The Company and the Selling Shareholder, in consultation with the Managers, will determine the number of Offer Shares and the Offer Price on the basis of the applications received and not withdrawn in the Institutional Offering during the Bookbuilding Period and the applications received in the Retail Offering. The Offer Price will be determined on or about 21 March 2018. The Offer Price may be set within, below or above the Indicative Price Range. Investors' applications for Offer Shares in the Institutional Offering will, after the end of the Bookbuilding Period, be irrevocable and binding regardless of whether the Offer Price is set within, above or below the Indicative Price Range. The final Offer Price is expected to be announced by the Company through the Oslo Stock Exchange's information system on or about 21 March 2018 under the ticker code "ELK".

20.4.2 Bookbuilding Period

The Bookbuilding Period in the Institutional Offering will be from 12 March 2018 at 09:00 hours (CET) to 21 March 2018 at 14:00 hours (CET), unless shortened or extended.

The Company and the Selling Shareholder, in consultation with the Managers, may shorten or extend the Bookbuilding Period at any time and for any reason, and extension may be made on one or several occasions. The Bookbuilding Period may in no event expire prior to 12:00 hours (CET) on 19 March 2018 or be extended beyond 14:00 hours (CET) on 29 March 2018. In the event of a shortening or an extension of the Bookbuilding Period, the allocation date, the payment due date and the date of delivery of Offer Shares will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed.

20.4.3 Minimum application

The Institutional Offering is subject to a minimum application of NOK 2,000,000 per application. Investors in Norway who intend to place an application for less than NOK 2,000,000 must do so in the Retail Offering.

20.4.4 Application procedure

Applications for Offer Shares in the Institutional Offering must be made during the Bookbuilding Period by informing one of the Managers shown below of the number of Offer Shares that the investor wishes to order, and the price that the investor is offering to pay per Offer Share.

ABG Sundal Collier
Munkedamsveien 45A
P.O. Box 1444 Vika
N-0115 Oslo
Norway

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Carnegie
Fjordalléen 16, Aker Brygge
P.O. Box 684 Sentrum
N-0106 Oslo
Norway

Citigroup
Citigroup Centre
33 Canada Square, Canary Wharf
London E14 5LB
United Kingdom

Nordea
Essendropsgate 7
P.O. Box 1166 Sentrum
N-0107 Oslo
Norway

All applications in the Institutional Offering will be treated in the same manner regardless of which Manager the applicant chooses to place the application with. Any orally placed application in the Institutional Offering will be binding upon the investor and subject to the same terms and conditions as a written application. The Managers may, at any time and in their sole discretion, require the investor to confirm any orally placed application in writing. Applications made may be withdrawn or amended by the investor at any time up to the expiry of the Bookbuilding Period. At the close of the Bookbuilding Period, all applications in the Institutional Offering that have not been withdrawn or amended are irrevocable and binding upon the investor.

20.4.5 Allocation, payment for and delivery of Offer Shares

The Managers expect to issue notifications of allocation of Offer Shares in the Institutional Offering on or about 21 March 2018, by issuing contract notes to the applicants by mail or otherwise.

Payment by applicants in the Institutional Offering will take place against delivery of Offer Shares. Delivery and payment for Offer Shares is expected to take place on or about 26 March 2018 (the "**Institutional Closing Date**") through the facilities of the VPS. The delivery and payment for Offer Shares may not take place on the Institutional Closing Date, or at all, if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or occur on or prior to such date. See Section 20.1 "Overview of the Offering".

For late payment, interest will accrue on the amount due at a rate equal to the prevailing interest rate under the Norwegian Act on Overdue Payment of 17 December 1976 no. 100 (the "**Norwegian Act on Overdue Payment**"), which, at the date of this Prospectus, is 8.5% per annum. Should payment not be made when due, the Offer Shares allocated will not be delivered to the applicants, and the Managers reserve the right, at the risk and cost of the applicant, to cancel the application and to re-allot or otherwise dispose of the allocated Offer Shares on such terms and in such manner as the Managers may decide (and the applicant will not be entitled to any profit there from). The original applicant remains liable for payment for the Offer Shares allocated to the applicant, together with any interest, cost, charges and expenses accrued, and the Managers may enforce payment of any such amount outstanding.

In order to provide for prompt registration of the share capital increase in the Company relating to the issuance of the New Shares with the Norwegian Register of Business Enterprises, the Managers are expected to subscribe and pay for the New Shares allocated in the Offering at a total subscription amount equal to the Offer Price multiplied by the number of New Shares and to sell such New Shares onwards to the applicants at the Offer Price. Irrespective of any such subscription and payment for New Shares, the original applicant will remain liable for payment of the Offer Price for the Offer Shares allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Company and/or the Managers may enforce payment of any such amount outstanding. The subscription, payment and onwards sale by the Managers of the New Shares as described above constitute an integrated sales process where the investors purchase New Shares from the Company based on this Prospectus, which has been prepared by the Company. The investors will not have any rights or claims against any of the Managers.

20.5 The Retail Offering

20.5.1 Offer Price

The price for the Offer Shares offered in the Retail Offering will be the same as in the Institutional Offering, see Section 20.4.1 "Determination of the number of Offer Shares and the Offer Price".

Each applicant in the Retail Offering will be permitted, but not required, to indicate when ordering through the VPS online application system or on the application form to be used to apply for Offer Shares in the Retail Offering, attached to this Prospectus as Appendix D (the "**Retail Application Form**"), that the applicant does not wish to be allocated Offer Shares should the Offer Price be set above the highest price in the Indicative Price Range (i.e. NOK 35 per Offer Share). If the applicant does so, the applicant will not be allocated any Offer Shares in the event that the

Offer Price is set above the highest price in the Indicative Price Range. If the applicant does not expressly stipulate such reservation when ordering through the VPS online application system or on the Retail Application Form, the application will be binding regardless of whether the Offer Price is set within or above (or below) the Indicative Price Range, as long as the Offer Price has been determined on the basis of orders placed during the bookbuilding process described above.

20.5.2 Application Period

The Application Period during which applications for Offer Shares in the Retail Offering will be accepted will last from 12 March 2018 at 09:00 hours (CET) to 21 March 2018 at 12:00 hours (CET), unless shortened or extended. The Company and the Selling Shareholder, in consultation with the Managers, may shorten or extend the Application Period at any time and for any reason, and extension may be made on one or several occasions. The Application Period may in no event expire prior to 12:00 hours (CET) on 19 March 2018 or be extended beyond 14:00 hours (CET) on 29 March 2018. In the event of a shortening or an extension of the Application Period, the allocation date, the payment due date and the date of delivery of Offer Shares will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed.

20.5.3 Minimum and maximum application

The Retail Offering is subject to a minimum application amount of NOK 10,500 and a maximum application amount of NOK 1,999,999 for each applicant.

Multiple applications are allowed. One or multiple applications from the same applicant in the Retail Offering with a total application amount in excess of NOK 1,999,999 will be adjusted downwards to an application amount of NOK 1,999,999. If two or more identical application forms are received from the same investor, the application form will only be counted once unless otherwise explicitly stated on one of the application forms. In the case of multiple applications through the online application system or applications made both on a physical application form and through the online application system, all applications will be counted. Investors who intend to place an order in excess of NOK 1,999,999 must do so in the Institutional Offering.

20.5.4 Application procedures and application offices

Norwegian applicants in the Retail Offering who are residents of Norway with a Norwegian personal identification number are recommended to apply for Offer Shares through the VPS online application system by following the link to such online application system on the following websites: www.elkem.com, www.abgsc.no, www.carnegie.no and www.nordea.no/elkem. Applicants in the Retail Offering not having access to the VPS online application system must apply for Offer Shares using the Retail Application Form attached to this Prospectus as Appendix D “Application Form for the Retail Offering”. Retail Application Forms, together with this Prospectus, may be obtained from the Company, the Company’s website www.elkem.com, the Managers’ websites or the application offices listed below. Applications made through the VPS online application system must be duly registered during the Application Period. The Managers participating in the Retail Offering will be ABG Sundal Collier, Carnegie and Nordea.

The application offices for physical applications in the Retail Offering are:

ABG Sundal Collier	**Carnegie**	**Nordea**
Munkedamsveien 45A	Fjordalléen 16, Aker Brygge	Essendropsgate 7
P.O. Box 1444 Vika	P.O. Box 684 Sentrum	P.O. Box 1166 Sentrum
N-0115 Oslo	N-0106 Oslo	N-0107 Oslo
Norway	Norway	Norway
Tel: +47 22 01 60 00	Tel: + 47 22 00 93 60	Tel: +47 24013462
E-mail: retail@abgsc.no	E-mail: subscriptions@carnegie.no	E-mail: nis@nordea.com
www.abgsc.no	www.carnegie.no	www.nordea.no/elkem

All applications in the Retail Offering will be treated in the same manner regardless of which of the above Managers the applications are placed with. Further, all applications in the Retail Offering will be treated in the same manner regardless of whether they are submitted by delivery of a Retail Application Form or through the VPS online application system.

Retail Application Forms that are incomplete or incorrectly completed, electronically or physically, or that are received after the expiry of the Application Period, may be disregarded without further notice to the applicant. Properly completed Retail Application Forms must be received by one of the application offices listed above or registered electronically through the VPS application system by 12:00 hours (CET) on 21 March 2018, unless the Application

Period is being shortened or extended. None of the Company, the Selling Shareholder or any of the Managers may be held responsible for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical matters that may result in applications not being received in time or at all by any application office.

Subject to Section 20.5.1 "Offer Price" above, all applications made in the Retail Offering will be irrevocable and binding upon receipt of a duly completed Retail Application Form, or in the case of applications through the VPS online application system, upon registration of the application, irrespective of any extension of the Application Period, and cannot be withdrawn, cancelled or modified by the applicant after having been received by the application office, or in the case of applications through the VPS online application system, upon registration of the application.

20.5.5 Allocation, payment and delivery of Offer Shares

ABGSC, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Shares in the Retail Offering on or about 22 March 2018, by issuing allocation notes to the applicants by mail or otherwise. Any applicant wishing to know the precise number of Offer Shares allocated to it, may contact one of the application offices listed above on or about 22 March 2018 during business hours. Applicants who have access to investor services through an institution that operates the applicant's account with the VPS for the registration of holdings of securities ("**VPS account**") should be able to see how many Offer Shares they have been allocated from on or about 22 March 2018.

In registering an application through the VPS online application system or completing a Retail Application Form, each applicant in the Retail Offering will authorise ABGSC (on behalf of the Managers) to debit the applicant's Norwegian bank account for the total amount due for the Offer Shares allocated to the applicant. The applicant's bank account number must be stipulated on the VPS online application or on the Retail Application Form. Accounts will be debited on or about 23 March 2018 (the "**Payment Date**"), and there must be sufficient funds in the stated bank account from and including 22 March 2018. Applicants who do not have a Norwegian bank account must ensure that payment for the allocated Offer Shares is made on or before the Payment Date (expected to be 23 March 2018). The delivery and payment for Offer Shares may not take place on the Payment Date or at all if certain conditions or events referred to in the Underwriting Agreement are not satisfied or waived or occur on or prior to such date. See Section 20.1 "Overview of the Offering".

Further details and instructions will be set out in the allocation notes to the applicant to be issued on or about 22 2018, or can be obtained by contacting ABGSC at +47 22 01 60 00.

Should any applicant have insufficient funds on his or her account, or should payment be delayed for any reason, or if it is not possible to debit the account, interest will accrue on the amount due at a rate equal to the prevailing interest rate under the Norwegian Act on Interest on Overdue Payments, which at the date of this Prospectus is 8.5% per annum. ABGSC (on behalf of the Managers) reserves the right (but has no obligation) to make up to three debit attempts through 30 March 2018 if there are insufficient funds on the account on the Payment Date. Should payment not be made when due, the Offer Shares allocated will not be delivered to the applicant, and the Managers reserve the right, at the risk and cost of the applicant, to cancel at any time thereafter the application and to re-allot or otherwise dispose of the allocated Offer Shares, on such terms and in such manner as the Managers may decide (and that the applicant will not be entitled to any profit there from). The original applicant will remain liable for payment of the Offer Price for the Offer Shares allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Managers may enforce payment of any such amount outstanding.

In order to provide for prompt registration of the share capital increase in the Company relating to the issuance of the New Shares with the Norwegian Register of Business Enterprises, the Managers are expected to subscribe and pay for the New Shares allocated in the Offering at a total subscription amount equal to the Offer Price multiplied by the number of New Shares and to sell such New Shares onwards to the applicants at the Offer Price. Irrespective of any such subscription and payment for New Shares, the original applicant will remain liable for payment of the Offer Price for the Offer Shares allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Company and/or the Managers may enforce payment of any such amount outstanding. The subscription, payment and onwards sale by the Managers of the New Shares as described above constitute an integrated sales process where the investors purchase New Shares from the Company based on this Prospectus, which has been prepared by the Company. The investors will not have any rights or claims against any of the Managers.

Subject to timely payment by the applicant, delivery of the Offer Shares allocated in the Retail Offering is expected to take place on or about 26 March 2018 through the facilities of the VPS.

20.6 Mechanism of allocation

It has been provisionally assumed that approximately 95% of the Offering will be allocated in the Institutional Offering and approximately 5% of the Offering will be allocated in the Retail Offering. The final determination of the number of Offer Shares allocated to the Institutional Offering and the Retail Offering will only be decided, however, by the Company and the Selling Shareholder, in consultation with the Managers, following the completion of the bookbuilding process for the Institutional Offering, based on among other things the level of orders or applications received from each of the categories of investors relative to the level of applications or orders received in the Retail Offering. The Selling Shareholder, the Company and the Managers reserve the right to deviate from the provisionally assumed allocation between tranches without further notice and at their sole discretion.

No Offer Shares have been reserved for any specific national market.

In the Institutional Offering, the Company and the Selling Shareholder, in consultation with the Managers, will determine the allocation of Offer Shares. An important aspect of the allocation principles is the desire to create an appropriate long-term shareholder structure for the Company. The allocation principles will, in accordance with normal practice for institutional placements, include factors such as premarketing and management road-show participation and feedback, timeliness of the order, price level, relative order size, sector knowledge, investment history, perceived investor quality and investment horizon. The Company, the Selling Shareholder and the Managers further reserve the right, at their sole discretion, to take into account the creditworthiness of any applicant. The Company, the Selling Shareholder and the Managers may also set a maximum allocation, or decide to make no allocation to any applicant.

In the Retail Offering, no allocations will be made for a number of Offer Shares representing an aggregate value of less than NOK 10,500 per applicant, however, all allocations will be rounded down to the nearest number of whole Offer Shares and the payable amount will hence be adjusted accordingly. One or multiple orders from the same applicant in the Retail Offering with a total application amount in excess of NOK 1,999,999 will be adjusted downwards to an application amount of NOK 1,999,999. In the Retail Offering, allocation will be made solely on a pro rata basis using the VPS' automated simulation procedures. The Company, the Selling Shareholder and the Managers reserve the right to limit the total number of applicants to whom Offer Shares are allocated if the Company, the Selling Shareholder and the Managers deem this to be necessary in order to keep the number of shareholders in the Company at an appropriate level and such limitation does not have the effect that any conditions for the Listing regarding the number of shareholders will not be satisfied. If the Company, the Selling Shareholder and the Managers should decide to limit the total number of applicants to whom Offer Shares are allocated, the applicants to whom Offer Shares are allocated will be determined on a random basis by using the VPS' automated simulation procedures and/or other random allocation mechanism. Notwithstanding the above, any primary insider in Elkem who applies for shares in the Retail Offering will receive full allocation.

20.7 VPS account

To participate in the Offering, each applicant must have a VPS account. The VPS account number must be stated when registering an application through the VPS online application system or on the Retail Application Form for the Retail Offering. VPS accounts can be established with authorised VPS registrars, which can be Norwegian banks, authorised investment firms in Norway and Norwegian branches of credit institutions established within the EEA. However, non-Norwegian investors may use nominee VPS accounts registered in the name of a nominee. The nominee must be authorised by the Norwegian Ministry of Finance. Establishment of VPS accounts requires verification of identification by the relevant VPS registrar in accordance with Norwegian anti-money laundering legislation (see Section 20.10 "Mandatory anti-money laundering procedures").

20.8 Product governance

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended (MiFID II); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the MiFID II Product Governance Requirements), and disclaiming all and any liability, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Shares have been subject to a product approval process, which has determined that they each are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the Target Market Assessment).

Notwithstanding the Target Market Assessment, Distributors should note that: the price of the Shares may decline and investors could lose all or part of their investment; the Shares offer no guaranteed income and no capital protection;

and an investment in the Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Shares and determining appropriate distribution channels.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Shares.

20.9 National Client Identifier and Legal Entity Identifier

In order to participate in the Offering, applicants will need a global identification code. Physical persons will need a so called National Client Identifier ("**NCI**") and legal entities will need a so called Legal Entity Identifier ("**LEI**").

20.9.1 NCI code for physical persons

As of 3 January 2018, physical persons will need a NCI code to participate in a financial market transaction, i.e. a global identification code for physical persons. For physical persons with only a Norwegian citizenship, the NCI code is the 11 digit personal ID (*Nw.: Fødselsnummer*). If the person in question has multiple citizenships or another citizenship than Norwegian, another relevant NCI code can be used. Investors are encouraged to contact their bank for further information.

20.9.2 LEI code for legal entities

As of 3 January 2018, legal entities will need a LEI code to participate in a financial market transaction. A LEI code must be obtained from an authorised LEI issuer, which can take some time. Investors should obtain a LEI code in time for the application. For more information visit www.gleif.org.

20.10 Mandatory anti-money laundering procedures

The Offering is subject to applicable anti-money laundering legislation, including the Norwegian Money Laundering Act of 6 March 2009 no. 11 and the Norwegian Money Laundering Regulations of 13 March 2009 no. 302 (collectively, the "**Anti-Money Laundering Legislation**").

Applicants who are not registered as existing customers of any of the Managers must verify their identity to the Manager in which the order is placed in accordance with the requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Applicants who have designated an existing Norwegian bank account and an existing VPS account on the Retail Application Form, or when registering an application through the VPS online application system, are exempted, unless verification of identity is requested by any of the Managers. Applicants who have not completed the required verification of identity prior to the expiry of the Application Period may not be allocated Offer Shares.

20.11 Over-allotment and stabilisation activities

20.11.1 Over-allotment of Additional Shares

In connection with the Offering, the Managers may elect to over-allot a number of Additional Shares, equalling up to 15% of the number of New Shares and Sale Shares allocated in the Offering, and, in order to permit the delivery in respect of over-allotments made, the Stabilisation Manager may, pursuant to the Lending Option, require the Selling Shareholder to lend to the Stabilisation Manager, on behalf of the Managers, up to a number of Shares equal to the number of Additional Shares. Further, the Selling Shareholder is expected to grant to the Managers, an Over-Allotment Option to purchase Additional Shares, which may be exercised on behalf of the Managers by the Stabilisation Manager not later than the 30th day following the time at which "if issued/if sold" trading in the Shares commences on the Oslo Stock Exchange, equalling up to 15% of the number of the New Shares and Sale Shares allocated in the Offering at a price equal to the final Offer Price in the Offering, as may be necessary to cover over-allotments and short positions, if any, made in connection with the Offering. To the extent that the Managers have over-allotted Shares in the Offering, the Managers have created a short position in the Shares. The Stabilisation Manager may close out this short position by buying Shares in the open market through stabilisation activities and/or by exercising the Over-Allotment Option.

A stock exchange notice will be made on the first day of trading on an "if issued/if sold" basis (expected to take place on 22 March 2018) announcing whether the Managers have over-allotted Shares in connection with the Offering. Any exercise of the Over-Allotment Option will be promptly announced by the Stabilisation Manager through the Oslo Stock Exchange's information system.

20.11.2 Price stabilisation

The Stabilisation Manager, Morgan Stanley, may, upon exercise of the Lending Option, from the first day of the Listing, effect transactions with a view to support the market price of the Shares at a level higher than what might otherwise prevail, through buying Shares in the open market at prices equal to or lower than the Offer Price. There is no obligation on the Stabilisation Manager to conduct stabilisation activities and there is no assurance that stabilisation activities will be undertaken. Such stabilising activities, if commenced, may be discontinued at any time, and will be brought to an end at the latest 30 calendar days after the time at which "if issued/if sold" trading in the Shares commences on the Oslo Stock Exchange. It should be noted that stabilisation activities might result in market prices that are higher than what might otherwise prevail.

Any stabilisation activities will be conducted in accordance with Section 3-12 of the Norwegian Securities Trading Act and the EC Commission Regulation 2273/2003 regarding buy-back programmes and stabilisation of financial instruments.

Any loss resulting from such over-allotment or stabilisation shall be borne by the Stabilisation Manager, on behalf of the Managers. To the extent that there are any profits earned from such stabilisation transactions, the Stabilisation Manager shall remit the aggregate amount of any such net profits to (a) the Managers up to an amount equal to reasonable and documented costs arising as a result of such stabilisation transactions, and (b) any additional profit arising therefrom shall be remitted to the Selling Shareholder.

Within one week after the expiry of the 30 calendar day period of price stabilisation, the Stabilisation Manager will publish information as to whether or not price stabilisation activities were undertaken. If stabilisation activities were undertaken, the statement will also include information about: (i) the total amount of Shares sold and purchased; (ii) the dates on which the stabilisation period began and ended; (iii) the price range between which stabilisation was carried out, as well as the highest, lowest and average price paid during the stabilisation period; and (iv) the date at which stabilisation activities last occurred.

It should be noted that stabilisation activities might result in market prices that are higher than what might otherwise prevail. Stabilisation may be undertaken, but there is no assurance that it will be undertaken and it may be stopped at any time.

20.12 Publication of information in respect of the Offering

In addition to press releases which will be posted on the Company's website, the Company will use the Oslo Stock Exchange's information system to publish information relating to the Offering, such as amendments to the Bookbuilding Period and Application Period (if any), the final Offer Price, number of Offer Shares and total amount of the Offering, allotment percentages, and first day of trading at the Oslo Stock Exchange.

The final determination of the Offer Price, the number of Offer Shares and the total amount of the Offering is expected to be published on or about 21 March 2018.

20.13 The rights conferred by the Offer Shares

The Sale Shares and the Additional Shares (if any) will in all respects carry full shareholders' rights in the Company on an equal basis as any other Shares in the Company, including the right to any dividends. The New Shares will in all respects carry full shareholders' rights in the Company on an equal basis as any other Shares in the Company, including the right to any dividends, from the date of registration of the share capital increase pertaining to the Offering in the Norwegian Register of Business Enterprises (see Section 20.2 "Timetable").

For a description of rights attached to the Shares in the Company, see Section 17 "Corporate Information and Description of the Share Capital".

20.14 VPS registration

The Shares, including the Offer Shares, have been created under the Norwegian Public Limited Companies Act. The Offer Shares are registered in book-entry form with the VPS and have ISIN NO 001 0816093. The Company's register of shareholders with the VPS is administrated by DNB Bank ASA, Dronning Eufemias gate 30, N-0191 Oslo, Norway.

20.15 Conditions for completion of the Offering – Listing and trading of the Offer Shares

The Company expects to apply for Listing of its Shares on the Oslo Stock Exchange on or about 12 March 2018 and that the board of directors of the Oslo Stock Exchange will approve the Listing application on or about 15 March 2018, conditional upon the Company raising at least NOK 4,300 million in gross proceeds by the issuance of New Shares in the Offering, obtaining a minimum of 500 shareholders, each holding Shares with a value of more than NOK 10,000, and there being a minimum free float of the Shares of at least 25%. The Company expects that these conditions will be fulfilled through the Offering.

Completion of the Offering on the terms set forth in this Prospectus is expressly conditioned upon the board of directors of the Oslo Stock Exchange approving the application for Listing of the Shares in its meeting to be held on or about 15 March 2018, on conditions acceptable to the Company and that any such conditions are satisfied by the Company. The Offering will be cancelled in the event that the conditions are not satisfied. There can be no assurance that the board of directors of the Oslo Stock Exchange will give such approval or that the Company will satisfy these conditions.

Completion of the Offering on the terms set forth in this Prospectus is otherwise only conditional on (i) the Board of Directors having resolved to issue the New Shares in the Offering, (ii) the Company and the Selling Shareholder, in consultation with the Managers, having approved the Offer Price and the allocation of the Offer Shares to eligible investors following the bookbuilding process, (iii) the Company, the Selling Shareholder and the Joint Global Coordinators and Joint Bookrunners (as representatives of the Managers) having entered into the Underwriting Agreement, (iv) satisfaction of the conditions precedent contained in the Underwriting Agreement, and (v) the Underwriting Agreement not having been terminated in accordance with its terms (see Section 20.1 "Overview of the Offering"). There can be no assurance that these conditions will be satisfied. If the conditions are not satisfied, the Offering may be revoked or suspended.

Assuming that the conditions are satisfied, the first day of trading on an "if issued/if sold" basis of the Shares, including the Offer Shares, on the Oslo Stock Exchange is expected to be on or about 22 March 2018. The Shares are expected to trade under the ticker code "ELK".

Applicants in the Retail Offering selling Offer Shares prior to delivery must ensure that payment for such Offer Shares is made on or prior to the Payment Date, by ensuring that the stated bank account is sufficiently funded on 22 March 2018. Applicants in the Institutional Offering selling Offer Shares prior to delivery must ensure that payment for such Offer Shares is made on or prior to the Institutional Closing Date. Accordingly, an applicant who wishes to sell its Offer Shares, following confirmed allocation of Offer Shares, but before delivery, must ensure that payment is made in order for such Offer Shares to be delivered in time to the applicant.

Prior to the Listing and the Offering, the Shares are not listed on any stock exchange or authorised market place, and no application has been filed for listing on any other stock exchanges or regulated market places other than the Oslo Stock Exchange.

20.16 Dilution

Following completion of the Offering (excluding any over-allotments), the immediate dilution from issuance of the New Shares for the Selling Shareholder is expected to be approximately 31% based on the assumption that the Company issues all the New Shares.

20.17 Expenses of the Offering and the Listing

The net proceeds to the Company will be approximately NOK 5,000 million, based on estimated total transaction costs of, and incidental to, the Listing and the Offering of approximately NOK 200 million to be paid by the Company.

In consideration of the Managers commitments under the Underwriting Agreement, the Company and the Selling Shareholder will pay the Managers a base commission calculated on the basis of the gross proceeds of the Offering, including, if applicable, any gross proceeds relating to the Additional Shares. Assuming a total size of the Offering, including any Additional Shares, of NOK 8,300 million and the sum of a base fee and discretionary fee to the Managers being 2.25%, the total commission for the Managers will be NOK 185 million.

In addition to the above, the Managers may receive a discretionary fee in connection with the Offering. Such additional discretionary fee, if any, will be a percentage of up to 1.75% of the gross proceeds from the Offering and will be determined by the Company and the Selling Shareholder based on their perception of the Managers performance during the execution of the Offering. The discretionary fee, if any, will be paid 50% by the Company 50% by the Selling Shareholder.

Pursuant to the Underwriting Agreement, the Company is expected to agree to pay or cause to be paid all properly incurred costs and expenses of and incidental to the completion of the Offering and the performance of the Company's obligations under the Underwriting Agreement, including, but not limited to, all reasonable and properly incurred disbursements and expenses of the Managers in relation to the Offering. The Underwriting Agreement is also expected to provide that the Company and the Selling Shareholder will indemnify the Managers against certain losses and liabilities arising out of or in connection with the Offering.

No expenses or taxes will be charged by the Company, the Selling Shareholder or the Managers to the applicants in the Offering.

20.18 Lock-up

Pursuant to the Underwriting Agreement, the Company is expected to agree with the Managers that, without the prior written consent of the Joint Global Coordinators, it will not, during the period ending 365 days after the Institutional Closing Date, (i) issue, hypothecate, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option right or warrant to purchase, lend or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any Shares or other equity interest in the capital of the Company or any securities convertible into or exercisable for such Shares or other equity interests, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares or other equity interests, whether any such transaction described in (i) or (ii) above is to be settled by delivery of the Shares or such other securities or interests, in cash or otherwise, or (iii) submit to its shareholders a proposal to effect any of the foregoing. The foregoing will not apply to (A) the granting of awards in options or Shares by the Company or the issuance of Shares upon exercise of options granted by the Company pursuant to employee share option schemes and (B) an offer of any Shares to employees of the Company.

Pursuant to the Underwriting Agreement, the Selling Shareholder is expected to agree with the Managers that, without the prior written consent of the Joint Global Coordinators, it will not, during the period ending 365 days after the Institutional Closing Date, (i) offer, pledge, hypothecate, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, cause the Company to issue, or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any Shares or other equity interests in the capital of the Company or any securities convertible into or exercisable or exchangeable for Shares, (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or other equity interests of the Company, whether any such transaction described in (i) or (ii) above is to be settled by delivery of the Shares of the Company or such other securities or interests, in cash or otherwise, or (iii) propose any general meeting of the Company, or convene or take action to convene any general meeting for the purpose of proposing, any resolution of the Company authorizing the issue of any Shares or warrants to subscribe for Shares. The foregoing will not apply to (A) the sale of the Sale Shares under the Underwriting Agreement, (B) in the lending of any shares pursuant to the Underwriting Agreement, (C) an acceptance of a general offer for the ordinary share capital of the Company or the provision of an irrevocable undertaking to accept such an offer, *provided* that the Joint Global Coordinators shall be notified in advance in writing two Business Days prior to such acceptance or undertaking (to the extent legally permitted); (D) the transfer of Shares or any securities convertible into or exercisable for, or substantially similar to Shares by the Selling Shareholder to (x) the direct or indirect shareholders of the Selling Shareholder, (y) any subsidiary of a direct or indirect shareholder of the Selling Shareholder or (z) any of the subsidiaries or subsidiary undertakings of the Selling Shareholder, *provided* that, in the case of (D), as a condition to such transfer and receipt of Shares, including through dividend or other distribution, or any liquidation, dissolution, reorganization or other similar event affecting the Selling Shareholder or any of its Affiliates, each such transferee has agreed to assume the obligations of the Selling Shareholder as provided in the Underwriting Agreement and has validly executed a deed of succession; and (E) any disposal for the purposes of pledging or charging any Share to or for the benefit of a Representative that has entered into a Margin Loan (as defined below) as lender (a "**Margin Loan Lender**") in connection with a Margin Loan; and/or (h) any disposal for the purposes of transferring any Shares pursuant to any enforcement of security over Shares granted by the Selling Shareholder to or for the benefit of a Margin Loan Lender in connection with a Margin Loan, provided that any proposed transferee of such Shares pursuant to an enforcement of security shall have agreed to be bound by the restrictions of the Underwriting Agreement for the remainder of the lock-up period in relation to such Shares transferred only as if it were the transferor by execution and delivery to the Underwriters of a deed of adherence. A "**Margin Loan**" means any margin loan facility made available to the Selling Shareholder (or any transferee of Shares disposed of in accordance with the above provisions, pursuant to the terms of a margin loan facility agreement entered into among the Selling Shareholder or a transferee of Shares disposed of in accordance with (E) above) (as borrower) and any Margin Loan Lender (as lender).

Pursuant to the Underwriting Agreement, should any member of Management subscribe for and be allocated Shares in the Offering, such member of Management is expected to agree with the Managers that, without the prior written consent of the Joint Global Coordinators, such member will not, during the period ending 365 days after the Institutional Closing Date, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce such action), directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise. Notwithstanding the above, such member of Management may without the prior written consent of the Joint Global Coordinators transfer any or all of the Shares which are subject to lock-up to a related party, provided such individual or entity agrees in writing to be bound by the same lock-up and executes a deed of adherence to effect the same.

20.19 Interest of natural and legal persons involved in the Offering

The Managers or their affiliates have provided from time to time, and may provide in the future, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary fees and commissions. The Managers do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Managers will receive a management fee in connection with the Offering, which will be based on the amount of gross proceeds received from investors, and, as such, have an interest in the Offering. In addition, the Company and/or Selling Shareholder may pay to the Managers an additional discretionary fee in connection with the Offering. There are no conditions relating to such discretionary fee to the Managers. See Section 20.17 “Expenses of the Offering and the Listing” for information on fees to the Managers in connection with the Offering.

Nordea has entered into the New Loan Facilities Agreement (and may enter into future additional credit agreements) with the Company. The New Loan Facilities Agreement provides (and will provide) a committed credit facility to Elkem and the Company intends to use a portion of the net proceeds of the Offering to reduce parts of the Group's existing long term interest bearing debt.

The individuals mentioned in Section 14.5.3 “IPO bonus scheme” will, if certain requirements are met, receive bonus payments in connection with the IPO on the terms further described in 14.5.3 “IPO bonus scheme”, and as such, have an interest in the Offering.

The Selling Shareholder will receive the net proceeds from the sale of the Sale Shares and from the sale of any Shares under the Over-Allotment Option.

To the extent that there are any profits earned from stabilisation transactions, the Stabilisation Manager shall remit the aggregate amount of any such net profits to (a) the Managers up to an amount equal to the portion of the agreed fees related to the Additional Shares plus reasonable and documented costs, arising as a result of such stabilisation transactions, and (b) any additional profit arising therefrom shall be shared evenly between the Stabilisation Manager, on behalf of the Managers, on the one hand, and the Selling Shareholder on the other.

Beyond the above-mentioned, the Company is not aware of any interest, including conflicting ones, of any natural or legal persons involved in the Offering.

20.20 Participation of major existing shareholders and members of the Management, supervisory and administrative bodies in the Offering

None of the members of the Board of Directors and Management have indicated an intention to apply for Offer Shares and are expected to consider any possible applications during the application period.

The Company is not aware of whether any major shareholders of the Company or members of the Management, supervisory or administrative bodies intend to apply for Offer Shares in the Offering, or whether any person intends to apply for more than 5% of the Offer Shares.

20.21 Governing law and jurisdiction

This Prospectus, the Retail Application Form and the terms and conditions of the Offering shall be governed by and construed in accordance with Norwegian law. Any dispute arising out of, or in connection with, this Prospectus, the Retail Application Form or the Offering shall be subject to the exclusive jurisdiction of the courts of Norway, with the Oslo District Court as the legal venue.

21 SELLING AND TRANSFER RESTRICTIONS

21.1 General

As a consequence of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Shares offered hereby.

Other than in Norway, the Company is not taking any action to permit a public offering of the Shares in any jurisdiction. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if an investor receives a copy of this Prospectus in any jurisdiction other than Norway, the investor may not treat this Prospectus as constituting an invitation or offer to it, nor should the investor in any event deal in the Shares, unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to that investor, or the Shares could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, if an investor receives a copy of this Prospectus, the investor should not distribute or send the same, or transfer Shares, to any person or in or into any jurisdiction where to do so would or might contravene local securities laws or regulations.

21.2 Selling restrictions

21.2.1 United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act, and may not be offered or sold except: (i) within the United States to QIBs in reliance on Rule 144A or pursuant to another available exemption from the registration requirements of the U.S. Securities Act; or (ii) to certain persons in offshore transactions in compliance with Regulation S under the U.S. Securities Act, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any of the Offer Shares as part of its allocation at any time other than to QIBs in the United States in accordance with Rule 144A or pursuant to another exemption from the registration requirements of the U.S. Securities Act or outside of the United States in compliance with Rule 903 of Regulation S. Transfer of the Offer Shares will be restricted and each purchaser of the Offer Shares in the United States will be required to make certain acknowledgements, representations and agreements, as described under Section 21.3.1 "United States".

Any offer or sale in the United States will be made solely by affiliates of the Managers who are broker-dealers registered under the U.S. Exchange Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by a dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from the registration requirements of the U.S. Securities Act and in connection with any applicable state securities laws.

21.2.2 United Kingdom

Each Manager has represented, warranted and agreed that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

b) it has complied and will comply with all applicable provisions of the FSMA with respect to everything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

21.2.3 European Economic Area

In relation to each Member State, each Manager has represented and agreed that with effect from and including the date on which the EU Prospectus Directive is implemented in that Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer to the public of any Offer Shares which are the subject of the offering contemplated by this Prospectus may not be made in that Member State, other than the offering in Norway as described in this Prospectus, once the Prospectus has been approved by the competent authority in Norway and published in accordance with the EU Prospectus Directive (as implemented in Norway), except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public in that Member State:

a) to legal entities which are qualified investors as defined in the EU Prospectus Directive;

b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive), as permitted under the EU Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer, or

c) in any other circumstances falling within Article 3(2) of the EU Prospectus Directive;

provided that no such offer of Offer Shares shall require the Company, the Selling Shareholder or any Manager to publish a prospectus pursuant to Article 3 of the EU Prospectus Directive or supplement a prospectus pursuant to Article 16 of the EU Prospectus Directive. Each person in a Member State who initially acquires any Offer Shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with the Company and the Managers that it is a “qualified investor” within the meaning of the law in that Member State implementing Article 2(1)(e) of the EU Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State the expression “EU Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Member State), and includes any relevant implementing measure in each Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

21.2.4 Additional jurisdictions

21.2.4.1 Canada

The Offer Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Offer Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

21.2.4.2 Hong Kong

The Offer Shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the Offer Shares may be issued or may be in the possession of any person for the purposes of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Offer Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

21.2.4.3 Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may they be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

21.2.4.4 Other jurisdictions

The Offer Shares may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into, Japan, Australia or any other jurisdiction in which it would not be permissible to offer the Offer Shares.

In jurisdictions outside the United States and the EEA where the Offering would be permissible, the Offer Shares will only be offered pursuant to applicable exceptions from prospectus requirements in such jurisdictions.

21.3 Transfer restrictions

21.3.1 United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold except: (i) within the United States only to QIBs in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the U.S. Securities Act; and (ii) outside the United States in compliance with Regulation S, and in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Terms defined in Rule 144A or Regulation S shall have the same meaning when used in this section.

Each purchaser of the Offer Shares outside the United States pursuant to Regulation S will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- The purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations.

- The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States, and are subject to significant restrictions on transfer.

- The purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Shares was located outside the United States at the time the buy order for the Offer Shares was originated and continues to be located outside the United States and has not purchased the Offer Shares for the benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Shares to any person in the United States.

- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares.

- The purchaser is aware of the restrictions on the offer and sale of the Offer Shares pursuant to Regulation S described in this Prospectus.

- The Offer Shares have not been offered to it by means of any "directed selling efforts" as defined in Regulation S.

- The Company shall not recognise any offer, sale, pledge or other transfer of the Offer Shares made other than in compliance with the above restrictions.

- The purchaser acknowledges that these representations are required in connection with the securities laws of the United States and that the Company, the Selling Shareholder, the Managers and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Shares within the United States pursuant to Rule 144A or another available exemption under the Securities Act will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- The purchaser is authorised to consummate the purchase of the Offer Shares in compliance with all applicable laws and regulations.
- The purchaser acknowledges that the Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to significant restrictions to transfer.
- The purchaser (i) is a QIB (as defined in Rule 144A), (ii) is aware that the sale to it may be made in reliance on Rule 144A and (iii) is acquiring such Offer Shares for its own account or for the account of a QIB, in each case for investment and not with a view to any resale or distribution to the Offer Shares, as the case may be.
- The purchaser is aware that the Offer Shares are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act.
- If, in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Shares, as the case may be, such Shares may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction meeting the requirements of Regulation S, (iii) in accordance with Rule 144 (if available), (iv) pursuant to any other exemption from the registration requirements of the U.S. Securities Act, subject to the receipt by the Company of an opinion of counsel or such other evidence that the Company may reasonably require that such sale or transfer is in compliance with the U.S. Securities Act or (v) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction.
- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Shares from the Company or an affiliate thereof in the initial distribution of such Shares.
- The Offer Shares are “restricted securities” within the meaning of Rule 144(a) (3) and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Shares, as the case may be.
- The Company shall not recognise any offer, sale pledge or other transfer of the Offer Shares made other than in compliance with the above-stated restrictions.
- The purchaser acknowledges that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Selling Shareholder, the Managers and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

21.3.2 European Economic Area

Each person in a Member State (other than, in the case of paragraph (a), persons receiving offers contemplated in this Prospectus in Norway) who receives any communication in respect of, or who acquires any Offer Shares under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

a) it is a qualified investor as defined in the EU Prospectus Directive; and

b) in the case of any Offer Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the EU Prospectus Directive, (i) the Offer Shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Offer Shares have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Shares to it is not treated under the EU Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer" in relation to any Offer Shares in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression "EU Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

22 ADDITIONAL INFORMATION

22.1 Independent auditors

The Company's independent auditor is KPMG AS, with business registration number 935 174 627, and registered address at Sørkedalsveien 6, 0369 Oslo. KPMG AS is a member of Den Norske Revisorforeningen (The Norwegian Institute of Public Accountants). KPMG AS has been the Group's auditor since the financial year 2016.

The Company's previous independent auditor was PricewaterhouseCoopers AS with registration number 987 009 713, and business address at Dronning Eufemias gate 8, N-0191 Oslo, Norway. PricewaterhouseCoopers AS is a member of Den Norske Revisorforeningen (The Norwegian Institute of Public Accountants).

22.2 Advisors

ABG Sundal Collier (Munkedamsveien 45, N-0250 Oslo, Norway) and Morgan Stanley & Co. International plc (25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom) are acting as Joint Global Coordinators and Joint Bookrunners for the Offering and Carnegie AS (Fjordalléen 16, N-0106 Oslo, Norway), Citigroup Global Markets Ltd. (Citigroup Centre 33 Canada Square, Canary Wharf, London E14 5LB, United Kingdom) and Nordea Bank AB (publ), filial I Norge (Essendropsgate 7, N-0368 Oslo, Norway) are acting as Joint Bookrunners for the Offering.

Advokatfirmaet Thommessen AS (Haakon VIIs gate 10, N-0116 Oslo, Norway) is acting as Norwegian legal counsel to the Company, and Linklaters LLP (One Silk Street, London EC2Y 8HQ, United Kingdom) is acting as international legal counsel to the Company.

Advokatfirmaet Schjødt AS (Ruseløkkveien 14-16, N-0251 Oslo, Norway) is acting as Norwegian legal counsel to the Managers, and Shearman & Sterling (London) LLP (9 Appold Street, London EC2A 2AP, United Kingdom) is acting as international counsel to the Managers.

22.3 Documents on display

Copies of the following documents will be available for inspection at the Company's offices at Drammensveien 169, N-0277 Oslo, Norway, during normal business hours from Monday to Friday each week (except public holidays) for a period of twelve months from the date of this Prospectus:

- The Company's certificate of incorporation and Articles of Association;
- All reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Company's request any part of which is included or referred to in this Prospectus;
- The historical financial information of the Company and its subsidiary undertakings for each of the two financial years preceding the publication of this Prospectus; and
- This Prospectus.

23 DEFINITIONS AND GLOSSARY

In the Prospectus, the following defined terms have the following meanings:

2010 PD Amending Directive	Directive 2010/73/EU amending the EU Prospectus Directive.
ABGSC	ABG Sundal Collier ASA.
Additional Shares	Additional Shares sold pursuant to the Over-Allotment Option by the Stabilisation Manager, equal to up to approximately 15% of the aggregate number of New Shares and Sale Shares to be sold in the Offering.
Anti-Money Laundering Legislation	The Norwegian Money Laundering Act of 6 March 2009 no. 11 and the Norwegian Money Laundering Regulations of 13 March 2009 no. 302, collectively.
Annual General Meeting	The Company's annual general meeting
APMs	Alternative performance measures.
Application Period	The application period for the Retail Offering which will take place from 09:00 hours (CET) on 12 March 2018 to 12:00 hours (CET) on 21 March 2018, unless shortened or extended.
Articles of Association	The Company's articles of association.
BAT	Best available techniques for pollution prevention and control as required by the IPPC Directive.
Bluestar	Bluestar Elkem International Co., Ltd. S.A.
Board of Directors	The board of directors of the Company.
Board Members	The members of the Board of Directors.
Bookbuilding Period	The bookbuilding period for the Institutional Offering which will take place from 09:00 hours (CET) on 12 March 2018 to 14:00 hours (CET) on 21 March 2018, unless shortened or extended.
Bribery Act	The United Kingdom Bribery Act of 2010.
BSI	Bluestar Silicones International S.à r.l.
BSF	Bluestar Silicones France.
CAD	Canadian dollars.
CAGR	Compound annual growth rate.
Canadian dollars	The lawful currency of Canada.
CET	Central European Time.
ChemChina	The China National Chemical Corporation.
China Bluestar	China National Bluestar (Group) Co., Ltd.
CO_2 Trading Scheme	The EU's CO_2 allowance trading scheme, under which the Company's European operations are obliged to deliver to the EU allowances corresponding to their CO_2 emissions on an annual basis.
Company	Elkem ASA.
Combined Financial Statements	The audited combined financial statements as of and for the years ended 31 December 2017 and 2016.
Consolidated Financial Statements	The audited consolidated financial statements in accordance with IFRS as of and for the years ended 31 December 2017, 2016 and 2015.
Corporate Governance Code	The Norwegian Code of Practice for Corporate Governance, dated 30 October 2014.
CRU	The CRU Group.
CRU Elkem IPO Support (CRU, January)18)	The industry report from CRU dated 10 January 2018.
D4	An industrial chemical also known as cyclotetrasiloxane, used in the manufacture of a wide variety of products, including silicone polymers and copolymers.
DNB	DNB Bank ASA.
Operating EBITDA margin	Gross operating profit (loss) divided by total operating income.
EBS	The Elkem Business System.
EEA	The European Economic Area.
Elkem	The Company together with its consolidated subsidiaries.
Elkem Oilfield	Elkem Oilfield Chemicals FZCo.
Elkem Solar	Elkem Solar Holding S.á.r.l.
ELV	Emission Limit Value as a new emission target for NOx according to EU regulations of 2013.
ERIMSA	Explotacion de Rocas Industriales y Minerals S.A.
ESi	Elkem Silicones.

ESMA	The European Securities and Markets Authority.
EUR, euros or €	The lawful common currency of the EU member states who have adopted the Euro as their sole national currency.
EU Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Member State.
Evonik	Evonik Industries AG.
FCPA	The U.S. Foreign Corrupt Practices Act of 1977.
FeSi	Ferrosilicon.
Financial Information	The Combined Financial Statements and the Consolidated Financial Statements, together.
Forward-looking statements	Statements that reflect the Company's current views with respect to future events and financial and operational performance. These forward-looking statements may be identified by the use of forward-looking terminology, such as the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "should", "will", "would" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements are not historic facts.
FSMA	UK Financial Services and Markets Act 2000.
GDP	Gross domestic product.
General Meeting	The Company's general meeting of shareholders.
Group...	The Company together with its consolidated subsidiaries.
GW/y	Gigawatt per year.
IAS 34...	International Accounting Standard 34 "Interim Financial Reporting".
IAS 39...	International Accounting Standard 39 "Financial Instruments: Recognition and Measurement".
IED Directive......................................	Directive 2010/75/EU on Industrial Emissions replacing the IPPC Directive.
IFRS	International Financial Reporting Standards, as adopted by the EU.
Indicative Price Range	The indicative price range in the Offering of NOK 29 to NOK 35 per Offer Share.
Institutional Closing Date.....................	Delivery and payment for the Offer Shares by the applicants in the Institutional Offering is expected to take place on or about 26 March 2018.
Institutional Offering	An institutional offering, in which Offer Shares are being offered to (a) investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from any applicable prospectus requirements, and (c) investors in the United States who are QIBs in transactions exempt from registration requirements under the U.S. Securities Act, subject to a lower limit per application of NOK 2,000,000.
IPPC Directive	EU Directive 2008/17/EC on Integrated Pollution Prevention and Control.
IPR	Intellectual property rights.
IRS	The U.S. Internal Revenue Service.
ISK	Icelandic kroner.
Joint Bookrunners	The Joint Global Coordinators, Carnegie AS, Citigroup Global Markets Limited and Nordea Bank AB (publ), filial i Norge, collectively.
Joint Global Coordinators and Joint ›okrunners	ABGSC and Morgan Stanley, collectively.
Kt	Kilo-tonnes.
Lending Option	A lending option to be granted to the Stabilisation Manager by the Selling Shareholder, pursuant to which the Stabilisation Manager may require the Selling Shareholder to lend to the Stabilisation Manager, on behalf of the Managers, up to a number of Shares equal to the number of Additional Shares.
Listing	The listing of the Shares on the Oslo Stock Exchange.
Management	The senior management team of the Company.
Managers...	The Joint Global Coordinators and the Joint Bookrunners, collectively.
Market Abuse Regulation or MAR	Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse.
MCS	Methylchlorosilane.
MiFID II	EU Directive 2014/65/EU on markets in financial instruments, as amended.
MiFID II Product Governance ›quirements.......................................	Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II and together with local implementing measures.
Minex	Minex Metallurgical Co. Ltd.

MMT	Million metric ton.
Morgan Stanley	Morgan Stanley & Co. International plc.
New Shares	New shares to be issued by the Company in the Offering to raise gross proceeds of NOK 5,200 million.
NOK	Norwegian Kroner, the lawful currency of Norway.
Non-Norwegian Corporate Shareholder	Shareholders who are limited liability companies (and certain other entities) not resident in Norway for tax purposes.
Non-Norwegian Personal Shareholders	Shareholders who are individuals not resident in Norway for tax purposes.
Norwegian Act on Overdue Payment	The Norwegian Act on Overdue Payment of 17 December 1976 no. 100.
Norwegian Corporate Shareholders	Shareholders who are limited liability companies (and certain similar entities) resident in Norway for tax purposes.
Norwegian FSA	The Norwegian Financial Supervisory Authority (*Nw.: Finanstilsynet*).
Norwegian kroner	The lawful currency of Norway.
Norwegian Personal Shareholders	Shareholders who are individuals resident in Norway for tax purposes.
Norwegian Public Limited Companies Act	The Norwegian Public Limited Companies Act of 13 June 1997 no. 45 (*Nw.: allmennaksjeloven*).
Norwegian Securities Trading Act	The Norwegian Securities Trading Act of 29 June 2007 no. 75 (*Nw.: verdipapirhandelloven*).
Offering	The initial public offering including the Institutional Offering and the Retail Offering taken together.
Offer Price	The final offering price for the Offer Shares in the Offering, set in a range within, below or above the Indicative Price Range.
Offer Shares	The New Shares and Sale Shares together with any Additional Shares – the Shares offered pursuant to the Offering.
Order	The UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended.
Oslo Stock Exchange	Oslo Børs ASA, or, as the context may require, Oslo Børs, a Norwegian regulated stock exchange operated by Oslo Børs ASA.
Over-Allotment Option	An option expected to be granted by the Selling Shareholder to the Stabilisation Manager, on behalf of the Managers, pursuant to which the Stabilisation Manager may purchase the Additional Shares, exercisable, in whole or in part, within a 30-day period commencing at the time at which trading in the Shares commences on the Oslo Stock Exchange, expected to be on or about 22 March 2018, to cover any over-allotments made in connection with the Offering.
Payment Date	The payment date for the Offer Shares under the Retail Offering, expected to be on 23 March 2018.
PFIC	A passive foreign investment company for U.S. federal income tax purposes.
Pitch	The black or dark brown residue obtained by distilling coal tar, wood tar, fats, fatty acids, or fatty oils.
Prospectus	This Prospectus, dated 9 March 2018.
QIBs	Qualified institutional buyers as defined in Rule 144A.
RBMPs	River Basin Management Plans as required by the WFD.
Regulation S	Regulation S under the U.S. Securities Act.
Implementation Date	In relation to each Member State, with effect from and including the date on which the EU Prospectus Directive is implemented in that Member State.
Member State	Each Member State of the EEA which has implemented the EU Prospectus Directive.
REACH	The European Union Regulation (EC) No. 1907/2006 on Registration, Evaluation and Authorisation of Chemicals and adjacent regulations.
Relevant Persons	Persons in the UK that are (i) investment professionals falling within Article 19(5) of the Order or (ii) high net worth entities, and other persons to whom the Prospectus may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order.
Reorganisation	The Company's acquisition of 100% of the shares in Xinghuo Silicones and Yongdeng Silicon Materials, jointly.
Retail Application Form	Application form to be used to apply for Offer Shares in the Retail Offering, attached to this Prospectus as Appendix D.
Retail Offering	A retail offering, in which Offer Shares are being offered to the public in Norway, subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 1,999,999 for each investor.

RMB or Renminbi	The lawful currency of the People's Republic of China.
ROCE	Return on capital employed: Operating EBIT/Operating profit (loss) before other gains and losses, divided by the average capital employed, where capital employed comprises net working capital and fixed assets
RTUs	Heat cured elastomers, so-called ready to use solutions.
Rule 144A	Rule 144A under the U.S. Securities Act.
Sale Shares	Up to 71,657,143 existing Shares of the Company offered by the Selling Shareholder pursuant to the Offering.
SamCr	Samancor Chrome Limited (South Africa).
Selling Shareholder	The Company's sole shareholder, Bluestar.
SFA	The Securities and Futures Act of Singapore.
Shares	Shares in the share capital of the Company, each with a nominal value of NOK 5.00, or any one of them.
SiO2	Silicon dioxide, silica.
Stabilisation Manager	Morgan Stanley.
SVHC	Substances of very high concern.
Syndicated Loan Facilities Agreement	The syndicated loan facilities agreement entered into by Elkem in 2015.
Treaty	Income tax treaty between the United States and Norway.
UK	The United Kingdom.
Underwriting Agreement	The agreement expected to be entered into on or about 21 March 2018 by the Company, together with the Selling Shareholder and the Joint Global Coordinators and Joint Bookrunners (as representatives of the Managers) where the Managers are expected to agree to procure purchasers for the Offer Shares or, failing which, to purchase the Offer Shares themselves, and the Selling Shareholder is expected to agree to sell the Offer Shares to purchasers procured by the Managers or, failing which, to the Managers themselves.
U.S. dollars, USD or $	The lawful currency of the United States of America.
U.S. or United States	The United States of America.
U.S. Exchange Act	The U.S. Securities Exchange Act of 1934, as amended.
U.S. Holder	A beneficial owner of Offer Shares that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.
U.S. Securities Act	The U.S. Securities Act of 1933, as amended.
VPS	The Norwegian Central Securities Depository (*Nw.: Verdipapirsentralen*).
VPS account	An account with the VPS for the registration of holdings of securities.
VPS Registrar	DNB.
WFD	EU Directive 2000/60/EC on Framework for Water Management.
Xinghuo Silicones	Jiangxi Bluestar Xinghuo Organic Silicones Co. Ltd.
Yongdeng Silicon Materials	Bluestar Silicon Material Co. Ltd.

APPENDIX A:

ARTICLES OF ASSOCIATION OF ELKEM ASA

ARTICLES OF ASSOCIATION
FOR
ELKEM ASA
(reg no 911 382 008)

Adopted at the extraordinary general meeting on
23 February 2018

§ 1 Name

The company's name is Elkem ASA. The company is a public limited company.

§ 2 Registered business address

The company's registered business address is in the municipality of Oslo.

§ 3 Object

The object of the company is to develop and engage in industry, mining, trade and transportation as well as exploration and exploitation of natural resources. The company may also develop, acquire and exploit patents inventions and technical knowhow. The company may participate directly or indirectly or by other means in companies engaged in activities outlined above or activities that promote or support such objects.

§ 4 Share capital

The share capital is NOK 2,010,000,000.00, divided into 402,000,000 shares, each with a nominal value of NOK 5.00. The shares shall be registered with a securities register.

§ 5 Board

The company's board of directors shall consist of 3 - 10 members, according to the decision of the general meeting.

§ 6 Signatory rights

The chairman of the board and one board member jointly, or the CEO alone, have the right to sign on behalf of the company.

§ 7 Nomination committee

The company shall have a nomination committee. The nomination committee shall consist of two or three members, according to the decision of the general meeting. The members of the committee, including the chairman, shall be elected by the general meeting. Unless otherwise resolved by the general meeting, the elections shall be held every two years.

The nomination committee shall make recommendations to the general meeting for the election of shareholder elected board members and members of the nomination committee, and the remuneration to the members of the board of directors and the nomination committee. The remuneration to the members of the nomination committee shall be resolved by the general meeting. The general meeting may establish guidelines for the nomination committee.

§ 8 General meeting

Documents related to matters to be considered at the general meeting, including documents which shall, according to law, be included in or attached to the notice of the general meeting, do not need to be sent to the shareholders if the documents are made available on the company's website. A shareholder may, nevertheless, demand to receive the documents concerning matters which are to be discussed at the general meeting.

The shareholders shall be able to cast their votes in writing, including by electronic means, in a period prior to the general meeting. The board of directors may provide guidelines for such voting. The notice of the general meeting shall include the guidelines adopted by the board of directors.

The annual general meeting shall deal with and decide the following matters:

Approval of the annual accounts and the annual report, including distribution of dividend.

Any other business which according to law pertains to the annual general meeting.

APPENDIX B:

COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016

COMBINED
FINANCIAL STATEMENTS

Combined Elkem AS group

2016-2017

CONTENT

COMBINED STATEMENT OF INCOME

Amounts in NOK thousand *1 January - 31 December*	Note	2017	2016
Revenues		21 132 609	16 721 639
Other operating income		235 637	199 168
Total operating income	4	**21 368 246**	**16 920 807**
Raw materials and energy for smelting		(10 824 536)	(8 941 764)
Employee benefit expenses	5	(3 144 819)	(2 817 339)
Other operating expenses	7,8	(4 245 278)	(3 625 302)
Gross operating profit (loss)		**3 153 613**	**1 536 402**
Amortisations and depreciations	12	(1 244 025)	(1 217 255)
Impairment losses	12	(16 809)	(77 767)
Other gains and losses	9	43 638	57 287
Operating profit (loss)		**1 936 417**	**298 667**
Income from associates and joint ventures	13,14	34 144	22 130
Finance income	10	30 436	36 565
Foreign exchange gains (losses)	10	(7 701)	49 661
Finance expenses	10	(474 499)	(486 696)
Profit (loss) before income tax		**1 518 797**	**(79 673)**
Income tax (expense) benefit	11	(269 391)	(188 567)
Profit (loss) for the year		**1 249 406**	**(268 240)**
Attributable to:			
Non-controlling interest's share of profit (loss)		38 682	36 119
Owners of the parent's share of profit (loss)		1 210 724	(304 359)
Combined earnings per share (Basic / Diluted)			
Earnings per share (one share)		1 210 724	(304 359)

COMBINED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in NOK thousand *1 January - 31 December*	Note	2017	2016
Profit (loss) for the year		**1 249 406**	**(268 240)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligation	6	971	(55 177)
Tax effects on remeasurements of post employment benefit obligation	11	2 264	13 587
Share of other comprensive income from associates and joint ventures	13, 14	-	-
		3 235	**(41 590)**
Items that will be reclassified to profit or loss in subsequent periods			
Currency translation differences		278 556	170 242
Hedging of net investment in foreign operations		(208 865)	25 449
Tax effects hedging of net investment in foreign operations	11	48 039	(6 108)
Cash flow hedges	26	(5 973)	930 150
Tax effects on cash flow hedges	11	(4 444)	(238 356)
Share of other comprensive income from associates and joint ventures	13, 14	(325)	(1 141)
Change in value of available-for-sale financial assets		492	1 718
		107 480	**881 954**
Other comprehensive income for the year, net of tax		**110 715**	**840 364**
Discontinued operations		**0**	**0**
Total comprehensive income for the year		**1 360 121**	**572 124**
Attributable to:			
Non-controlling interest's share of comprehensive income		40 125	32 019
Owners of the parent's share of comprehensive income		1 319 996	540 105
Total comprehensive income for the year		**1 360 121**	**572 124**

Total comprehensive income attributable to equity shareholders arises from:		
- Continuing operations		1 319 996
- Discontinued operations		0
Total		**1 319 996**

Notes 1 to 33 and the accounting policies are an integrated part of these financial statements.

COMBINED STATEMENT OF FINANCIAL POSITION

Amounts in NOK thousand Note		**31.12.2017**	**31.12.2016**
ASSETS			
Property, plant and equipment	12	11 950 419	11 410 401
Goodwill	12	326 323	342 645
Other intangible assets	12	911 022	891 989
Deferred tax assets	11	89 584	67 348
Investment in joint ventures	13	97 871	108 978
Interest in associates and other companies	14	111 967	100 516
Derivatives	26	151 574	119 161
Other non-current assets	16	355 874	392 808
Total non-current assets		**13 994 634**	**13 433 846**
Inventories	17	4 099 200	3 792 297
Accounts receivable	18	2 518 423	1 952 473
Derivatives	26	33 357	56 388
Other current assets	19	2 090 949	1 621 919
Restricted deposits	22	1 019 791	915 013
Cash and cash equivalents	22	1 750 930	1 319 797
Total current assets		**11 512 650**	**9 657 887**
TOTAL ASSETS		**25 507 284**	**23 091 733**
EQUITY AND LIABILITIES			
Paid-in capital	20	2 918 203	3 088 203
Retained earnings		5 545 130	2 654 513
Non-controlling interest		101 557	87 553
Total equity		**8 564 890**	**5 830 269**
Interest-bearing non-current liabilities	22	4 584 974	5 113 490
Deferred tax liabilities	11	104 587	114 182
Pension liabilities	6	444 807	425 488
Derivatives	26	378 955	561 131
Provisions and other non-current liabilities	24	426 215	506 028
Total non-current liabilities		**5 939 538**	**6 720 319**
Accounts payable		2 650 387	2 310 509
Income tax payables		138 916	99 631
Interest-bearing current liabilities	22	3 647 297	4 204 240
Bills payable	22	2 649 760	2 418 946
Derivatives	26	246 683	128 001
Provisions and other current liabilities	25	1 669 813	1 379 818
Total current liabilities		**11 002 856**	**10 541 145**
TOTAL EQUITY AND LIABILITIES		**25 507 284**	**23 091 733**

Oslo, 21 February 2018

Michael Koenig
Chairman of the board

Einar Støfringshaug

Marianne Færøyvik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

Zhigang Hao

Notes 1 to 33 and the accounting policies are an integrated part of these financial statements.

COMBINED STATEMENT OF CHANGES IN EQUITY

Amounts in NOK thousand	Share capital	Other paid-in capital	Total paid-in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2017	2 010 000	1 078 203	**3 088 203**	634 417	(442 177)	2 462 273	**2 654 513**	**5 742 716**	87 553	**5 830 269**
Profit (loss) for the year	-	-	-	-	-	1 210 724	**1 210 724**	**1 210 724**	38 682	**1 249 406**
Other comprehensive income for the year	-	-	-	116 287	(10 417)	3 402	**109 272**	**109 272**	1 443	**110 715**
Total comprehensive income for the year	-	-	-	116 287	(10 417)	1 214 126	**1 319 996**	**1 319 996**	**40 125**	**1 360 121**
Conversion of liabilities[1]	-		-	-	-	1 570 621	**1 570 621**	**1 570 621**	-	**1 570 621**
Dividends to equity holders[2]	-	(170 000)	**(170 000)**	-	-	-	-	**(170 000)**	(26 121)	**(196 121)**
Balance 31 December 2017	**2 010 000**	**908 203**	**2 918 203**	**750 704**	**(452 594)**	**5 247 020**	**5 545 130**	**8 463 333**	**101 557**	**8 564 890**

[1] In May 2017 a shareholder loan of CNY 543 million in Yongdeng and in August 2017 a shareholderlon of CNY 761 million in Xinghuo was converted to equity
[2] Of the NOK 170 million in dividend paid, NOK 26 million was net settled against loans to shareholders.

Amounts in NOK thousand	Share capital	Other paid-in capital	Total paid-in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2016	2 010 000	1 078 203	**3 088 203**	440 734	(1 133 971)	1 258 562	**565 325**	**3 653 528**	**123 219**	**3 776 747**
Profit (loss) for the year	-	-	-	-	-	(304 359)	**(304 359)**	**(304 359)**	36 119	**(268 240)**
Other comprehensive income for the year	-	-	-	193 683	691 794	(41 013)	**844 464**	**844 464**	(4 100)	**840 364**
Total comprehensive income for the year	-	-	-	193 683	691 794	(345 372)	**540 105**	**540 105**	**32 019**	**572 124**
Conversion of liabilities[1]						1 552 986	**1 552 986**	**1 552 986**	-	**1 552 986**
Dividends to equity holders	-	-	-	-	-	-	-	-	(40 364)	**(40 364)**
Changes in the composition of the group[2]	-	-	-	-	-	(3 903)	**(3 903)**	**(3 903)**	(27 321)	**(31 224)**
Balance 31 December 2016	**2 010 000**	**1 078 203**	3 088 203	**634 417**	**(442 177)**	**2 462 273**	**2 654 513**	**5 742 716**	**87 553**	**5 830 269**

[1] In December 2016 a shareholderloan of CNY 1,256 million in Xinghuo was converted to equity
[2] See note 30 Changes in composition of the group

COMBINED STATEMENT OF CASH FLOWS

Amounts in NOK thousand *1 January - 31 December*	Note	2017	2016
Operating profit (loss)		1 936 417	298 667
Changes in fair value commodity contracts		(79 093)	(77 598)
Amortisation, depreciation and impairment changes	12	1 260 834	1 295 022
Changes in working capital[1)]		(127 825)	218 259
Changes in provisions, pension obligations and other		(137 315)	(135 379)
Interest payments received		23 629	34 442
Interest payments made		(446 136)	(408 079)
Other financial items		(1 034)	1 394
Income taxes paid		(198 456)	(201 013)
Cash flow from operating activities		**2 231 021**	**1 025 715**
Investments in property, plant and equipment and intangible assets	12	(1 126 068)	(833 952)
Sale of property, plant and equipment	12	17 758	6 760
Acquisition of subsidiaries, net of cash acquired	32	4 063	(439 788)
Dividend received from associates and joint ventures	13, 14	25 037	26 190
Acquisition of Joint ventures	13	(19 528)	-
Loan to associates and joint ventures		(12 150)	(34 258)
Other investments / sales		7 978	3 713
Cash flow from investing activities		**(1 102 910)**	**(1 271 335)**
Dividends paid to non-controlling interests		(26 121)	(40 364)
Dividends paid to owner of the parent		(143 947)	-
Payments due to increase in ownership interest in subsidiaries	30	-	(31 224)
New interest-bearing loans and borrowings	22	60 175	1 283 140
Repayment of interest-bearing loans and borrowings	22	(859 191)	(204 603)
Net changes in bills payable and restricted deposits		285 054	(698 138)
Repayment of short term loan from related parties		(29 698)	(149 425)
Cash flow from financing activities		**(713 728)**	**159 386**
Change in cash and cash equivalents		414 383	(86 234)
Currency exchange differences		16 750	(38 110)
Cash and cash equivalents opening balance		**1 319 797**	**1 444 141**
Cash and cash equivalents closing balance	22	**1 750 930**	**1 319 797**

[1)] See note 4 Operating segments for definition of working capital

Notes 1 to 33 and the accounting policies are an integrated part of these financial statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Amounts in NOK thousand

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Background and purpose of the combined financial statements

Elkem AS will be the issuer in the planned initial public offering (IPO) on the Oslo Stock exchange, and expect to be listed on or about March 2018. In connection with the IPO, there will be a restructuring where Elkem AS will acquire 100% of the shares in Jiangxi Bluestar Xinghuo Silicones Co. Ltd. (hereafter Xinghuo) and 100% of the shares in Bluestar Silicon Material Co. Ltd. (hereafter Yongdeng) from Bluestar Elkem Investment Co. Ltd., a subsidiary of China National Bluestar (group) Co. Ltd. Completion of the restructuring is conditional upon a completed IPO. The publicly listed entity will comprise Elkem AS and its controlled subsidiaries (hereafter "Elkem AS group") including the acquired entities Xinghuo and Yongdeng (collectively, the "Combined Elkem AS group").

Xinghuo is located in China and produces organic silicone with both upstream and downstream capacity and will be the Silicones division's major facility for manufacturing of organic silicone monomer and organic silicone-related downstream products for its core markets. Yongdeng is a silicon materials production facility located in China. In order to strengthen the silicones value chain of Bluestar, Elkem assumed the management responsibility of Xinghuo and Yongdeng from end of June 2017. Xinghuo will be organised as part of Silicones, whereas Yongdeng will be organised as part of the Silicon Materials.

Basis of presentation

These Combined financial statements have been prepared to present the combined financial position, results from operations and cash flows of the Combined Elkem AS Group, all of which were under common control of China National Bluestar (group) Co. Ltd, as if Xinghuo and Yongdeng had been part of the Elkem AS group for all periods presented.

Elkem AS group is an IFRS reporting entity and as such the Combined Elkem AS Group is not considered to be a first time adopter. The combined financial statements for 2017 and 2016 have been prepared and presented in compliance with the International Financial Reporting Standards as adopted by the EU (IFRS). The Combined Elkem AS group is using the same presentation and accounting principles for both 2017 and 2016. Valuation and recognition of the items in the financial statements have been carried out in accordance with current IFRS standards.

The combined financial statements include the financial statements of Elkem AS and entities controlled directly and indirectly by Elkem AS at the date of the IPO. The financial information, has been prepared on a basis that combines the results, assets and liabilities of the companies forming the Combined Elkem AS group. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are derecognised from the date that control ceases.

The combined financial statements are general-purpose financial statements prepared and based on IFRS, as adopted by EU. All subsidiaries are using accounting policies consistent within the group, and all intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

<u>Combined group</u>

The historical results of operations and carrying amounts of assets and liabilities of the Combined Elkem AS group were calculated by combining the financial information of all entities and of the assets and liabilities that have been identified as being within the business during the period presented. Management believes the assumptions underlying the Combined financial statements are reasonable. However, the Combined financial statements as presented may not reflect what the results of the operations, financial position and cash flow would have been if Xinghuo and Yongdeng have been a part of Combined Elkem AS group during the periods presented. The Combined financial statements may not be indicative of future performance.

The Combined financial statements have been prepared on the basis of the going concern assumption.

General information

Elkem AS is a limited liability company located in Norway. Elkem AS is fully owned by Bluestar Elkem International Co. Ltd S.A., Luxembourg, which is under control of China National Bluestar (group) Co. Ltd is a company registered and domiciled in China.

Combined Elkem AS group is one of the world's leading companies in the environmentally friendly manufacture of metals and materials. The main activities are related to production and sale of silicon materials, silicones, ferrosilicon, speciality alloys for the foundry industry, carbon products and microsilica. Combined Elkem AS group serves several global industries, such as construction, transport, engineering, packaging, aluminium, chemicals, release coatings, healthcare products and electronic markets, and has organised its business to handle market presence and customer focus. Combined Elkem AS group has multiple production facilities located in Europe, North America, South America, Africa and Asia, and an extensive network of sales offices and agents covering most important markets. Core production processes are focused on converting high quality raw material to specialised metals and materials through high temperature melting processes and further processing. Thus, the business has a high consumption of electrical power, and is also capital intensive, due to the requirement for large and complex processing plants.

The presentation currency of Combined Elkem AS group is NOK (Norwegian Krone).

All financial information is presented in NOK thousand, unless otherwise stated. As a result of rounding adjustments, the figures in one or more columns included in the combined financial statements, may not add up to the total.

2. SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements are prepared on a historical cost basis, with the exception of derivative financial instruments and financial assets available for sale, which are measured at fair value.

Changes in accounting policies, changes in accounting estimates and errors

Change in accounting policies and errors are recognised retrospectively by restating the comparative amounts for the prior period presented, including the opening balance of the prior year. Change in accounting estimate is recognised prospectively by including it in profit or loss in the period of the change and future periods, if the change affects both.

Segments
Combined Elkem AS group's segments are based on the organisation of the group and correspond to the internal management reporting to the chief operating decision maker, defined as the CEO.

Business combinations
Business combinations are generally accounted for using the acquisition method in accordance with IFRS 3. The consideration transferred in a business combination, is measured at fair value, and goodwill is measured as the excess of the sum of consideration transferred, and net identifiable value of transferred assets and liabilities. Acquisition-related costs are expensed as incurred.

Business combinations involving entities under common control, are accounted for according to the "pooling of interest method", also called "the merger method". This method involves the following:
- Assets and liabilities of the combining entities are reflected at their carrying amounts
- No new goodwill is recognised as a result of the combination
- The statement of income reflects the result of the combining entities for the full year, irrespective of when the combination took place. Comparable figures are restated.

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

Investment in associates
Associates are those entities in which the group has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity. Investment in associates are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

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

Joint arrangements
The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss, and other comprehensive income of the investee after the date of acquisition.

The group's interest in joint operations is recognised in relation to its interest in the joint operation:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Foreign currencies
<u>Separate financial statements</u>
Each entity in the group determines its functional currency based on the economic environment in which it operates, and items included in the financial statements of each entity are measured using that functional currency. When preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognised in the functional currency, using the transaction date's currency rate.

Monetary items denominated in foreign currencies are translated using the closing rate at the end of the reporting period, and any gains / losses are reported in the statement of income. Currency gains / losses related to operating activities, i.e. receivables, payables, bank accounts for operating purposes including short term intragroup balances, are classified as a part of other gains and losses. Currency effects included in Finance income and expenses are only related to financing activities like loans, long term placements and dividends.

Foreign currency differences are recognised in Other comprehensive income for the following items:
- loans to subsidiaries treated as a part of the net investment
- a financial asset or liability designated as a hedging instrument in a cash flow hedge, to the extent that the hedge is effective
- loans and currency in foreign currencies, designated as hedging instruments in a hedge of a net investment in a foreign operation

<u>Combined financial statements</u>
In consolidation of the statement of income and the statement of financial position for the separate group entities with other functional currency than the group's presentation currency, it is translated directly into the presentation currency as follows:
- Assets and liabilities are translated using the exchange rate on the balance sheet date
- Income and expenses are translated using an average exchange rate per month
- Equity transactions, except net profit or loss for the period, are translated using the transaction date rates

All resulting exchange differences are booked as a separate component in Other comprehensive income (OCI)

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

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

Intangible assets
Intangible assets are stated in the combined financial statements at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired in business combinations are recognised at fair value at the acquisition date. Intangible assets with a finite useful life are amortised, using the straight-line method. The estimated useful lives and amortisation method are reviewed at the end of each reporting period.

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

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

Property, plant and equipment
Property, plant and equipment (PPE) are stated in the combined statement of financial position at cost less accumulated depreciation and accumulated impairment losses. Property, plant and equipment acquired in business combinations are recognised at fair value at the acquisition date. Properties

in the course of construction are carried at cost less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for the intended use. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Initial cost includes expenditures that are directly attributable to the acquisition of the asset, cost of materials, direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use and estimated dismantling or removing charges.

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

Depreciations are calculated based on estimated useful life and expected residual value for each recognised item of PPE, and are recognised in profit or loss using the straight-line method. The estimated useful lives, residual values (if any) and depreciation method is reviewed, and if necessary adjusted, at least annually. Depreciation commences when the assets are ready for their intended use.

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

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

The group's cash generating units are reflecting the company's business areas, which are the basis for the management review and monthly reports. The capitalised value of tangible and intangible assets within the cash generating units is measured against the value in use of tangible assets, intangible assets and working capital within these units.

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

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

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

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

Financial assets at fair value through profit or loss
These are financial assets classified as held for trading as the group has acquired the assets for the purpose of selling it in the near term. The assets are carried at fair value in the statement of financial position, with gains or losses recognised in the statement of income.

Financial assets available for sale
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These assets are included in non-current assets in the statement of financial position, unless the management intends to sell the investment within twelve months after the reporting period.

Included in this group are investments in equity instruments that do not have a quoted market price in an active market, which therefore are measured at cost. Such investments are subject to regularly review for impairment.

Loans and receivables
This category includes accounts receivable, bills receivable, loans, restricted / guarantee deposits, and cash and cash equivalents.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. After initial recognition, they are recognised at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Cash and cash equivalents are held for the purpose of meeting short term fluctuations in liquidity, rather than for investment purposes. Bank overdrafts are shown within interest bearing current liabilities on the statement of financial position. Restricted deposits are presented separately in the statement of financial position, and are not included the cash and cash equivalents presented in the statement of cash flows.

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

Non derivative financial liabilities

Non-derivative financial liabilities include interest bearing liabilities, bills payable and accounts payable. The liabilities are initially recognised at fair value of the amount required to settle the associated obligation, net of prepaid costs directly attributable to the liability. Subsequently and insofar, as they are not designated as liabilities at fair value through profit or loss, such liabilities are recognised at amortised cost using the effective interest rate method, and the difference between the cost and the amount of repayment being recognised in the statement of income over the term of the interest bearing liabilities.

Derivative financial instruments including derivative hedging instruments and non-financial contracts with net settlements that are to be treated as financial derivatives

Derivatives are initially recognised at fair value at the date when the derivative contracts are entered into. Transaction costs that are directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss, are recognised immediately in the statement of income. Subsequently the derivatives are remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the statement of income immediately, unless the derivative is designated and is effective as a hedging instrument, in which case the change in fair value is recognised in profit or loss in the same period(s) as the hedged objects affects the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished.

Hedge accounting

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

i) Fair value hedges

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

ii) Cash flow hedges

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

iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and included in foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other gains and losses. Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

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

Commodity contract within the scope of IAS 39

Non-financial commodity contracts where the relevant commodity is readily convertible to cash, and where the contracts are not for own use, fall within the scope of IAS 39 Financial instruments - recognition and measurement. Such contracts are treated as derivatives in accordance with IAS 39. The group currently has energy contracts in Norway that do not meet the own use criteria according to IAS 39.5, since the power under the contracts are delivered in another grid area than the plants are located. Transfer between different grid areas is assessed to be net settlement according to IFRS as this is considered to be two different transactions. The contracts must therefore be treated as derivatives and are booked at fair value through profit or loss. Commodity contracts within the scope of IAS 39 are classified as current assets or liabilities, unless they are expected to be realised more than 12 months after the reporting period. In that case, they are classified as non-current assets. See notes 9 Other gains and losses, 26 Financial instruments and 27 Financial risk and capital management.

Inventories

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

Cost of goods sold is included in different lines in the statement of income based on nature; Raw materials and energy for smelting, Employee benefits and Other operating cost, for the remaining part.

Entities within the group sell goods to other group entities, consequently finished goods from one entity become raw materials or semi finished goods for an other group entity. The classification of goods in Combined Elkem AS group's combined financial statements is based on the separate entity's classification.

Taxation

Income taxes

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

Interest and penalties related to income taxes are classified as tax expense in the statement of income, and accrued interest and penalties are included in income tax payables in statement of financial position.

Deferred tax

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

Employee retirement benefits

Defined contribution plans

Defined contribution plans comprise of arrangements whereby the company makes monthly contributions to the employees' pension plans, and where the future pensions are determined by the amount of the contributions and the return on the individual pension plan asset. The contributions are expensed as incurred, there are no further obligation related to the contribution plans. Prepaid contributions are recognised as an asset.

Long term employee benefits are presented as a part of Provisions.

Defined benefit plans
Defined benefit plans are recognised at present value of future liabilities considered retained at the end of the reporting period, calculated separately for each plan. Plan assets are recorded at fair value, and deducted in calculating the net pension liability. Past service cost arising due to amendments in the benefit plans are expensed as incurred. Accumulated effects of changes in estimates and financial and actuarial assumptions are recognised as Other comprehensive income. Service costs are classified as part of Employee benefit expenses and other employee remuneration and net interest on pension liabilities / assets are presented as a part of Finance expenses.

Multi-employer defined benefit plans where available information is insufficient to be able to calculate each participant's obligation, are accounted for as contribution plans.

Provisions

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

Contingent liabilities

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

Contingent assets

Contingent assets are not recognised, but disclosed in the notes if probable.

Revenue recognition and other income

Revenue is recognised when it is probable that a transaction will generate future economic benefits for the group and the revenue can be measured reliably. Revenue is measured at the fair value of the considerations received or receivable, net of any taxes, rebates and discounts. Revenue and expenses that relate to the same transaction are recognised simultaneously.

Revenue from sale of goods is recognised when the significant risk and reward of ownership of the goods are transferred to the buyer, according to the agreed delivery term for each sale. Delivery terms are based on Incoterms 2010 issued by International Chamber of Commerce, and the main terms are
"F" terms, where the buyer arranges and pays for the main carriage. The risk and reward are transferred to buyer when the goods are handed to the carrier engaged by the buyer.
"C" terms, where the group arranges and pays for the main carriage but without assuming the risk of the main carriage. The risk and reward are transferred buyer when the goods are handed over to the carrier engaged by the seller.
"D" terms, where the group arranges and pays for the carriage and retain the risk and reward of the goods until delivery at agreed destination. The ownership is transferred to byer upon arrival at agreed destination, usually the purchaser's warehouse.

Revenue from sale of services is recognised when the services has been provided, and are presented as other operating revenue.
External sales of electric power are recognised in income on the basis of the price agreed with the customer upon delivery.

Income from insurance settlements are recognised when it is virtually certain that the group will receive the compensation, and presented as other operating income.
Interest income is recognised on accrual basis. Dividends are recognised when shareholders' right to receive dividends is determined by the shareholder's meeting.

Grants

Grants are recognised when it is reasonable assured that the group will comply with the conditions attached to them, and the grants will be received. Grants relating to property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the lifetime of a depreciable asset by reducing the depreciation charge. Grants related to expenses are classified as Other operating income.

CO2 emission quotas
CO2 emission quotas allocated from the government are classified as grants, measured at nominal value (zero). The CO2 quotas are meant to cover CO2 emissions from the group's plants in Norway. If actual emissions exceed the allocated emission quotas, additional quotas are purchased. Purchased CO2 quotas are recognised at cost as Other operating expenses, and any sale of CO2 quotas are recognised as Revenue, according to transaction price.

CO2 compensation
The Norwegian government has, from 2013, established a CO2 compensation scheme to compensate for CO2 costs included in the power prices. The extent of the scheme may vary considerably from year to year depending on the future carbon price. This compensation scheme applies for the Norwegian plants, and is recognised as Other operating income when there is reasonable assurance that the entity will comply with the conditions attached and the grants will be received.

Statement of cash flows

The statement of cash flows is prepared under the indirect method. Cash inflows and outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash effect items. Interest received and paid and other financial expenses, such as bank guarantee expenses, are reported as a part of operating activities. Net currency gains or losses related to financing activities are reported as part of financing activities. Dividend received from joint ventures and associates are included in investing activities.

Events after the reporting period

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

New interpretations and changes to existing standards not yet adopted
IASB has published a number of new standards and amendments to standards and interpretations that are not effective for the annual period ending 31 December 2017. New and amended standards and interpretations expected to be relevant for the Combined Elkem AS group's financial position, performance or disclosure are disclosed below. The standards that could entail material changes are the new IFRS 16 Leases, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, all approved by EU.

Estimated effect of implementing the new IFRS 16 Leases is presented in note 8 Operating lease.

Combined Elkem AS group has not identified any changes from the implementation of IFRS 15 Revenue from Contracts with Customers that is expected to have a material effect on the combined financial statements other than additional information in the notes. The standard is effective from 1 January 2018.

IFRS 9 Financial Instruments was finalised in 2014 and involves changes related to classification and measurement, hedge accounting and impairment of financial instruments. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard shall be implemented retrospectively, with the exception for hedge accounting that shall mainly be implemented prospectively. Combined Elkem AS group has chosen to continue to apply hedge accounting according to the requirements of IAS 39 instead of IFRS 9. The new impairment model for financial instruments is based on expected credit losses, rather than on incurred credit losses. Elkem AS group is covered by credit insurance for its main customers. Combined Elkem AS group has not identified changes from the implementation of the standard that is expected to have material effect on the combined financial statements. The standard is effective from 1 January 2018.

3. ACCOUNTING ESTIMATES

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions of reported estimates are recognised in the period in which the estimates are revised and in any future period affected.

The management makes estimates and assumptions concerning the future, the resulting accounting estimates will, by definition, seldom equal the actual outcome.
The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Property, plant and equipment, intangible assets and goodwill
The valuation of assets in connection with business combinations and testing of property, plant and equipment, intangible assets and goodwill for impairment (see note 12 Property, plant and equipment, Intangible assets and goodwill), is to a large extent based on estimated future cash flows. These calculations require the use of estimates for cash flows and the choice of discount rate before tax for discounting the cash flows. Tangible and intangible assets including goodwill, are tested for impairment if there are indicators that an asset may be impaired. Indicators of impairment will typically be changes in technological development and changes in the competitive situation. Intangible assets that are not amortised and goodwill are, as a minimum, tested annually for impairment.

Estimated useful lives, residual values (if any) included in calculation of depreciation and amortisation are reviewed, and if necessary adjusted, at least annually.

Deferred tax assets
The group performs annual tests for impairment of deferred tax assets. Part of the basis for recognising deferred tax assets is based on applying the loss carried forward against future taxable income in the group, which requires use of estimates for calculating future taxable income.

Financial instruments
Fair value of financial instruments are based on observable prices and assumptions derived from observable prices for comparable instruments. Net booked value as of 31 December 2017 is in total negative NOK 389 million, see note 26 Financial instruments for further details and note 27 Financial risk and capital management for sensitivity.

Provisions
Combined Elkem AS group has several type of provisions due to its operations. The main types of provisions are related to commitments to restore the site of operations to its original conditions after use, environmental measurements and litigations. Such liabilities are normally uncertain in timing and amount, and recognised amounts are estimates based on the available information at the end of reporting period. The estimates are updated when new or updated information are available. See note 24 Provisions and other non-current liabilities.

4. OPERATING SEGMENTS

Combined Elkem AS group has four reportable segments; Silicones, Silicon materials, Foundry products and Carbon.

The Silicones division produces and sells a range of silicone based products across various sub-sectors including release coatings, engineering elastomers, healthcare products, specialty fluids, emulsions and resins. The Silicones division produces siloxanes and a comprehensive range of silicones, which are a family of specialty, high performance products and materials, as well as commoditized products produced by reacting silicon with methyl chloride through various chemical reactions and formulations.

The Silicon materials division produces and sells various grades of metallurgical silicon and microsilica for use in a wide range of end applications. The Silicon Materials division manufactures and sells silicon and microsilica for a large number of applications, including for the production of silicones.

The Foundry Products division provides metal treatment solutions to iron foundries and is a supplier of high quality speciality ferrosilicon to the steel industry.

The Carbon division produces carbon electrode materials, lining materials and speciality carbon products for metallurgical processes for the production of a range of metals. The Carbon division produces carbon materials used in the production of silicon and ferroalloys.

Other comprise Combined Elkem AS group management and centralised functions within finance, sales, logistics, power purchase and technology. External sales of power are included in revenue from sale of goods is NOK 418,180 thousand in 2017 (NOK 349,855 thousand).

Eliminations comprise intersegment sales and profit. Transaction between operating segments are conducted on an arm's length basis in a manner similar to transactions with third parties.

Combined Elkem AS group identifies its segments according to the organisation and reporting structure decided by group management. Operating segments are components of a business that are evaluated regularly by the chief operating decision maker, defined as the CEO, for the purpose of assessing performance and allocating resources. Combined Elkem AS group operating segments represent separately managed business areas with unique products serving different markets. Segment performance is evaluated based on gross operating profit and operating profit (loss) before other gains and losses. Combined Elkem AS group's financing and taxes are managed on a group basis and are not allocated to operating segments.

Combined Elkem AS group has several smaller and larger external customers, no single customer amount to 10% or more of total operating income.
Revenue from sale of goods is affected by realised effects from the group's hedging program and is included in Other, see note 26 Financial instruments (section hedge accounting).

2017	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	9 806 666	4 954 551	3 986 532	1 310 248	564 744	-	20 622 741
Other revenue[1)]	115 787	51 870	46 654	46 964	248 593	-	509 868
Other operating income	92 729	70 979	38 956	4 984	27 989	-	235 637
Total operating income from external customers	10 015 182	5 077 400	4 072 142	1 362 196	841 326	-	21 368 246
Revenue from other group segments	10 595	1 334 899	175 114	214 455	376 444	(2 111 507)	-
Total operating income	10 025 777	6 412 299	4 247 256	1 576 651	1 217 770	(2 111 507)	21 368 246
Operating expenses	(8 510 361)	(5 608 299)	(3 539 876)	(1 302 916)	(1 336 573)	2 083 392	(18 214 633)
Gross operating profit	**1 515 416**	**804 000**	**707 380**	**273 735**	**(118 803)**	**(28 115)**	**3 153 613**
Operating profit (loss) before other gains and losses	**840 435**	**526 677**	**492 277**	**208 888**	**(147 383)**	**(28 115)**	**1 892 779**
Cash flow from operations[2)]	1 113 525	609 039	328 807	163 372	(81 362)	2 328	2 135 709
Working capital[3)]	1 068 683	1 138 784	1 374 390	311 384	37 181	(58 993)	3 871 430
Capital employed[4)]	8 273 908	3 324 154	3 280 388	830 796	171 595	(58 993)	15 821 848
Reinvestments[5)]							(890 079)
Strategic investments[6)]							(389 715)
Movement CAPEX payables							153 726
Cash flow from investments in property, plant and equipment and intangible assets							(1 126 068)

2016	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	7 375 669	3 975 174	3 420 807	1 162 848	391 339	-	16 325 837
Other revenue[1)]	172 069	74 495	47 104	9 917	92 217	-	395 802
Other operating income	69 427	74 635	31 147	6 178	17 781	-	199 168
Total operating income from external customers	7 617 165	4 124 304	3 499 058	1 178 943	501 337	-	16 920 807
Revenue from other group segments	2 186	1 144 786	142 963	196 132	273 245	(1 759 312)	-
Total operating income	7 619 351	5 269 090	3 642 021	1 375 075	774 582	(1 759 312)	16 920 807
Operating expenses	(7 217 092)	(4 666 861)	(3 139 405)	(1 099 815)	(1 028 169)	1 766 937	(15 384 405)
Gross operating profit (loss)	**402 259**	**602 229**	**502 616**	**275 260**	**(253 587)**	**7 625**	**1 536 402**
Operating profit (loss) before other gains and losses	**(373 461)**	**363 117**	**304 752**	**219 612**	**(280 265)**	**7 625**	**241 380**

Cash flow from operations[2]	200 932	629 926	309 200	214 407	(295 705)	4 314	1 063 074
Working capital[3]	1 089 922	1 111 951	1 152 619	279 420	100 510	(29 742)	3 704 681
Capital employed[4]	8 109 068	3 293 824	2 738 915	777 297	225 719	(29 741)	15 115 082
Reinvestments[5]							(691 587)
Strategic investments[6]							(208 703)
Movement CAPEX payables							66 338
Cash flow from investments in property, plant and equipment and intangible assets							(833 952)

[1] Other revenue mainly consist of sale of services

[2] Combined Elkem AS group definition of cash flow from operations is gross operating profit (loss) including changes in working capital and reinvestments.

[3] Working capital consists of accounts receivable, inventory, accounts payable, other current assets, other current liabilities. The definition of accounts receivable and inventory correspond with the definition for the group. Other current assets does not include short term receivables to related parties, tax receivables, grants that are net settled against tax payables and accrued interest, see note 19 Other current assets. Other current liabilities does not include short-term provision and Liabilities to other related parties within China National Bluestar group, see note 25 Provision and other current liabilities. Accounts payable does not include accounts payable related to purchase of non-current assets, NOK 439 million as of 31 December 2017 (NOK 277 million).

[4] Capital employed consists of working capital as defined above, and property, plant and equipment. The definition of property, plant and equipment corresponds with the definition for the group.

[5] Reinvestments generally consist of maintenance capital expenditure to maintain existing activities or that involve investments designed to improve health, safety or the environment.

[6] Strategic investments generally consist of investments which result in capacity increases at Elkem's existing plants or that involve an investment made to meet demand in a new geographic or product area.

Total operating income by geographic market (customer location)	2017	2016
Norway	1 340 131	1 067 967
Other Nordic countries	693 325	470 922
United Kingdom	840 120	664 521
Germany	2 154 221	2 110 424
France	548 157	557 566
Italy	679 086	586 826
Poland	354 052	318 919
Luxembourg	460 107	323 802
Other European countries	2 221 970	1 668 166
Europe	**9 291 169**	**7 769 112**
Africa	**165 142**	**113 145**
USA	1 948 296	1 937 085
Canada	296 183	198 242
Brazil	853 778	731 437
Other South American countries	132 727	149 112
America	**3 230 984**	**3 015 876**
China	5 758 625	3 616 295
Japan	694 183	675 265
South Korea	556 266	446 087
Other Asian countries	1 608 508	1 218 963
Asia	**8 617 582**	**5 956 611**
Rest of the world	**63 368**	**66 063**
Total	**21 368 246**	**16 920 807**

Information about geographical areas	**Non-current assets[1]**	
	2017	**2016**
Norway	2 821 018	2 840 677
Other Nordic countries	537 440	555 013
United Kingdom	4 487	4 415
Germany	57 611	55 585
France	2 452 347	2 187 079
Italy	87 904	71 392
Poland	-	-
Luxembourg	-	-
Other European countries	290 373	270 097
Europe	**6 251 179**	**5 984 258**
Africa	**74 689**	**72 249**
USA	381 418	343 304
Canada	414 843	431 365
Brazil	330 430	317 740
Other South American countries	292 871	42 516
America	**1 419 561**	**1 134 924**
China	5 816 905	5 863 826
Japan	3 501	3 696
South Korea	-	-
Other Asian countries	187 641	188 384
Asia	**6 008 047**	**6 055 906**
Rest of the world	-	-
Total	**13 753 476**	**13 247 337**

[1] The identification of non-current assets is based on location of operation. Excluded from non-current assets are financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

Details of other operating income:	**2017**	**2016**
Sale of fixed assets	7 927	4 345
Insurance settlement	23 118	216
Grants[1]	196 868	186 503
Other	7 723	8 104
Total other operating income	**235 637**	**199 168**

[1] See note 29 Grants.

5. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries and other benefits	(2 486 738)	(2 188 646)
Employer's national insurance contribution	(493 742)	(485 194)
Employee retirement benefits[1)]	(95 474)	(79 347)
Other payments / benefits	(68 865)	(64 153)
Total employee benefit expenses	**(3 144 819)**	**(2 817 339)**

[1)] See note 6 Employee retirement benefits.

Number of full time equivalents in Combined Elkem AS group	6 022	5 870

Salary, wages and other compensations above include the following compensations

Compensation to members of the board	2017	2016
Payment to board members in total	(500)	(489)

Senior staff compensation
Helge Aasen is the CEO of Elkem AS.

Salary and other compensations to the CEO	2017	2016
Salary, including holiday pay	(5 417)	(5 111)
Bonus [1)]	(4 932)	(3 148)
Free car	(130)	(130)
Other compensation	(31)	(28)
Pension cost	(693)	(640)

[1)] In addition to the performance bonus, a strategic project bonus of NOK 3,542 thousand was paid in 2017. In 2016 an additional strategic bonus of NOK 407 thousand and ChemChina award of NOK 604 thousand was paid.

Retirement age for the CEO is 65-70 years. Pension from the age of 70 and other pensions regarding spouse, children and disability are paid in accordance with the general pension policy of the company. In addition to the general pension policy of the company, the CEO is entitled to an early retirement annual pension, from the age of 65, of 60% of pensionable salary.

The CEO is also entitled to a performance bonus equivalent to maximum 100% of the base salary, based on the company performance.

The following applies for the CEO upon termination by the company:
- Termination payment equal to 12 months' salary is to be paid on the last working day
- Severance payment equivalent to 18 months' salary

Loans and guarantees to employees
There are no loans or guarantees to board members or the CEO.

6. EMPLOYEE RETIREMENT BENEFITS

The group has both defined contribution and defined benefit plans. For defined contribution plans the cost is equal to the group's contribution to the employee's pension savings during the period. For defined benefit plans the cost is calculated based on actuarial valuation methods, taking assumptions related to the employee's salary, turnover, mortality, discount rate, etc. into consideration.

Defined contribution plans
Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employee's pension plan, and where the employee's future pension is determined by the amount of the contributions and the return on the pension plan asset. In addition a multi-employer plan where sufficient information to calculate each participant's pension obligation is not available should be accounted for as it is a defined contribution plan.

The group's Norwegian entities are participants in the early retirement scheme AFP. This is as a multi-employer plan accounted for as a defined contribution plan, in accordance with the Ministry of Finance's conclusion. The participants in the pension plan is jointly responsible for 2/3 of the plan's pension obligation, the government is responsible for the remaining part. The yearly pension premium paid by the participants in 2017 is 2,5% of the employees salary between 1 and 7.1 G, covering this year's pension payments and contribution to a security fund for future pension obligations. The premium in per cent of salary for 2018 is equal to 2017.

Employees in the group's Norwegian entities are primarily covered by pension plans that are classified as contribution plans.

Defined benefit plans
Defined benefit plans are pension plans where the group is responsible for paying pensions at a certain level, based on employees' salaries when retiring. The group has funded and unfunded benefit plans in Norway, France, Germany, UK, Canada, Japan and South Africa, distributed as follows: Norway 16 per cent, France 45 per cent, other Europe 21 per cent, Canada 16 per cent, other countries 2 per cent, based on net pension obligation per 31 December 2017. In Norway most of the pension plans comprise pension on salaries above a certain level (12G, where G refers to the national insurance scheme's basic amount in Norway, amounting to NOK 93,634 for 2017) and closed individual retirement schemes, plans which are unfunded. In Canada provisions are made for medical insurance as well as pension benefit plans.

Net interest is calculated based on net pension liability at the start of the period, multiplied by the discount rate. Any difference between actual return on pension assets and the interest income calculated as a part of the net interest, will be recognised directly in OCI. Interest on net pension liabilities are presented as a part of Finance expenses.

Breakdown of net pension expenses	2017	2016
Current service expenses	(27 676)	(23 704)
Accrued employer's national insurance contribution	(345)	(290)
General administration expenses	(559)	(820)
Net pension expenses, defined benefit plans	(28 581)	(24 814)
Curtailment/settlement of pension plans	4 106	11 241
Defined contribution plans	(57 496)	(52 160)
Early retirement scheme AFP (Norway)	(13 504)	(13 614)
Pension contribution expenses	(66 894)	(54 533)
Net pension expenses total	**(95 474)**	**(79 347)**
In addition, interest expenses on net pension liabilities is recognised as a part of finance expenses.	(8 758)	(9 640)

Net liabilities arising from defined benefit obligations	2017	2016
Present value of funded pension obligation	(422 642)	(434 716)
Fair value of plan assets	385 561	395 299
Net funded pension obligation	(37 081)	(39 417)
Present value of unfunded pension obligation	(407 325)	(383 122)
Net value of funded and unfunded obligations	(444 406)	(422 539)
Net pension liabilities	**(444 406)**	**(422 539)**
Net pension assets	401	2 949
Net pension liabilities	(444 807)	(425 488)
Net pension liabilities	**(444 406)**	**(422 539)**

Movement in the defined benefit obligations and plan assets

Movement in defined benefit obligations	2017	2016
Opening balance	(817 838)	(757 368)
Current service expenses and social contribution tax	(28 022)	(23 994)
Interest expenses	(22 865)	(23 938)

Actuarial gains / (losses)	8 234	(64 736)
Benefits paid	46 732	40 710
Business combinations and disposals	-	(27 288)
Curtailments/settlements	60 494	11 241
Other changes	(42 050)	(5 570)
Currency translation	(34 651)	33 104
Present value of pension obligation as at 31 December	(829 967)	(817 838)

Movement in fair value of plan assets	**2017**	**2016**
Opening balance	395 300	363 633
Interest income	14 107	14 298
Administration cost	(559)	(820)
Actuarial gains / (losses)	(7 263)	9 559
Contributions from employer	16 166	15 648
Benefits paid	(24 920)	(21 229)
Business combinations and disposals	-	26 509
Curtailments/settlements	(56 388)	-
Other changes	40 785	4 800
Currency translation	8 333	(17 099)
Fair value of plan assets as at 31 December	385 561	395 300

Breakdown of pension plan assets (fair value) as at 31 December	**Distribution % 2017**	**Fair value of plan assets 2017**	**Distribution % 2016**	**Fair value of plan assets 2016**
Cash, cash equivalents and money market investments	2 %	9 552	10 %	40 124
Bonds	45 %	172 080	40 %	156 610
Shares	52 %	199 336	49 %	194 518
Property	1 %	4 593	1 %	4 049
Total pension fund	100 %	**385 560**	100 %	**395 300**

	2017		**2016**	
Actual return on plan assets	4,8 %	**20 860**	6,1 %	**22 352**

In addition, some Norwegian entities have pension contribution funds, mainly based on excess pension assets from settlement of the defined benefit plans in 2010.
The pension contribution funds are classified as long-term pension funds, except next year's expected contributions which are classified as short-term (see note 16 Other non-current assets and 19 Other current assets).

Pension contribution funds	**2017**	**2016**
Current part of contribution fund	2 928	6 094
Long-term part of contribution fund	1 200	2 760
	4 128	**8 854**

Summary of pension liabilities and remeasurements

Net pension liabilities	**2017**	**2016**
Pension obligations	(829 967)	(817 838)
Pension plan assets	385 561	395 299
	(444 406)	**(422 539)**

Remeasurement effects recognised in other comprehensive income this period	**2017**	**2016**
Changes in actuarial gain / (loss) in pension obligation	8 234	(64 736)
Changes in actuarial gain / (loss) in pension assets	(7 263)	9 559
	971	**(55 177)**

The principal assumptions used for the actuarial valuations in 2017 and 2016

	Norway	**France**	**Canada**	**Germany**	**UK**
Discount rate	2.2% (2.0%)	1.5% (1.0%)	3.5% (3.8%)	1.7% (1.8%)	2.4% (2.6%)
Expected rate of salary increase	2.3% (2.0%)	2,5% (2.5%)	3,5% (3.5%)	3.0% (3.0%)	3.3% (3.4%)
Annual regulation of pensions paid	1.0% (1.0%)	-	-	2.0% (2.0%)	-
Change in public pension base rate (G)	2.3% (2.0%)	-	-	-	-

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country.

Sensitivity on pension liabilities based on changes in main actuarial assumptions
The defined benefit pension schemes exposes the group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk.
A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities.

The sensitivity analysis below shows estimated effects in the defined pension liabilities based on reasonable changes in the main assumptions.
The calculations are based on a change in one assumption while holding all other assumptions constant. Negative amounts show an expected decrease in the Net pension liability.

Assumption	**Discount rate**		**Life expectancy**		**Salary growth**	
	0.5% increase	0.5% decrease	1 year increase	1 year decrease	0.5% increase	0.5% decrease
2017: Effect on the pension liability in NOK million	(51)	56	28	(29)	21	(20)
2016: Effect on the pension liability in NOK million	(53)	58	25	(25)	25	(23)

As the group's main pension plans are defined contribution plans, there are no group policies for funding of the defined benefit plans. This is managed locally, based on the terms and status for the individual plan.

Expected contribution for the pension plans next year and average duration for the main defined benefit plans

	Norway	**France**	**Canada**	**Germany**	**UK**
Contribution to be paid to defined pension plans next year	4 809	38 116	16 031	1 569	4 058
Weighted average duration of the defined benefit obligation	8 years	10 years	18 years	15 years	15 years

7. OTHER OPERATING EXPENSES

	2017	2016
Loss on disposal of fixed assets	(1 369)	(3 514)
Freight and commission expenses	(1 125 829)	(908 926)
Leasing expenses	(163 255)	(139 667)
External services [1]	(1 428 988)	(1 277 130)
Insurance expenses	(63 284)	(65 779)
Impairment losses receivables	(15 349)	(10 464)
Other operating expenses[2] [3]	(1 447 204)	(1 219 821)
Total other operating expenses	**(4 245 278)**	**(3 625 302)**

[1] Including services from auditor, see specification below

[2] Including change in direct costs on inventory

[3] Including capitalised salary on fixed asset projects of NOK 65,442 thousand (NOK 69,566 thousand)

During 2017, Combined Elkem AS group expensed NOK 386,642 thousand (NOK 366,979 thousand) as research and development related to processes, products and business development, including technical customer support and improvement projects.
In addition Combined Elkem AS Group capitalised development expenses of NOK 53,530 thousand (NOK 52,341 thousand).

Grants received relating to research and development amount to NOK 82,525 thousand (NOK 68,198 thousand) are included in other operating income.

KPMG is the group auditor of Elkem AS group. KPMG succeeded PwC as Combined Elkem AS group auditor with effect from the fiscal year 2016.
The following table shows fees to KPMG and fees to PwC and other audit firms.

Audit and other services	**2017**	**2016**
KPMG		
Audit fee	(12 297)	(8 348)
Other assurance services	(187)	(1 268)
Tax services	(287)	-
Other services	(298)	-
PwC and other audit firms		
Audit fee	(1 579)	(4 858)
Other assurance services	(1 261)	(849)
Tax services	(5 194)	(5 568)
Other services	(5 167)	(4 579)
Total	**(26 271)**	**(25 469)**

In addition to the above, services of NOK 21 969 thousand in other service from KPMG have been provided and invoiced through Elkem AS to Bluestar Elkem International Co., Ltd. S.A. with NOK 16 057 thousand in 2017 and NOK 5 912 thousand in 2016.

Fees to auditors are reported exclusive of VAT.

8. OPERATING LEASE

	Machinery and	Land, buildings	Equipment,	Total
Lease expenses 2017	(22 286)	(96 249)	(44 720)	**(163 255)**
Lease in accordance to contract due:				
Within one year	(6 663)	(57 417)	(34 464)	**(98 544)**
In the second to fifth year inclusive	(4 178)	(121 775)	(62 688)	**(188 641)**
Over five years	(559)	(18 241)	(1 576)	**(20 376)**

	Machinery and	Land, buildings	Equipment,	Total
Lease expenses 2016	(13 659)	(82 380)	(43 628)	**(139 667)**
Lease in accordance to contract due:				
Within one year	(6 061)	(50 969)	(36 847)	**(93 877)**
In the second to fifth year inclusive	(2 196)	(124 961)	(104 950)	**(232 106)**
Over five years	-	(50 112)	(16 439)	**(66 551)**

New IFRS 16 Leases

The new standard, applicable in 2019, requires lessees to initially recognize a right-of-use asset and the associated lease liability for the lease term for all lease contracts (with an option to exclude leases with a lease term of 12 months or less and leases for which the underlying asset is of low value). The lease liability is measured at the present value of the lease payments over the lease term. Based on reported leases the effect of implementing the new standard is estimated to a capitalisation of more than NOK 250,000 thousand. The effect would reduce the group's equity ratio in 2017 from 34% to approximately 33%. Under the current IFRS, leases classified as operational leases are presented as operating expenses. Under the new IFRS 16 the capitalised leases will be depreciated over the lease term and presented as depreciation, and the interest effect from the discounted liability will be presented as a financial item in the statement of income. There will be limited effects in Profit (loss) before income tax due to the changes.

9. OTHER GAINS AND LOSSES

	2017	2016
Dividend from interest in other companies	4 361	2 344
Write-down / reversal of write down of interest in other companies	2 052	(1 838)
Gains / losses disposal of interest in other companies	10	-
Gains / losses disposal of subsidiaries	-	1 305
Change in fair value commodity contracts	26 071	58 563
Ineffectiveness on cash flow hedges	43 023	(4 584)
Net foreign exchange gains / losses - foreign exchange forward contracts	(3 180)	26 595
Operating foreign exchange gains / losses	(10 782)	(15 087)
Other expenses [1]	(17 917)	(10 011)
Total other gains and losses	**43 638**	**57 287**

[1] Other expenses consist mainly of expenses related to business projects and business combinations.

See note 26 Financial instruments for details related to valuation and recognition of financial assets and liabilities.

10. FINANCE INCOME AND EXPENSES

	2017	2016
Interest income on loans and receivable[1]	29 135	35 727
Interest income on loans and receivable to Bluestar Elkem International Co. Ltd. S.A	308	-
Other financial income	993	838
Total finance income	**30 436**	**36 565**
Interest expenses on interest-bearing liabilities measured at amortised cost[2]	(316 871)	(384 752)
Interest expenses from other financial liabilities measured at amortised cost[3]	(136 793)	(94 872)
Unwinding of discounted liabilities	(10 137)	3 383
Interest on net pension liabilities	(8 758)	(9 640)
Other financial expenses	(1 940)	(815)
Total finance expenses	**(474 499)**	**(486 696)**
Net foreign currency translation expenses	(7 701)	49 661
Net Finance income (expenses)	**(451 764)**	**(400 470)**

[1] The decrease in interest income from 2016 to 2017 is related to decreased interest income on fixed deposits in Brazil, decreased income on fixed bank accounts in India and decreased interest income on restricted deposits bills payable in China.

[2] The decrease in interest expenses on interest-bearing liabilities from 2016 to 2017 is mainly related to reduced external financing in Xinghuo and Yongdeng.

[3] The increase in interest expenses from other financial liabilities from 2016 to 2017 is mainly related to increased use of bills payable in Xinghuo and Yongdeng.

11. TAXES

Income tax recognised in profit or loss	2017	2016
Profit (loss) before income tax	1 518 797	(79 673)
Current taxes	(259 305)	(158 281)
Deferred taxes	(10 086)	(30 286)
Total income tax (expense) benefit	**(269 391)**	**(188 567)**

Income taxes recognised in other comprehensive income (OCI)	2017	2016
Remeasurements of post employment benefit obligation	2 264	13 587
Hedging of net investment in foreign operations	48 039	(6 108)
Cash flow hedges	(4 444)	(238 356)
Total tax charged to OCI	**45 859**	**(230 877)**

Reconciliation of income tax (expense) benefit	2017	2016
Profit (loss) before income tax	**1 518 797**	**(79 673)**
Expected income taxes, 24% of profit before tax (25%)	(364 511)	19 122
Tax effects of:		
Difference in tax rates for each individual jurisdiction	(9 524)	(11 436)
Permanent differences		
Tax effect of income from Norwegian controlled foreign companies (NOKUS)	(6 907)	(6 619)
Tax effect share of profit (loss) associates and joint ventures	7 458	4 667
Tax effects other permanent differences	20 981	10 407
Other effects		
Tax effect of changes in not recognised deferred tax assets	77 876	(191 072)
Tax credits utilised	12 014	(1 199)
Tax effect change in tax rate[1]	11 177	6 190
Other current tax paid[2]	(24 065)	(33 258)
Previous year tax adjustment	6 110	14 631
Income tax (expense) benefit	**(269 391)**	**(188 567)**
Effective tax rate	18 %	

[1] The effect relates mainly to changes in tax rate from 24% to 23% in Norway and 38,6% to 21% in USA from 2018 and in 2016 changes in tax rate from 25% to 24% in Norway from 2017. The changes in tax rates were approved by the governments before year end the respective years.

[2] Other current tax relates mainly to withholding tax on dividend from subsidiaries.

Deferred tax assets and deferred tax liabilities	31.12.2017	31.12.2016
Cash flow hedges recognised in other comprehensive income	135 191	139 635
Property, Plant, Equipment and Intangible assets	208 022	239 213
Pension liabilities	116 965	118 629
Other differences	(49 027)	(26 541)
Accounts receivable	12 923	6 666
Inventories	32 782	(27 225)
Provisions	100 232	95 745
Debt forgiveness[1]	376 139	448 547
Tax losses to carry forward	830 494	863 091
Deferred tax assets (liabilities)	**1 763 721**	**1 857 760**
Not recognised deferred tax asset to tax losses to carry forward	(679 813)	(726 871)
Not recognised deferred tax asset other items[1]	(1 098 911)	(1 177 723)
Net deferred tax assets (liabilities) recognised	**(15 003)**	**(46 834)**

[1] See section other maters below

Change in net deferred tax assets and deferred tax liabilities	2017	2016
1 January	(46 834)	148 922
Recognised in profit or loss for the year	(10 086)	(30 286)
Effect of business combination	(5 689)	63 081
Recognised in other comprehensive income	45 859	(230 877)
Foreign currency exchange differences	1 747	2 326
31 December	**(15 003)**	**(46 834)**

Deferred taxes	31.12.2017	31.12.2016
Deferred tax assets	89 584	67 348
Deferred tax liabilities	(104 587)	(114 182)
Net deferred tax assets (liabilities)	**(15 003)**	**(46 834)**

31.12.2017 Tax losses to carryforward	Gross tax losses to carryforward	Net tax losses to carryforward	Not recognised tax losses	Recognised deferred tax losses to carry forward
France	1 067 494	355 648	(207 641)	148 007
China	1 516 587	379 147	(379 147)	-
Brazil	249 603	84 865	(84 865)	-
USA	3 963	1 530	-	1 530
UK	5 458	928	-	928
Malaysia	16 732	4 016	(3 812)	204
Paraguay	33 038	3 304	(3 304)	-
India	3 054	1 057	(1 045)	12
Total related to loss carryforward	**2 895 929**	**830 495**	**(679 814)**	**150 681**

31.12.2016 Tax losses to carryforward	Gross tax losses to carryforward	Net tax losses to carryforward	Not recognised tax losses	Recognised deferred tax losses to carry
France	955 235	328 509	(199 721)	128 788
China	1 790 325	447 581	(447 581)	-
Brazil	234 689	79 794	(75 450)	4 344
USA	7 929	3 062	-	3 062
UK	3 686	737	(733)	4
Malaysia	14 108	3 386	(3 386)	-
Croatia	109	22	-	22
Total related to loss carryforward	**3 006 081**	**863 091**	**(726 871)**	**136 220**

The major part of the taxable loss can be carried forward for an unlimited period, except the tax losses in China which expire in 2021.

Deferred tax assets not recognised current year

When an entity has a history of recent losses, the deferred tax assets arising from unused tax losses is recognised only to the extent that there is convincing evidence that sufficient future taxable profit will be generated.

Other tax related matters

Elkem Silicones France SAS has four Combined Elkem AS group internal debt-forgiveness agreements where internal loans were converted to equity and the converted amounts were treated as taxable income. Elkem Silicones France SAS can only utilise the agreements to the extent that the company has an accounting profit according to IFRS. All debt that is repaid under the agreements can be deducted against taxable income. Nominal value of the agreements as of 31 December 2017 are EUR 136 million (EUR 148 million). Elkem Silicones France SAS has repaid NOK 114,534 thousand in 2017 (NOK 47,100 thousand) that gives a tax credit of NOK 38,186 thousand (NOK 15,703 thousand). The amount is included in tax effect of changes in not recognised deferred tax assets in the reconciliation of income tax (expense) benefit above.

Debt forgiveness in	2010	2012	2013	2014	Total
Gross value of debt forgiveness	835 036	196 896	157 517	268 438	1 457 887
Usage 2017	(114 534)	-	-	-	(114 534)
Total debt that can be reversed	**720 502**	**196 896**	**157 517**	**268 438**	**1 343 353**
Deferred tax asset not recognised[1)]	**201 741**	**55 131**	**44 105**	**75 163**	**376 139**

1) Based on tax rate 28%, which is applicable in France from 2019, compared to 33,3% per today.

The respective agreements expire in	8 years	10 years	11 years	12 years	

Debt forgiveness in	2010	2012	2013	2014	Total
Gross value of debt forgiveness	817 675	181 705	145 364	247 728	1 392 472
Usage 2016	(47 100)	-	-	-	(47 100)
Total debt that can be reversed	**770 575**	**181 705**	**145 364**	**247 728**	**1 345 372**
Deferred tax asset not recognised	**256 910**	**60 580**	**48 464**	**82 593**	**448 547**

The respective agreements expire in	9 years	11 years	12 years	13 years	

Pending tax issues with the tax authorities

See note 24 Provisions and other non-current liabilities.

12. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

PROPERTY, PLANT AND EQUIPMENT

2017	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2017	**128 687**	**3 585 431**	**6 913 906**	**198 730**	**583 647**	**11 410 401**
Additions	645	2 896	(3 205)	5 370	1 192 052	**1 197 758**
Disposals	(2)	(387)	(5 150)	(2 862)	(2 802)	**(11 203)**
Business combination[1)]	26 704	-	4 070	1 311	251 657	**283 742**
Reclassification	1 336	189	(4 378)	5 085	(1 115)	**1 117**
Transferred from CiP	47 995	67 977	501 016	27 564	(644 552)	**-**
Impairment losses	(255)	(772)	(14 527)	(1 255)	-	**(16 809)**
Depreciation expenses	(6 373)	(164 876)	(928 504)	(43 039)	-	**(1 142 792)**
Foreign currency exchange differences	7 664	56 793	131 662	2 078	30 008	**228 205**
Closing balance Net booked value 2017	**206 401**	**3 547 251**	**6 594 890**	**192 982**	**1 408 895**	**11 950 419**
Fixed assets under financial leasing						
Included in Net booked value	-	-	2 955	719	-	**3 674**
Historical cost	322 490	5 998 343	18 039 661	654 782	1 517 015	**26 532 291**
Accumulated depreciation	(101 431)	(2 060 221)	(9 315 333)	(457 410)	-	**(11 934 395)**
Accumulated impairment losses	(14 658)	(390 871)	(2 129 438)	(4 390)	(108 120)	**(2 647 477)**
Closing balance Net booked value 2017	**206 401**	**3 547 251**	**6 594 890**	**192 982**	**1 408 895**	**11 950 419**
Estimated useful life	0-50 years	5-50 years	3-50 years	3-20 years		
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line		

1) See note 31 Business combination

Depreciations start when the asset is ready for it's intended use. Land is not depreciated.

2016	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2016	**127 209**	**3 685 735**	**7 082 493**	**184 033**	**1 021 969**	**12 101 439**
Additions	856	853	22 478	7 024	764 586	**795 797**
Disposals	-	(50)	(5 170)	(686)	-	**(5 906)**
Business combination[1)]	-	116 204	232 202	1 270	8 367	**358 044**
Reclassification[2)]	(137)	(10 064)	(7 786)	427	(370)	**(17 930)**
Transferred from CiP	10 798	171 709	866 698	53 899	(1 103 104)	**-**
Impairment losses	-	(7 079)	(4 646)	(93)	(65 949)	**(77 767)**
Depreciation expenses	(4 253)	(155 129)	(918 352)	(43 325)	-	**(1 121 059)**
Foreign currency exchange differences	(5 786)	(216 748)	(354 010)	(3 820)	(41 852)	**(622 216)**
Closing balance Net booked value 2016	**128 687**	**3 585 431**	**6 913 906**	**198 730**	**583 647**	**11 410 401**
Fixed assets under financial leasing						
Included in Net booked value	21 193	-	10 408	1 378	-	**32 979**
Historical cost	233 284	5 849 931	17 314 984	623 855	690 854	**24 712 908**
Accumulated depreciation	(90 578)	(1 878 500)	(8 300 596)	(420 554)	-	**(10 690 228)**
Accumulated impairment losses	(14 019)	(386 000)	(2 100 482)	(4 571)	(107 207)	**(2 612 279)**
Closing balance Net booked value 2016	**128 687**	**3 585 431**	**6 913 906**	**198 730**	**583 647**	**11 410 401**

1) See note 31 Business combination

2) In 2014 when Elkem group purchased assets from MSCH Europe GmbH, the right to use the technology related to the production process was included. In 2016 the value of the technology, NOK 17,560 thousand, is reclassified from Machinery and plants to intangible assets. The estimated useful life is not changed, and the reclassification does not affect comparable figures in the statement of income.

Of impairment losses in 2016, NOK 66 million is related to disposal of an antioxygen project.

INTANGIBLE ASSETS AND GOODWILL

2017	Goodwill	Other intangible assets	Technology and licences	New products	IT systems and programmes	Intangible assets under construction	Total other intangible assets
Opening balance Net booked value 2017	**342 645**	**282 242**	**169 296**	**162 385**	**125 431**	**152 635**	**891 989**
Additions	**-**	525	-	-	2 339	84 826	**87 690**
Disposals	**-**	-	-	-	-	-	**-**
Business combination	**(19 900)**	(2 038)	-	-	336	-	**(1 702)**
Reclassification	**-**	672	(984)	-	(805)	-	**(1 117)**
Transferred from CiP	**-**	-	6 594	99 726	20 762	(127 082)	**-**
Amortisation	**-**	(10 478)	(25 051)	(38 325)	(27 379)	-	**(101 233)**
Foreign currency exchange differences	**3 578**	6 401	11 791	10 145	78	6 980	**35 395**
Closing balance Net booked value 2017	**326 323**	**277 324**	**161 646**	**233 931**	**120 762**	**117 359**	**911 022**
Historical cost	**326 323**	378 900	526 412	548 397	409 266	117 359	**1 980 334**
Accumulated amortisation	**-**	(100 720)	(364 766)	(314 466)	(288 504)	-	**(1 068 456)**
Accumulated write-downs	**-**	(856)	-	-	-	-	**(856)**
Closing balance Net booked value 2017	**326 323**	**277 324**	**161 646**	**233 931**	**120 762**	**117 359**	**911 022**
Estimated useful life	Indefinite	3 10 years	3 15 years	3 16 years	3 10 years		
Amortisation plan		Straight-line	Straight-line	Straight-line	Straight-line		

Additions in 2017 mainly consist of development projects of NOK 53,530 thousand.

2016	Goodwill	Other intangible assets	Technology and licences	New products	IT systems and programmes	Intangible assets under construction	Total other intangible assets
Opening balance Net booked value 2016	**244 088**	**260 972**	**192 574**	**189 076**	**128 787**	**101 398**	**872 807**
Additions	-	6 518	102	-	7 434	93 292	**107 346**
Disposals	**(23)**	-	-	-	-	-	**-**
Business combination	**98 030**	36 289	-	-	8	-	**36 297**
Reclassification	**-**	12 378	3 747	869	936	-	**17 930**
Transferred from CiP	-	608	5 111	16 722	14 238	(36 679)	**-**
Amortisation	**-**	(7 098)	(28 037)	(35 793)	(25 268)	-	**(96 196)**
Foreign currency exchange differences	**550**	(27 425)	(4 201)	(8 489)	(704)	(5 376)	**(46 195)**
Closing balance Net booked value 2016	**342 645**	**282 242**	**169 296**	**162 385**	**125 431**	**152 635**	**891 989**
Historical cost	**342 645**	367 733	484 931	416 141	385 198	152 635	**1 806 639**
Accumulated amortisation	**-**	(84 701)	(315 635)	(253 757)	(259 767)	-	**(913 860)**
Accumulated write-downs	**-**	(790)	-	-	-	-	**(790)**
Closing balance Net booked value 2016	**342 645**	**282 242**	**169 296**	**162 385**	**125 431**	**152 635**	**891 989**
Estimated useful life	Indefinite	3 10 years	3 15 years	3 16 years	3 10 years		
Amortisation plan		Straight-line	Straight-line	Straight-line	Straight-line		

Additions in 2016 mainly consist of development projects of NOK 52,926 thousand.

Goodwill

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

Impairment test goodwill and intangible assets

Goodwill per entity/CGU 2017	Silicones	Silicon materials	Foundry products	Carbon	Total
Elkem Foundry Hingna Nagpur	-	-	40 418	-	**40 418**
Elkem Rana AS	-	39 965	-	-	**39 965**
Elkem Oilfield Chemical FZCO	-	19 140	-	-	**19 140**
Elkem Materials Process Services BV	-	142	-	-	**142**
Elkem Participacòes Indústria e Comércio Limitada	-	-	-	10 325	**10 325**
Ferroveld JV	-	-	-	49 161	**49 161**
Elkem Carbon China Comp Ltd	-	-	-	1 000	**1 000**
NEH Inc.	-	21 479	55 663	14 259	**91 401**
Silicones	74 771	-	-	-	**74 771**
Total Goodwill	**74 771**	**80 726**	**96 081**	**74 745**	**326 323**

Goodwill per entity/CGU 2016	Silicones	Silicon materials	Foundry products	Carbon	Total
Elkem Foundry Hingna Nagpur	-	-	36 979	-	**36 979**
Elkem Rana AS	-	61 903	-	-	**61 903**
Elkem Oilfield Chemical FZCO	-	20 110	-	-	**20 110**
Elkem Materials Process Services BV	-	142	-	-	**142**
Elkem Participacòes Indústria e Comércio Limitada	-	-	-	10 930	**10 930**
Ferroveld JV	-	-	-	46 559	**46 559**
Elkem Carbon China Comp Ltd	-	-	-	1 000	**1 000**
NEH Inc.	-	22 565	58 476	14 979	**96 020**
Silicones	69 003	-	-	-	**69 003**
Total Goodwill	**69 003**	**104 719**	**95 455**	**73 468**	**342 645**

Discounted cash flow models are applied to determine the value in use for the cash-generating units. Management in each CGU has projected cash flows based on forecast and strategy plans covering a four-year period. Currency rates and power prices are based on external official sources such as Reuters and Nasdaq. Beyond the explicit forecast period of four years, the cash flows are extrapolated using constant nominal growth rates.

Key assumptions

Key assumptions used in the calculation of value in use are growth rate, gross operating profit (loss) levels, capital expenditure and discount rates.

Growth rates: The expected growth rates for a cash-generating unit converge from its current level experienced over the last few years, to the long-term growth level in the market in which the entity operates. The growth rates used to extrapolate cash flow projections beyond the explicit forecast period, are based on management's past experience, assumptions in terms of market share and expectations for the market development in which the entity operates.

Gross operating profit (loss) levels: The gross operating profit (loss) level represents the operating margin before depreciation and amortisation, and it is estimated based on the current level and expected future market development, which also takes into consideration committed operational efficiency programs. Changes to the outcome of these initiatives may affect future estimated gross operating profit (loss) levels.

Capital expenditure (Capex): A normalised capex is assumed in the long run. Estimated capital expenditures do not include capital expenditures that significantly enhance the current performance, as such effects generally are not included in the cash flow projections.

Discount rates: The required rate of return is calculated by the WACC method. The cost of a company's equity and liabilities, weighted to reflect its capital structure of 50:50 respectively, derive from its weighted average cost of capital. The WACC rates used in discounting the future cash flows, are based on Norwegian 10 year risk-free interest rate for Foundry products, Silicon Materials and Carbon. For Silicones the interest rate is based on the European 10 year bond rate.
The rates are adjusted for inflation differential and country risk premium. The discount rates also take into account the debt premium, market risk premium, corporate tax rate and asset beta.

The following pre-tax discount rates (WACC) and sustained growth rate for year five and forward have been used for the impairment tests:

	WACC	Growth
Foundry products	7.8%	2.0 %
Silicon materials	7.8%	2.0 %
Carbon	8.9%	2.0 %
Silicones	8.7%	2.0 %

Impairment test results and conclusion
Value in use for each CGU exceeds carrying amount. The impairment tests indicate no requirement for write-down.

Sensitivity of estimated cash flows
An increase of 1 percentage point in WACC will not result in an impairment for the Combined Elkem AS group.
A change of 10 % in other key assumptions will not result in an impairment for the Combined Elkem AS group.

13. JOINT ARRANGEMENTS

Combined Elkem AS group has interests in the following jointly controlled arrangements:

Name of entity	Business office	Country	Principal activities
Elkem Ferroveld JV	Ferrobank Emalahleni	South Africa	Electrode paste production
Dehong Elkem Materials Co. Ltd	Dehong, Yunnan	China	Microsilica production
Elkania DA	Hauge i Dalane	Norway	Microfine weighting material
Elkem Uruguay SA (formerly Igazú Alloys S.A.)	Montevideo	Uruguay	Production of foundry products
North Sea Container Line AS	Haugesund	Norway	Shipping services
Klafi EHF	Grundartangi, Akranes	Iceland	Transportation / harbour services
Salten Energigjenvinning AS	Oslo	Norway	Energy production

Name of entity	% equity interest 2017	% equity interest 2016	2017 Classification[1]	2016 Classification[1]
Elkem Ferroveld JV	50 %	50 %	JO	JO
Dehong Elkem Materials Co. Ltd[2]	-	-	-	JO
Elkania DA	50 %	50 %	JO	JO
Elkem Uruguay SA[3]	-	50 %	-	JV
North Sea Container Line AS	50 %	50 %	JV	JV
Klafi EHF	50 %	50 %	JV	JV
Salten Energigjenvinning AS[4]	50 %	-	JV	JV

[1] JO is equal to joint operations and JV is equal to joint ventures.
[2] Liquidated during 2016.
[3] The remaining shares in Elkem Uruguay SA (formerly Igazú Alloys S.A.) were purchased in September 2017, see note 31 business combination. The company's results are included as a joint venture up to the date its remaining shares were purchased. No gain or loss is recognised from remeasurement of previously held equity interests due to the transaction.
[4] Incorporated 1 June 2017.

There is no quoted market price for the investments.

See note 28 Related party transactions for transactions with joint arrangements.
There are no contingent liabilities or commitments related to the joint ventures.

	2017	2016
Total interest in joint ventures 1 January	**108 978**	**52 935**
Acquired shares	19 528	60 272
Disposal of shares in Joint ventures	(28 519)	-
Dividend received	(12 000)	(15 000)
Share of profit (loss) for the year	17 682	1 408
Currency translation differences transferred to income on disposal	(4 835)	-
Gain on sale of shares in joint ventures, discontinued	-	-
Currency translation differences	(2 963)	9 363
Total interest in joint ventures 31 December	**97 871**	**108 978**

Summary of financial information for joint ventures

	2017
Current assets, including cash and cash equivalents NOK 105,683 thousand	211 124
Non-current assets	31 932
Current liabilities, including current financial liabilities NOK 0	42 607
Non-current liabilities, including non-current financial liabilities NOK 4,707 thousand	4 707
Net assets/equity	**195 742**
Group's carrying amount	97 871
Total revenue	489 772
Total expenses, including depreciation and amortisation NOK 2,768 thousand	(458 057)
Financial income, including interest income NOK 1,054 thousand	1 054
Financial expenses, including interest expenses NOK 146 thousand	2 981
Tax expense	(388)
Total profit for the year	35 363
Other comprehensive income	-
Total comprehensive income	**35 363**
Group's share of profit for the year	17 682
Group's share of other comprehensive income	-

Summary of financial information for joint ventures

	2016
Current assets, including cash and cash equivalents NOK 91,851 thousand	171 551
Non-current assets	289 129
Current liabilities, including current financial liabilities NOK 5,373 thousand	41 464
Non-current liabilities, including non-current financial liabilities NOK 200,531 thousand	201 261
Net assets/equity	**217 955**
Group's carrying amount	108 978
Total revenue	423 875
Total expenses, including depreciation and amortisation NOK 2,197 thousand	(417 845)
Financial income, including interest income NOK 785 thousand	785
Financial expenses, including interest expenses NOK 298 thousand	(3 433)
Tax expense	(567)
Total profit for the year	2 815
Other comprehensive income	-
Total comprehensive income	**2 815**
Group's share of profit for the year	1 408
Group's share of other comprehensive income	-

14. INTEREST IN ASSOCIATES AND OTHER COMPANIES

	31.12.2017	31.12.2016
Interest in associates	60 644	54 543
Interest in other companies	51 323	45 973
Total interest in associates and other companies	**111 967**	**100 516**

	2017	2016
Total interest in associates at opening balance	54 543	47 788
Share of profit	16 462	20 722
Dividend received	(13 037)	(11 190)
Part of other comprehensive income	(325)	(1 141)
Other changes	3 001	(1 636)
Total interest in associates	**60 644**	**54 543**

As at 31 December 2017 Combined Elkem AS group has interest in the following associates:

Name of entity	Principal activities	Country	Proportion of shares/votes (%)	Net assets	Total operating income	Group's share of profit	Carrying amount
Elkem Chartering AS	Deep sea charter services	Oslo, NO	25 %	91 528	91 418	7 638	22 882
Euro Nordic Agencies Belgium NV	Ship agencies services	Antwerp, BE	50 %	2 780	124 084	557	1 390
Euro Partnership BV	Ship management services	Moerdijk, NL	50 %	60 638	489	5 310	30 319
Combined Cargo Warehousing BV	Warehousing	Moerdijk, NL	33 %	18 342	23 463	2 957	6 053
Total interest in associates						**16 462**	**60 644**

As at 31 December 2016 Combined Elkem AS group has interest in the following associates

Name of entity	Principal activities	Country	Proportion of shares/votes (%)	Net assets	Total operating income	Group's share of profit	Carrying amount
Elkem Chartering AS	Deep sea charter services	Oslo, NO	25 %	62 276	93 877	7 740	15 569
Euro Nordic Agencies Belgium NV	Ship agencies services	Antwerp, BE	50 %	1 494	564	282	747
Euro Partnership BV	Ship management services	Moerdijk, NL	50 %	66 426	20 650	10 325	33 213
Combined Cargo Warehousing BV	Warehousing	Moerdijk, NL	33 %	15 194	28 790	2 375	5 014
Total interest in associates						**20 722**	**54 543**

15. GROUP ENTITIES

The following entities are included in the combined financial statements

Company	Functional currency	Country of incorporation	2017 Equity interest	2016 Equity interest	Owner
Aleaciones Yguazú S.A.[1)]	PYG	Paraguay	100 %	50 %	Elkem Uruguay SA
Bluestar Silicon Material Co. Ltd. (Yongdeng) [2)]	CNY	China	100 %	100 %	China National Bluestar (group) Co. Ltc
Elkania DA	NOK	Norway	50 %	50 %	Elkem AS
Elkem Carbon (China) Comp Ltd	CNY	China	100 %	100 %	Elkem Carbon Singapore Pte. Ltd.
Elkem Carbon AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem Carbon Malaysia Sdn. Bhd.	MYR	Malaysia	100 %	100 %	Elkem Carbon AS
Elkem Carbon Singapore Pte. Ltd.	SGD	Singapore	100 %	100 %	Elkem Carbon AS
Elkem Chartering Holding AS	NOK	Norway	80 %	80 %	Elkem AS
Elkem Distribution Center B.V.	EUR	Netherlands	100 %	100 %	Elkem AS
Elkem Egypt for Industry, Contracting & Trading S.A.E	USD	Egypt	100 %	100 %	Elkem International AS
Elkem Ferroveld JV	ZAR	South Africa	50 %	50 %	Elkem Carbon AS
Elkem Foundry (China) Co. Ltd	CNY	China	100 %	100 %	Elkem AS
Elkem Foundry Invest AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem GmbH	EUR	Germany	100 %	100 %	Elkem AS
Elkem Iberia SLU	EUR	Spain	100 %	100 %	Elkem AS
Elkem International AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem International Trade (Shanghai) Co. Ltd.	CNY	China	100 %	100 %	Elkem International AS
Elkem Island EhF	NOK	Iceland	100 %	100 %	Elkem AS
Elkem Japan K.K	JPY	Japan	100 %	100 %	Elkem AS
Elkem LTD	GBP	United Kingdom	100 %	100 %	Elkem AS
Elkem Madencilik Metalurji Sanayi Ve Ticaret Ltd STI	EUR	Turkey	100 %	100 %	Elkem International AS
Elkem Materials Delaware Inc.	USD	USA	100 %	100 %	Elkem Materials Inc
Elkem Materials Inc.	USD	USA	100 %	100 %	NEH LLC
Elkem Materials Processing (Tianjin) Co.,Ltd	CNY	China	100 %	100 %	Elkem AS
Elkem Materials Processing Services BV	EUR	Netherlands	100 %	100 %	Elkem AS
Elkem Materials South America Ltda	BRL	Brazil	100 %	100 %	Elkem Materials Inc
Elkem Metal Canada Inc	CAD	Canada	100 %	100 %	Elkem AS
Elkem Milling Services GmbH	EUR	Germany	100 %	100 %	Elkem AS
Elkem Nordic A.S.	DKK	Denmark	100 %	100 %	Elkem AS
Elkem Oilfield Chemicals FZCO	AED	Dubai	51 %	51 %	Elkem AS
Elkem Participacões Indústria e Comércio Limitada	BRL	Brazil	100 %	100 %	Elkem Carbon AS
Elkem Rana AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem S.a.r.l.	EUR	France	100 %	100 %	Elkem AS
Elkem S.r.l.	EUR	Italy	100 %	100 %	Elkem AS
Elkem Siliconas España S.A.U	EUR	Spain	100 %	100 %	Elkem AS
Elkem Silicones (UK) Ltd	GBP	United Kingdom	100 %	100 %	Elkem AS
Elkem Silicones Brasil Ltda	BRL	Brazil	100 %	100 %	Elkem AS
Elkem Silicones Canada Corp.	CAD	Canada	100 %	100 %	Elkem AS
Elkem Silicones Czech Republic s.r.o	CZK	Czech Republic	100 %	100 %	Elkem AS
Elkem Silicones Finland OY	EUR	Finland	100 %	100 %	Elkem AS
Elkem Silicones France SAS	EUR	France	100 %	100 %	Elkem AS
Elkem Silicones Germany GmbH	EUR	Germany	100 %	100 %	Elkem AS
Elkem Silicones Hong Kong Co. Limited	HKD	Hong Kong	100 %	100 %	Elkem AS
Elkem Silicones Poland p. z o.o	PLN	Poland	100 %	100 %	Elkem AS
Elkem Silicones Scandinavia AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem Silicones Services S.à.r.l	EUR	France	100 %	100 %	Elkem AS
Elkem Silicones Shanghai Co. Limited	CNY	China	100 %	100 %	Elkem AS
Elkem Silicones USA Corp.	USD	USA	100 %	100 %	Elkem AS
Elkem Siliconi Italia S.r.l	EUR	Italy	100 %	100 %	Elkem AS
Elkem Singapore Materials Pte. Ltd	SGD	Singapore	100 %	100 %	Elkem AS
Elkem South Asia Private Limited	INR	India	100 %	100 %	Elkem AS
Elkem Uruguay SA[1)]	UYU	Uruguay	100 %	50 %	Elkem Foundry Invest AS
Euro Nordic Belgium BVBa [5)]	EUR	Belgium	-	-	Euro Nordic Logistics BV (NL)
Euro Nordic Logistics BV	EUR	Netherlands	80 %	80 %	Elkem Chartering Holding AS
Euro Nordic Netherlands BV	EUR	Netherlands	80 %	80 %	Euro Nordic Logistics BV (NL)
Explotacion de Rocas Industriales y Minerales S.A.	EUR	Spain	100 %	100 %	Elkem AS
Dehong Elkem Materials Co. Ltd [5)]	CNY	China	-	-	Elkem AS
Gimtrade Ltd.[3)]	GBP	United Kingdom	100 %	100 %	Elkem LTD.
Iniconce, S.L	EUR	Spain	97 %	97 %	Explotacion de Rocas Industriale sy Min
Jiangxi Bluestar Xinghuo Silicones Co. Ltd (Xinghuo) [2)]	CNY	China	100 %	100 %	China National Bluestar (group) Co. Ltd
Mill Street Ltd.[3)]	GBP	United Kingdom	100 %	100 %	Elkem LTD.
NEH LLC	USD	USA	100 %	100 %	Elkem AS
NorenoComercial Importada e Exportadora Limitada	BRL	Brazil	100 %	100 %	Elkem Participacões Indústria e Comérci
Nor-Kvarts AS[4)]	NOK	Norway	-	100 %	Elkem AS
Norsil, S.A.	EUR	Spain	100 %	100 %	Iniconce, S.L (ES)
Tifwer Trade S.A.[1)]	UYU	Uruguay	100 %	50 %	Elkem Uruguay SA

[1)] In September 2017 Elkem Foundry Invest AS purchased the remaining 50% of the shares in Elkem Uruguay SA (formerly Igazú Alloys S.A.). For more information see note 30 Changes in the composition of the group and note 31 Business combinations.

[2)] Combined Elkem AS has entered into a share purchase agreement whereby it will purchase 100% of the shares in the company. The purchase is conditional on the completion of the Elkem AS initial public offering. See note 33 Events after reporting period.

[3)] The companies are dormant and were liquidated in January 2018.

[4)] On 1 January 2017 Nor-Kvarts AS merged with Elkem AS.

[5)] The companies were liquidated during 2016.

16. OTHER NON-CURRENT ASSETS

	31.12.2017	31.12.2016
Long-term pension contribution fund[1]	1 200	2 760
Defined benefit pension asset[1]	401	2 949
Long-term deposit pension guarantee[2]	18 775	17 905
Restricted deposits[3]	76 136	78 028
Other deposits	29 504	34 785
Prepaid lease	1 284	2 897
Grants receivable[5]	155 425	136 234
Loans to joint arrangements and associates[4]	8 921	52 682
Receivables from joint ventures[4]	-	14 269
Prepayments to supplier	51 057	21 927
Other long-term receivables	13 171	28 372
Total other non-current assets	**355 874**	**392 808**

[1] See note 6 Employee retirement benefits.

[2] Long-term deposit pension guarantee is related to unfunded pension liabilities for salaries above 12G.

[3] Restricted deposits of NOK 76,093 thousand (NOK 67,537 thousand) relates to tax litigation in Combined Elkem AS group's business in Brazil, see note 24 Provisions and other long term liabilities.

[4] See note 28 Related party transactions.

[5] See note 29 Grants

17. INVENTORIES

	31.12.2017	31.12.2016
Finished goods	2 458 297	2 291 726
Work in progress	315 142	345 123
Raw materials	902 045	793 632
Operating materials and spare parts	423 716	361 816
Total inventories	**4 099 200**	**3 792 297**
Provisions for write down of inventories as at 31 December	120 352	162 738

18. ACCOUNTS RECEIVABLE

	31.12.2017	31.12.2016
Accounts receivable	2 275 269	1 889 911
Accounts receivable, related parties	45 890	34 395
Provision for doubtful accounts	(74 611)	(64 016)
Bills receivable[1]	271 875	92 183
Total accounts receivable	**2 518 423**	**1 952 473**

[1] A bill receivable is a document where the customer formally agrees to pay for delivered goods or services at maturity date, and are normally guaranteed by a financial institution. A bill receivable is transferable and can be used to pay accounts payable. The bills receivable-document effectively replaces, for the specified amount, the open debt exchanged for the bill. Bills receivable are used by Combined Elkem AS group's Chinese entities, and the duration is normally below six months.

Analysis of gross accounts receivable by age, presented based on the due date

	31.12.2017	31.12.2016
Not due	1 811 417	1 564 735
1-30 days	311 401	221 982
31-60 days	77 522	34 187
61-90 days	32 812	17 133
More than 90 days	88 008	86 268
Total accounts receivable[1]	**2 321 159**	**1 924 306**

[1] Bills receivable is not included in the aging table

Combined Elkem AS group applies for credit insurance for all customers except customers related to business in China. In cases where credit insurance coverage is refused, other methods of securing the sales income are used. Other methods used for securing the sales are, among others, prepayment, letter of credit, documentary credit, guarantee, etc.

Movement in allowance for doubtful accounts	**31.12.2017**	**31.12.2016**
Opening balance	(64 016)	(59 821)
Provisions / losses on doubtful accounts during the year	(14 513)	(13 364)
Reversed provisions	5 985	5 608
Foreign currency exchange differences	(2 068)	3 560
Closing balance	**(74 611)**	**(64 016)**

Analysis of current receivables that are past due date and impaired, by age

Overdue by	**31.12.2017**	**31.12.2016**
0-3 months	(9 073)	(6 231)
3-6 months	(4 351)	(3 650)
6-12 months	(965)	(1 241)
Over a year	(60 222)	(52 895)
Total impaired overdue receivables	**(74 611)**	**(64 016)**

19. OTHER CURRENT ASSETS

	31.12.2017	31.12.2016
Pension contribution fund, short-term part[1]	2 928	6 094
Prepayments	131 814	101 246
Grants receivable[2]	84 648	133 090
Grants receivable, settled net against taxes payable[2]	55 929	51 366
VAT receivables	379 997	656 744
Corporate income tax receivables	24 989	51 093
Receivables to other related parties within China National Bluestar group [3]	1 354 036	582 786
Other receivables	56 608	39 500
Total other current assets	**2 090 949**	**1 621 919**

[1] See note 6 Employee retirement benefits.

[2] See note 29 Grants.

[3] NOK 1,222 million of the receivable will be settled as part of the share purchase of Xinghuo, see note 33 Events after reporting period.

20. SHAREHOLDER INFORMATION

Elkem AS is the parent company of Combined Elkem AS group.
As of 31 December 2017 Elkem AS is 100% owned by Bluestar Elkem International Co. Ltd S.A.
Elkem AS has its registered company address: Drammensveien 169, 0277 Oslo, Norway.

Share Capital
Share capital as at 31 December 2017 in Elkem AS is NOK 2,010 million, divided in 1 share. There has been no changes in number of shares outstanding during the periods presented.

21. FINANCE LEASE LIABILITIES

Combined Elkem AS group leases some of its manufacturing equipment under finance lease. Interest rates range from 3.06% to 6.99%.
The group has options to purchase the equipment for a nominal amount at the end of the lease term. The obligations under finance lease are secured by the lessors title to the leased assets.

Overview of finance lease	31.12.2017	31.12.2016
Within one year	1 059	4 394
Between 1 and 5 years	401	1 527
Over 5 years	-	-
Total lease payments	1 460	5 921
Less future finance charges	120	(91)
Present value of lease obligations	**1 580**	**5 830**
Less amount due for settlement within 12 months	1 179	4 333
Total non-current finance lease obligations	**401**	**1 497**
Leasing payments current year	4 311	35 787

See also note 22 Interest-bearing assets and liabilities.

22. INTEREST-BEARING ASSETS AND LIABILITIES

	31.12.2017	31.12.2016
Non-current interest-bearing liabilities		
Loans from other related parties within China National Bluestar group	6 873	6 341
Financial leases[1]	401	1 497
Loans from external part, other than bank	79 521	-
Bank financing	4 498 179	5 105 652
Total non-current interest-bearing liabilities	**4 584 974**	**5 113 490**
Current interest-bearing liabilities		
Financial leases[1]	1 179	4 333
Loans from other related parties within China National Bluestar group	-	761 243
Bank financing	3 417 947	3 218 992
Loans from external part, other than bank	60 625	58 433
Accrued interest other related parties within China National Bluestar group	157 076	150 766
Accrued interest	10 470	10 473
Total current interest-bearing liabilities	**3 647 297**	**4 204 240**
Current bills payable[2]	**2 649 760**	**2 418 946**
Total interest-bearing liabilities including bills payable	**10 882 031**	**11 736 676**
Interest-bearing assets		
Cash and bank balances	1 750 930	1 319 797
Restricted deposits bills payable[2]	1 016 018	911 242
Other restricted deposits, non-current and current	98 684	99 704
Loans to joint arrangements	8 921	52 682
Accrued interest income	215	1 010
Total interest-bearing assets	**2 874 768**	**2 384 435**
Net interest-bearing assets / (liabilities)	**(8 007 263)**	**(9 352 241)**

[1] See note 21 Finance lease liabilities
[2] A bill payable is a document where the buyer formally agrees to pay for purchased goods or services at maturity date, and are normally guaranteed by a financial institution. Bills payable are used by Combined Elkem AS group's Chinese entities, and the duration is normally below six months. When the bill payable is guaranteed by a financial institution it is normally required to deposit a certain per cent of the nominal value of the bill

payable into a restricted bank account.

Interest-bearing liabilities by currency	Currency amount	NOK 31.12.2017	Currency amount	NOK 31.12.2016
EUR	317 115	3 121 933	326 453	2 965 922
USD	26 513	217 511	5 772	49 747
NOK	(6 086)	(6 086)	97 163	97 163
CNY	5 981 976	7 538 869	6 948 725	8 623 847
Other currencies	-	9 804	-	(3)
Total interest-bearing liabilities		**10 882 031**		**11 736 676**

Maturity of interest-bearing liabilities as at 31 December 2017	Loans from other related	Financial leases	Loans from external party,	Bank financing	Accrued interest	Bills payable	Total
2018	157 076	1 179	60 625	3 417 947	10 470	2 649 760	6 297 057
2019	6 873	401	12 471	596 954	-	-	616 699
2020	-	-	12 644	2 946 148	-	-	2 958 792
2021	-	-	13 062	757 779	-	-	770 841
2022	-	-	13 494	118 039	-	-	131 533
2023 and later	-	-	27 850	87 679	-	-	115 529
Total	**163 949**	**1 580**	**140 146**	**7 924 546**	**10 470**	**2 649 760**	**10 890 451**
Prepaid loan fees	**-**	**-**	**-**	**(8 420)**	**-**	**-**	**(8 420)**
Total interest bearing liabilities[1)]	**163 949**	**1 580**	**140 146**	**7 916 126**	**10 470**	**2 649 760**	**10 882 031**

[1)] The main part of interest bearing liabilities are expected to be refinanced in March / April 2018, see note 33 Events after the reporting period

Maturity of interest-bearing liabilities as at 31 December 2016	Loans from other related parties	Financial leases	Loans from external party, other than bank	Bank financing	Accrued interest	Bills payable	Total
2017	912 010	4 333	-	3 277 425	10 472	2 418 946	6 623 186
2018	6 341	1 452	-	612 532	-	-	620 325
2019	-	45	-	1 467 540	-	-	1 467 585
2020	-	-	-	2 160 863	-	-	2 160 863
2021	-	-	-	731 121	-	-	731 121
2022 and later	-	-	-	146 708	-	-	146 708
Total	**918 351**	**5 830**	**-**	**8 396 189**	**10 472**	**2 418 946**	**11 749 788**
Prepaid loan fees	**-**	**-**	**-**	**(13 112)**	**-**	**-**	**(13 112)**
Total interest bearing liabilities	**918 351**	**5 830**	**-**	**8 383 077**	**10 472**	**2 418 946**	**11 736 676**

Net investment hedge

Elkem AS has entered into a bank loan amounting to EUR 275 million that is included in the line item bank financing above. The spot rate of the loan has been designated as a hedge of the net investment in the groups subsidiaries with EUR as functional currency. The fair value and carrying amount of the borrowing at 31 December 2017 was NOK 2,498 million (NOK 2,707 million). The foreign exchange loss of NOK 208,865 thousand (a gain of NOK 25,449 thousand) on translation of the borrowing from EUR to NOK at the end of the reporting period is recognised in other comprehensive income and accumulated in the foreign currency translation reserve, in statement of changes in equity. There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

Credit facilities

As of 31 December 2017 the group has drawn NOK 626 million of total granted credit facilities of NOK 2,978 million.
As of 31 December 2016 the group has drawn NOK 704 million of total granted credit facilities of NOK2,848 million.
The drawn amounts are classified as short term bank financing.

The main revolving-credit facilities are granted to Elkem AS but the facilities can be utilised by Elkem AS and its subsidiaries. The main facilities amount to EUR 200 million (NOK 1,817 million) and NOK 250 million respectively. See note 27 Financial risk and capital management for more information, section liquidity risk for more information.

Loan covenant

Combined Elkem AS group has covenants related to it's two main external interest bearing loan facilities. The covenants are for the group before the acquisition of Yongdeng and Xinghuo. In addition to the covenants on these two loan facilities there are loan covenants related to the credit facilities in Elkem Metal Canada Inc of CAD 2 million. Elkem Metal Canada Inc. is not in breach with its covenants at the end of 2017 and 2016.

For the two main credit facilities and term loans in Combined Elkem AS group, the loan covenants relates to the financial performance of Elkem AS group as specified in the table below.

Covenant Elkem AS group related to drawn loan of NOK 2,834 million (NOK 3,023 million) in Elkem AS		31.12.2017	31.12.2016	Loan covenant
Total Equity	NOK	8 332 862	7 459 042	
Total Assets	NOK	16 347 935	14 813 342	
Equity ratio		**51 %**	**50 %**	**> 30%**
Gross operating profit (loss)	NOK	2 098 467	1 617 790	
Net finance charges	NOK	66 747	61 639	
Interest cover ratio		**31,44**	**26,25**	**> 4.00**

		Cash flows	Non-cash changes				
Movement in interest-bearing liabilities	**31.12.2016**	**Receipts/ Payments**	**Debt conversion**	**Re-classification**	**Business combination**	**Foreign exchange changes**	**31.12.2017**
Loans from other related parties within China National Bluestar group	6 341	-	-	-	-	532	6 873
Financial leases	1 497	(4 311)	-	3 154	-	61	401
Loans from external part, other than bank	-	-	-	-	76 868	2 653	79 521
Bank financing	5 105 652	(231 189)	-	(731 107)	84 207	270 616	4 498 179
Total movement non-current interest-bearing liabilities	**5 113 490**	**(235 500)**	**-**	**(727 953)**	**161 075**	**273 862**	**4 584 974**
Financial leases	4 333	-	-	(3 154)	-	-	1 179
Loans from other related parties within China National Bluestar group	761 243	-	(670 376)	(86 377)	-	(4 490)	-
Bank financing	3 218 992	(554 962)	-	730 772	-	23 145	3 417 947
Loans from external part, other than bank	58 433	(8 555)	-	335	7 639	2 773	60 625
Total movement current interest-bearing liabilities	**4 043 001**	**(563 517)**	**(670 376)**	**641 576**	**7 639**	**21 428**	**3 479 751**
Total movement interest-bearing liabilities	**9 156 491**	**(799 017)**	**(670 376)**	**(86 377)**	**168 714**	**295 290**	**8 064 725**

23. PLEDGE OF ASSETS AND GUARANTEES

Pledges

The main part of Combined Elkem AS group's interest-bearing liabilities are not pledged. Approximately half of the group's interest-bearing liabilities are guaranteed by parent company. Details of liabilities that have pledged assets or guarantees related to them are stated below.

Guaranteed liabilities	31.12.2017	31.12.2016
Guaranteed liabilities	4 725 388	4 511 314

Mortgaged liabilities	31.12.2017	31.12.2016
Mortgaged liabilities	117 664	67 847
Mortgaged provisions	-	55 596

Book value mortgaged assets	31.12.2017	31.12.2016
Building	380 461	163 029
Machinery and plant	45 028	843
Other assets	35 934	92 034

Combined Elkem AS group makes limited use of guarantees, see specification below.

Guarantee commitments	31.12.2017	31.12.2016
Guarantee commitment KLIF (Climate and Pollution Agency)	31 274	4 618
Other guarantees	118	107

24. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Total provisions and other non-current liabilities	31.12.2017	31.12.2016
Total provisions	383 817	471 881
Deferred Income	42 398	33 915
Other non-current liabilities	-	232
Total provisions and other non-current liabilities	**426 215**	**506 028**

Provisions include the following	Litigations	Site restoration	Contracts obligation	Employee benefits	Other provisions	Total provisions
Balance 1 January 2017	**171 731**	**77 437**	**256 911**	**120 900**	**7 969**	**634 948**
Additional provisions recognised	28 669	24 480	-	8 031	2 648	63 828
Additions business combinations	-	-		-	-	-
Used during the year	(76 696)	(13 219)	(50 812)	(14 184)	(7 547)	(162 458)
Foreign currency exchange differences	(4 733)	3 023	-	4 676	(234)	2 732
Balance 31 December 2017	**118 971**	**91 721**	**206 099**	**119 423**	**2 836**	**539 050**
Hereof classified as provisions and other non-current liabilities	96 729	52 145	123 885	108 222	2 836	383 817
Hereof classified as provisions and other current liabilities	22 242	39 576	82 214	11 201	-	155 233
	118 971	**91 721**	**206 099**	**119 423**	**2 836**	**539 050**

Provisions include the following	Litigations	Site restoration	Contracts obligation	Employee benefits	Other provisions	Total provisions
Balance 1 January 2016	**262 398**	**68 227**	**-**	**125 107**	**9 101**	**464 833**
Additional provisions recognised	26 633	11 830	2 590	13 347	7 390	61 790
Additions business combinations	-	-	254 321	-	-	254 321
Used during the year	(129 316)	(1 828)	-	(8 372)	(8 021)	(147 537)
Foreign currency exchange differences	12 016	(792)	-	(9 182)	(501)	1 541
Balance 31 December 2016	**171 731**	**77 437**	**256 911**	**120 900**	**7 969**	**634 948**
Hereof classified as provisions and other non-current liabilities	97 225	59 385	202 754	111 399	1 118	471 881
Hereof classified as provisions and other current liabilities	74 506	18 052	54 157	9 501	6 851	163 067
	171 731	**77 437**	**256 911**	**120 900**	**7 969**	**634 948**

Litigations

The provisions due to litigations are mainly related to tax cases in the Carbon division in Brazil. Opening balance also consists of provisions related to tax reassessments for value added tax and withholding tax in the Silicones division. The tax reassessment cases regarding withholding tax were concluded in 2016 and the tax reassessment cases regarding VAT were closed in 2017.

Tax cases in Brazil can take a substantial amount of time before resolution by the tax authorities, hence the time of settlement is uncertain. Provisions are made for each case based on the estimated amount expected to be paid, including interest and penalties. In accordance with Brazilian regulations, agreed amounts have been transferred to restricted bank accounts and are adjusted for interest. The restricted cash is included in other non-current assets, see note 16 Other non-current assets.

Site restoration

Combined Elkem AS group has provisions for future remediation work related to the necessary site remediation work that it will have to undertake in respect of its quartz mines. Total provision NOK 33,399 thousand (NOK 26,930 thousand).

Combined Elkem AS group has worldwide operations representing potential exposure towards environmental consequences. Combined Elkem AS group has established clear procedures to minimise environmental emissions, well within public emission limits. Total provision of NOK 58,323 thousand (NOK 50,507 thousand) relates to estimated clean-up costs related to a closed production site and landfills.

Contracts obligation

The provisions regarding contracts obligation mainly relates to the purchase of Fesil Rana. The provision is calculated based on differences between contract price and market price at date of purchase, 1 December 2016 and subsequently measured at cost. The contracts lasts until 31 December 2020.

Employee benefits

Employee benefits consist of provisions related to jubilee and long-service benefits and post-employment benefits to be paid until ordinary retirement age for former employees in Combined Elkem AS group s Chinese entities.

Of the total long term provisions NOK 67 million relate to jubilee and long-service benefits in the Silicones business, mainly in France. Estimated duration of the obligation is approximately 9 years.

The provisions for Combined Elkem AS group s Chinese entities is calculated to NOK 36 million, mainly consisting of post-employment benefits. The benefits are related to employees laid off due to a reorganisation, mainly of the business in Silicon materials, no further obligations are expected to incur. Payments in 2017 are about NOK 5 million and estimated remaining duration of the obligation is approximately 15 years.

Contingent liabilities

Combined Elkem AS group has a potential future obligation for remediation work of the fjord nearby the Carbon plant in Kristiansand in Norway. A decision from Miljødirektoratet was received in 2017 requiring Combined Elkem AS group to submit a clean-up plan for specific pollution in the Kristiansandfjord within April 2018. No legal proceedings are running. The assessment of the potential future obligation is uncertain and no provision has been made at the end of the reporting period.

Due to its operations Combined Elkem AS group could be included in criminal or civil proceedings related to, among others, product liability, environment, health and safety, anti-competitive, anti-corruption, trade sanctions or other similar laws or regulations or other forms of commercial disputes which could have a material adverse effect on Elkem. See section litigation above for ongoing cases.

25. PROVISIONS AND OTHER CURRENT LIABILITIES

	31.12.2017	31.12.2016
Employee withholding taxes, social security, vacation pay, etc.	659 372	562 345
VAT payable	147 828	55 806
Deferred income	212 230	147 737
Deferred income, other related parties within China National Bluestar group	914	1 727
Provisions, short term part [1]	155 233	163 067
Liabilities to other related parties within China National Bluestar group	323 570	274 711
Accrued expenses	153 747	120 543
Other current liabilities	16 919	53 882
Provisions and other current liabilities	**1 669 813**	**1 379 818**

[1] See note 24 Provisions and other non-current liabilities

26. FINANCIAL INSTRUMENTS

Financial assets and liabilities by category 31 December 2017

	Note	Assets at fair value through profit or loss	Derivatives used for hedging	Financial assets available for sale	Loans and receivables	Non-financial assets	Total
Interest in associated and other companies	14	-	-	51 323	-	60 644	**111 967**
Derivatives, non-current		126 249	25 325	-	-	-	**151 574**
Other non-current assets	16	-	-	-	269 986	85 888	**355 874**
Accounts receivable	18	-	-	-	2 518 423	-	**2 518 423**
Derivatives, current		625	32 733	-	-	-	**33 357**
Other current assets	19	-	-	-	1 494 613	596 336	**2 090 949**
Restricted deposits		-	-	-	1 019 791	-	**1 019 791**
Cash and cash equivalents	22	-	-	-	1 750 930	-	**1 750 930**
Total		**126 874**	**58 058**	**51 323**	**7 053 743**	**742 868**	

	Note	Liabilities at fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing liabilities, non-current[1]	22	-	21 908	4 563 066	-	**4 584 974**
Derivatives, non-current		17 968	360 988	-	-	**378 955**
Provisions and other non-current liabilities	24	-	-	-	426 215	**426 215**
Accounts payable		-	-	2 650 387	-	**2 650 387**
Interest-bearing liabilities, current[1]	22	-	4 382	3 642 916	-	**3 647 297**
Bills payable		-	-	2 649 760	-	**2 649 760**
Derivatives, current[2]		(18 072)	264 755	-	-	**246 683**
Provisions and other current liabilities	25	-	-	-	1 669 813	**1 669 813**
Total		**(104)**	**652 032**	**13 506 128**	**2 096 028**	

[1] In addition to the hedging instruments specified below, currency effect of EUR loan is designated as a hedging instrument in a cash flow hedge of highly probable future sales. See note 22 Interest-bearing assets and liabilities.

[2] The group applies hedge accounting for certain contracts and certain parts of power contracts. The negative value reported as 'Liabilities at fair value through profit and loss' is representing the value of parts of power contracts where hedge accounting are not applied.

Financial assets and liabilities by category 31 December 2016

	Note	Assets at fair value through profit or loss	Derivatives used for hedging	Financial assets available for sale	Loans and receivables	Non-financial assets	Total
Interest in associated and other companies	14	-	-	45 973	-	54 543	**100 516**
Derivatives, non-current		83 113	36 048	-	-	-	**119 161**
Other non-current assets	16	-	-	-	315 998	76 810	**392 808**
Accounts receivable	18	-	-	-	1 952 473	-	**1 952 473**
Derivatives, current		2 607	53 782		-	-	**56 388**
Other current assets	19	-	-	-	767 242	854 677	**1 621 919**
Restricted deposits		-	-	-	915 013	-	**915 013**
Cash and cash equivalents	22	-	-	-	1 319 797	-	**1 319 797**
Total		**85 720**	**89 829**	**45 973**	**5 270 524**	**986 030**	

	Note	Liabilities at fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing liabilities, non-current[1]	22	-	1 953	5 111 537	-	**5 113 490**
Derivatives, non-current		(7 998)	569 129	-	-	**561 131**
Provisions and other non-current liabilities	24	-	-	-	506 028	**506 028**
Accounts payable		-	-	2 310 509	-	**2 310 509**
Interest-bearing liabilities, current[1]	22	-	318	4 203 922	-	**4 204 240**
Bills payable		-	-	2 418 946	-	**2 418 946**
Derivatives, current[2]		(21 152)	149 153	-	-	**128 001**
Other current liabilities	25	-	-	-	1 379 818	**1 379 818**
Total		**(29 150)**	**720 553**	**14 044 913**	**1 885 846**	

[1] In addition to the hedging instruments specified below, currency effect of EUR loan is designated as a hedging instrument in a cash flow hedge of highly probable future sales. See note 22 Interest-bearing assets and liabilities.

[2] The group applies hedge accounting for certain contracts and certain parts of power contracts. The negative value reported as 'Liabilities at fair value through profit and loss' is representing the value of parts of power contracts where hedge accounting are not applied.

Fair value measurement

Financial instruments at fair value through profit or loss and financial assets available for sale are measured using different levels of input.
There are no material differences between fair value and amortised cost for financial liabilities and financial assets at amortised cost.

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

Combined Elkem AS group's assets and liabilities measured at fair value as at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	625	126 249	**126 874**
Derivatives designated in a hedging relationship	-	58 058	-	**58 058**
Financial assets available for sale	11 166		40 157	**51 323**
Total assets	**11 166**	**58 682**	**166 406**	**236 254**
Financial liabilities at fair value through profit or loss	-	88 520	(88 624)	**(104)**
Derivatives designated in a hedging relationship	26 290	208 421	417 322	**652 032**
Total liabilities	**26 290**	**296 940**	**328 698**	**651 928**

Combined Elkem AS group's assets and liabilities measured at fair value as at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	2 607	83 113	**85 720**
Derivatives designated in a hedging relationship	-	89 829	-	**89 829**
Financial assets available for sale	9 262		36 711	**45 973**
Total assets	**9 262**	**92 436**	**119 824**	**221 522**
Financial liabilities at fair value through profit or loss	-	91 650	(120 800)	**(29 150)**
Derivatives designated in a hedging relationship	2 271	49 514	668 769	**720 553**
Total liabilities	**2 271**	**141 164**	**547 968**	**691 403**

Level 1:
Financial assets measured at level 1 apply to external noted shares. The noted shares are measured based on the listed price.
Dividends from the external shares are classified as other gains and losses.

Level 2:
Financial assets and liabilities measured at level 2 applies to forward foreign exchange contracts, commodity contracts and embedded foreign currency derivatives.
The contracts are measured at fair value by estimating the future cash flows.

Level 3:
The financial assets and liabilities at fair value through profit or loss measured at level 3 consist of power contracts with Statkraft (one contract bought from Norske Skog in 2010 and swap contracts) and a contract called "30-øringen" based on how the power price in the contract is determined. The usage of power from the contract bought from Norske Skog is restricted to industrial purposes, and the power from the 30-øring contract are restricted to be used at Elkem AS plants. The contracts are assessed to be settled net in cash and are therefore within the scope of IAS 39 and recognised as financial instruments.

When valuing these contracts observable data is used, such as power price, currency rates, CPI and CfD, when available. The power prices for long-term electricity contracts in Norway are not directly observable in the market for the whole contract length. Power prices are observable until 2026, CfD to 2021 and the currency rates are observable until 2022. Valuation of the contracts for the remaining periods are based on the latest observable data adjusted for CPI, if relevant.

See note 27 Financial risk and capital management for sensitivity analysis.

Assessment of fair value of contracts with Statkraft
The Combined Elkem AS group pays fixed power prices to Statkraft, specified for each contract/year in the contracts.

Assumptions for valuation of the contracts
- Discount rate: 1.68% (1.68%) p.a. based on the estimated risk of the contract, including credit risk.
- Power prices: Market prices at 31 December for the duration of the contract.
- CfD's: Four year average historic CfD prices based on Nord Pool Spot prices.
- Currency rate EUR: Market prices tradable for the group as of 31 December for the duration of the contract.

As of 1 January 2013, the Statkraft contract bought from Norske Skog has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are therefore from the same date booked against OCI. Realised effects from the fair value as at 31 December 2012 are booked through statement of income. Swap contracts with Statkraft and embedded derivatives EUR are booked according to hedge accounting principles from 1 January 2016.

Assessment of fair value of 30-øring contract
The 30-øre power contracts last until 31 December 2030.
For the years 2018 - 2020 the price under the contract is fixed except if the spot price at the relevant grid points exceed a certain threshold, in which case the price equals the spot price.
For the last 10 years of the contract the price is fixed based on the average spot price the preceding four years, adjusted for inflation.
The fixed price and the threshold price are based on a start date and adjusted with inflation annually year thereafter.

Assumptions for valuation of the contract
- Discount rate: 3.6% (3.6%) p.a. based on the estimated risk of the contract, including credit risk.
- Inflation: 2.0% p.a., (2.0% p.a.).
- Power prices: Market prices per 31 December 2017 until 2027, thereafter prices are based on 2027, adjusted with inflation rate.
- CfD's: Four year average historic CfD prices based on Nord Pool Spot prices.
- Currency rate EUR: Market prices tradable for the group as of 31 December 2017 until 2022, thereafter prices equal to 2022 rates.

Changes in fair value for the "30-øringen" contract are presented as a part of other gains and losses.

In addition, level 3 includes shares in unlisted external companies. These shares are booked at cost and written down if the value of the company is assessed to be lower than cost.

Specification of movements in measurement on level 3	2017	2016
Opening balance 01.01	(428 145)	(813 530)
Transfer to / from other levels	-	(4 829)
Change in fair value recognised in OCI, cash flow hedges	136 421	236 481
Settlement / realised effects	56 310	99 652
Disposal	(112)	(261)
Acquisition	640	75
Other changes in fair value through profit or loss, unrealised	69 676	56 060
Translation effects	2 918	(1 793)
Closing balance 31.12	**(162 292)**	**(428 144)**

Details of financial instruments

Details of foreign exchange contracts as at 31 December 2017

Purchase currency	Purchase ccy 1000	Sale currency	Sale ccy 1000	Type of instrument	Currency deal rate	Due	Fair value NOK thousand	Notional amount[1] NOK thousand
USD	1 269	JPY	142 510	Fwd	0,0089	2018	32	10 388
NOK	9 355	AUD	1 500	Fwd	6,2366	2018	(257)	9 618
CAD	28 035	EUR	18 800	Fwd	1,4912	2018	(3 341)	185 082
NOK	2 504 556	EUR	261 875	Fwd	9,5639	2018	(87 625)	2 578 107
CAD	1 869	NOK	12 075	Fwd	0,1548	2018	44	12 230
NOK	90 837	GBP	8 500	Fwd	10,6867	2018	(3 511)	94 294
NOK	115 004	JPY	1 406 000	Fwd	0,0818	2018	12 062	102 491
NOK	741 675	USD	91 200	Fwd	8,1324	2018	(2 181)	748 205
NOK	110 393	JPY	1 316 000	Fwd	0,0839	2019	12 603	95 930
NOK	107 766	JPY	1 268 000	Fwd	0,0850	2020	11 969	92 431
NOK	4 059 624	EUR	396 375	Embedded[2]	10,2419	2018-2034	(183 669)	3 902 236
Total fair value currency exchange contracts[3]							**(243 875)**	

[1] Notional value of the contracts, based on currency rates 31.12.

[2] Embedded derivatives EUR in commodity contracts.

[3] The spot element of currency forward contracts with duration more than 3 months are designated as hedging instruments is a cash flow hedge of highly probable future sales, hence this part is classified as 'Derivatives used for hedging' in the table 'Financial assets and liabilities classified by category'. The interest element of these contracts and contracts of duration < 3 months are classified as 'Assets/liabilities at fair value through profit and loss'.

Details of foreign exchange contracts as at 31 December 2016

Purchase currency	Purchase ccy 1000	Sale currency	Sale ccy 1000	Type of instrument	Currency deal rate	Due	Fair value NOK thousand	Notional amount[1)] NOK thousand
CAD	7 517	EUR	5 200	Fwd	1,4455	2017	449	47 244
NOK	1 227 584	EUR	132 050	Fwd	9,2964	2017	17 788	1 199 713
CAD	1 499	GBP	800	Fwd	1,8743	2017	1 092	8 499
NOK	46 356	GBP	4 200	Fwd	11,0372	2017	1 592	44 618
NOK	146 124	JPY	1 980 000	Fwd	0,0738	2017	(740)	145 810
NOK	536 836	USD	65 800	Fwd	8,1586	2017	(29 286)	567 104
CAD	3 951	USD	3 000	Fwd	1,3171	2017	(463)	25 856
NOK	524 796	EUR	58 000	Fwd	9,0482	2018	(12 850)	526 947
NOK	88 663	JPY	1 036 000	Fwd	0,0856	2018	10 352	76 292
NOK	101 569	USD	13 000	Fwd	7,8130	2018	(9 884)	112 042
NOK	89 917	JPY	1 036 000	Fwd	0,0868	2019	10 128	76 292
NOK	87 003	JPY	988 000	Fwd	0,0881	2020	9 351	72 758
NOK	1 889 767	EUR	199 408	Embedded[2)]	9,4769	2017-2027	(62 384)	1 811 685
Total fair value currency exchange contracts[3)]							**(64 855)**	

[1)] Notional value of the contracts, based on currency rates 31.12.

[2)] Embedded derivatives EUR in commodity contracts.

[3)] The spot element of currency forward contracts with duration more than 3 months are designated as hedging instruments is a cash flow hedge of highly probable future sales, hence this part is classified as 'Derivatives used for hedging' in the table 'Financial assets and liabilities classified by category'. The interest element of these contracts and contracts of duration < 3 months are classified as 'Assets/liabilities at fair value through profit and loss'.

Details of power contracts and other commodity contracts within the scope of IAS 39 as at 31 December 2017

	Volume GWh / Oz	Due	Fair value	Notional amount[1)]
Forward contracts financial institutions	299	2018	5 678	74 263
Commodity contracts "30-øringen"	501	2018	(20 146)	146 653
Commodity contracts "30-øringen"	6 016	2019-2030	126 249	1 692 993
Commodity contract Statkraft (bought from Norske Skog)	1 498	2018	(78 671)	446 722
Commodity contract Statkraft (bought from Norske Skog)	3 000	2019-2020	(170 177)	925 792
Commodity contract Statkraft, swap	201	2018	(15 521)	65 218
Commodity contract Statkraft, swap	605	2019-2034	(44 183)	195 834
Commodity contracts Platinum	900	2018	11	4 085
Commodity contracts Platinum	980	2019	(73)	7 752
Fair value contracts within scope of IAS 39[2)]			**(196 832)**	

[1)] Notional value of underlying asset at the end of reporting period, calculated as volume * price * currency rate as 31.12 (if other currencies than NOK).

[2)] Certain power contracts and part of power contract Statkraft are designated as hedging instruments, the remaining contracts/parts of contracts are classified as 'Assets/liabilities at fair value through profit and loss'.

Details of power contracts and other commodity contracts within the scope of IAS 39 as at 31 December 2016

	Volume GWh / Oz	Due	Fair value	Notional
Forward contracts financial institutions	307	2017	16 161	71 858
Forward contracts financial institutions	140	2018	6 216	26 113
Forward contracts other	-26	2017	(1 165)	(5 611)
Commodity contracts "30-øringen"	501	2017	(10 713)	141 589
Commodity contracts "30-øringen"	6 517	2018 - 2030	83 113	1 688 680
Commodity contract Statkraft (bought from Norske Skog)	1 498	2017	(47 231)	436 685
Commodity contract Statkraft (bought from Norske Skog)	4 498	2018-2020	(415 054)	1 372 513
Commodity contract Statkraft, swap	201	2017	(8 250)	60 187
Commodity contract Statkraft, swap	806	2018-2027	(66 721)	240 913
Commodity contracts Platinum	4 560	2017	(5 085)	38 514
Fair value contracts within scope of IAS 39[2)]			**(448 728)**	

[1)] Notional value of underlying asset at the end of reporting period, calculated as volume * price * currency rate as 31.12 (if other currencies than NOK).

[2)] Certain power contracts and part of power contract Statkraft are designated as hedging instruments, the remaining contracts/parts of contracts are classified as 'Assets/liabilities at fair value through profit and loss'.

Hedge Accounting

Combined Elkem AS group is applying hedge accounting for parts of the foreign exchange forward contracts, for embedded EUR derivatives in power contracts and for certain power contracts.
The currency exchange contracts are designated in a cash flow hedge to hedge currency fluctuations in highly probable future sales, mainly in USD and EUR. Realised effects from these contracts, a loss of NOK 41,393 thousand (loss NOK 175,569 thousand), is therefore booked as an adjustment of the sales revenue. Also embedded EUR derivatives in power contracts are designed as hedging instruments to hedge currency fluctuations in highly probable future sales. Realised effects from these contracts are a loss of NOK 1,215 thousand (no realisation in 2016). Effects from other currency forward contracts, both unrealised and realised, are booked directly to other gains and losses.
Certain commodity contracts power are designated as hedging instruments in a cash flow hedge of price fluctuations for highly probable future purchases. Hence, the effective part of change in fair value is booked against OCI, and booked as a adjustment of the power cost (part of COGS) when realised. The realised effects for these contracts was in 2017 a loss of 60,003 thousand (loss of 157,371 thousand). An ineffectiveness gain of NOK 43,023 thousand (loss of NOK 4,6 thousand) is booked as other gains and losses.

In addition the group applies hedge accounting principles related to currency risk from a net investment in foreign operation, see note 22 Interest-bearing assets and liabilities.

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

Derivative financial instruments	2017 Assets fair value	2017 Liabilities fair value	2016 Assets fair value	2016 Liabilities fair value
Forward foreign exchange contracts - cash flow hedges	52 380	126 300	68 617	94 030
Forward power contract Statkraft - cash flow hedges	-	435 530	-	692 336
Forward power contract Statkraft swap- cash flow hedges	-	(18 208)	-	(23 567)
Forward power contracts embedded derivatives cash flow hedges	-	82 120	-	(44 517)
Forward power contracts financial institutions- cash flow hedges	5 678	-	21 212	-
Currency effect loan EUR - cash flow hedge [1]	-	26 290	-	2 271
Total derivative instruments	**58 058**	**652 032**	**89 829**	**720 553**
Less non-current portion:				
Forward foreign exchange contracts - cash flow hedges	25 325	-	29 832	22 734
Forward power contract Statkraft - cash flow hedges	-	300 773	-	596 837
Forward power contract Statkraft swap- cash flow hedges	-	(12 195)	-	(9 932)
Forward power contracts embedded derivatives cash flow hedges	-	72 409	-	(40 510)
Forward power contracts financial institutions- cash flow hedges	-	-	6 216	-
Currency effect loan EUR - cash flow hedge [1]	-	21 908	-	1 953
Current portion of derivative instruments	**32 733**	**269 136**	**53 782**	**149 471**

[1] See note 22 Interest-bearing assets and liabilities

The table below shows the movements in OCI related to hedging instruments

Derivative financial instruments recognised against OCI	Opening balance 2017	Net change in fair value	Reclassified to P&L	Closing balance 2017
Change in fair value from derivatives designated as a hedge of future sales	(25 413)	(89 900)	41 393	(73 920)
Change in fair value from derivatives designated as a hedge of future need for power (Financial institutions) [1]	21 212	(3 170)	(12 364)	5 678
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft) [2]	(643 425)	133 137	80 946	(429 342)
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft swap) [3]	23 567	3 284	(8 643)	18 208
Change in fair value from embedded derivatives designated as a hedge of future sales [4]	44 517	(127 852)	1 215	(82 120)
Change in fair value from derivatives designated as a hedge of future sales [5]	(2 271)	(26 162)	2 143	(26 290)
Total gains / losses (before tax) in OCI 31.12.	**(581 813)**	**(110 663)**	**104 690**	**(587 786)**

[1] Contracts with other financial institutions.

[2] Contract with Statkraft. As of 1 January 2013, the Statkraft contract has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are therefore from the same date booked against OCI. Changes in fair value up to 31 December 2012 were booked in the statement of income, classified as other gains and losses. Reversal of unrealised effects from these contracts will be offset by realised effects, only the interest element will affect the statement of income.

[3] Power contracts swap, with Statkraft. Hedge accounting from 2016.

[4] Embedded derivatives EUR in power contracts. Hedge accounting applied from 2016.

[5] Currency effects loan EUR.

The table below shows the movements in OCI related to hedging instruments

Derivative financial instruments recognised against OCI	Opening balance 2016	Net change in fair value	Reclassified to P&L	Closing balance 2016
Change in fair value from derivatives designated as a hedge of future sales	(445 545)	244 562	175 569	(25 413)
Change in fair value from derivatives designated as a hedge of future need for power (Financial institutions) [1]	(95 518)	72 131	44 599	21 212
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft) [2]	(970 899)	214 752	112 723	(643 424)
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft swap) [3]	-	23 567	-	23 567
Change in fair value from embedded derivatives designated as a hedge of future sales [4]	-	44 517	-	44 517
Change in fair value from derivatives designated as a hedge of future sales [5]	-	(2 271)	-	(2 271)
Total gains / losses (before tax) in OCI 31.12.	**(1 511 961)**	**597 257**	**332 891**	**(581 812)**

[1] Contracts with Nasdaq and other financial institutions.

[2] Contract with Statkraft. As of 1 January 2013, the Statkraft contract has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are therefore from the same date booked against OCI. Changes in fair value up to 31 December 2012 were booked in the statement of income, classified as other gains and losses. Reversal of unrealised effects from these contracts will be offset by realised effects, only the interest element will affect the statement of income.

[3] Power contracts swap, with Statkraft. Hedge accounting from 2016.

[4] Embedded derivatives EUR in power contracts. Hedge accounting applied from 2016.

[5] Currency effects loan EUR.

Accumulated gains / losses from cash flow hedges recognised in OCI are expected to be recycled to statement of income in the period of 2018–2034, see further details in the tables above specifying financial instruments by duration.

Offsetting financial assets and liabilities

Financial assets subject to offsetting

2017	Gross amount of financial assets	Gross amount of financial liabilities set off in the statement of financial position	Net amounts of financial assets recognised / presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	2 028	(2 028)	-	-	-	-
Commodity contracts NASDAQ and other financial institutions	6 846	(1 168)	5 678	-	-	5 678
Foreign exchange forward contracts	52 973	-	52 973	(26 895)	-	26 078
Total	**61 847**	**(3 196)**	**58 651**	**(26 895)**	**-**	**31 756**

Financial liabilities subject to offsetting

2017	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	185 697	(2 028)	183 669	-	-	183 669
Commodity contracts NASDAQ and other financial institutions	1 168	(1 168)	-	-	-	-
Foreign exchange forward contracts	113 210	-	113 210	(26 895)	-	86 315
Total	**300 075**	**(3 196)**	**296 879**	**(26 895)**	**-**	**269 984**

The following financial assets are subject to offsetting:

2016	Gross amount of financial assets	Gross amount of financial liabilities set off in the statement of financial position	Net amounts of financial assets recognised / presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	6 457	(6 457)	-	-	-	-
Commodity contracts NASDAQ and other financial institutions	22 804	(1 592)	21 212	-	-	21 212
Foreign exchange forward contracts	70 059	-	70 059	(7 714)	-	62 345

Total	**99 320**	**(8 049)**	**91 271**	**(7 714)**	**-**	**83 557**

The following financial liabilities are subject to offsetting:

2016	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	68 842	(6 457)	62 384	-	-	62 384
Commodity contracts NASDAQ and other financial institutions	1 592	(1 592)	-	-	-	-
Foreign exchange forward contracts	72 529	-	72 529	(7 714)	-	64 815
Total	**142 963**	**(8 049)**	**134 914**	**(7 714)**	**-**	**127 200**

27. FINANCIAL RISK AND CAPITAL MANAGEMENT

Introduction

Combined Elkem AS group operates in an international and cyclical industry which expose the business to a variety of financial risks such as currency risk, liquidity risk, interest rate risk, credit risk and risks relating to prices of finished goods and raw materials. The financial risks affect the group's income and/or the value of financial instruments held. Financial risks related to its operations are monitored and handled centrally at Combined Elkem AS group level. Combined Elkem AS group has financial risk policies in place, approved by its board of directors.

FINANCIAL RISK FACTORS

(a) Market risk

(i) Currency risk

Transaction risk - cash flow hedge

Combined Elkem AS group has sales revenue and operating costs in various currencies. The prices of finished goods are to a large extent determined in international markets, primarily in US Dollar Chinese Yuan and Euro. This is partly offset by purchase of raw materials denominated in the same currencies. Combined Elkem AS group has net positive cash flows in most currencies, mainly US dollar and Euro, but has a net cost position in certain other currencies, mainly Norwegian krone but also in Canadian dollars, Brazilian real and Icelandic krona. The Chinees Yuan exposure is relatively balanced.

Combined Elkem AS group's policy is to hedge foreign exchange risk against functional currency to even out fluctuations in result and cash flow. The target is to hedge net cash flow for 0–3 months on a 90% hedging ratio. Net cash flow for 4–12 months should be hedged on a rolling basis based on a 45% hedging ratio. The hedging ratio for 4–12 months may vary between 25% and 75%. Combined Elkem AS group decided to increase the hedging ratio for EUR and USD to 75% for 2018. Combined Elkem AS group also has a hedge in JPY until 2020, related to a long-term customer contract. Combined Elkem AS group uses hedge accounting for all cash flow hedges over 3 months.

In 2017, Combined Elkem AS group realised a loss of NOK 41 million from this hedging program (loss of NOK 175 million).

Foreign exchange - sensitivity analysis on financial instruments

Combined Elkem AS group is presenting its accounts in Norwegian krone, but it has underlying assets and liabilities in various currencies. These effects are monitored and managed centrally.

The table bellow shows currency effect by lines in the financial statement

Currency effect included in financial statement	2017	2016
Net foreign exchange gains / losses - foreign exchange forward contracts - included in other gains and losses	(3 180)	26 595
Operating foreign exchange gains / losses - included in Other gains and losses	(10 782)	(15 087)
Net foreign currency exchange gain/loss on financing activities - included in Financial items	(7 701)	49 661
Currency translation differences - included in comprehensive income	278 556	170 242
Hedging of net investment in foreign operations	(208 865)	25 449

Sensitivity on profit and loss from financial instruments: The sensitivity related to financial instruments on Combined Elkem AS group's profit or loss, is based on a strengthening / weakening of all currencies by 10% against the Norwegian krone, which is the presentation currency for Combined Elkem AS group. If the Norwegian krone is strengthened by 10% against all other currencies, the isolated effect on financial instruments would have been a reduced profit before tax of approximately NOK 205 million (NOK 320 million).

Sensitivity on statement of financial position from financial instruments: The sensitivity related to financial instruments on Combined Elkem AS group's statement of financial position, is based on a weakening / strengthening of all currencies by 10% against the Norwegian krone, which is the presentation currency for Combined Elkem AS group. If the Norwegian krone is strengthened by 10% against all other currencies, the isolated effect on financial instruments would have given an reduced equity of NOK 580 million (NOK 785 million).
This effect does not include the effects from the sensitivity on profit or loss as calculated above.

(ii) Price risk

Combined Elkem AS group is exposed to fluctuations in market prices both in the investment portfolio and in the operating business related to individual contracts.
The main part of short term price risk is hedged.

The investment portfolio is limited, see note 14 Interest in other companies.

Commodity prices

The business is exposed to changes in market prices for raw materials and finished goods. The group seeks to minimise the exposure by entering into sales and purchase contracts with similar duration and volume.

Combined Elkem AS group's main production capacity is focused towards specialised products. These products require special types of raw materials that have fixed customer specifications. Combined Elkem AS group has acquired several raw material sources and / or enters into medium to long-term contracts with raw material suppliers.

Power

Combined Elkem AS group purchases power contracts to minimise the future exposure to changes in power prices. These contracts are either financial instruments, physical commodity contracts that both meet and do not meet the criteria for own use according to IFRS.

Changes in fair value of commodity contracts, defined as financial instruments, reflect unrealised gains or losses and are calculated as the difference between market price and contract price, discounted to present value. Valuation techniques are used for available market information as much as possible. Techniques that reflect how the market could be expected to price instruments, are used in non-observable markets.

Combined Elkem AS group's portfolio of commodity contracts consists mostly of physical energy contracts. Electric power is a key input factor for Combined Elkem AS group. Combined Elkem AS group's estimated future power exposure is partly hedged by long-term power contracts in addition to several contracts in the medium-term. Optimisation of 24-hour-, seasonal- and capacity utilisation variations are solved through utilising financial and physical contracts that are traded bilaterally, or at Nasdaq OMX. The purpose of the hedging activities is to reduce volatility in the power cost and increase the predictability of the cost base. Fair value of commodity contracts is especially sensitive for future changes in energy prices.

Valuation of the power contracts

The valuation technique used for valuing the power contracts is described in note 26 Financial instruments.

Sensitivity analysis - power contracts

Sensitivity on the Statkraft and the "30-øringen" contracts is as follows (figures in NOK million)

"30-øringen" contract		Fair value 31.12.2017	Adjusted NPV
Discount rate (used 3.6%)	change to 0%	106,1	158,3
Discount rate (used 3.6%)	change to 5%	106,1	90,5
CPI (used 2%)	change to 1%	106,1	158,5
CPI (used 2%)	change to 3%	106,1	49,6
Power price	decrease -10%	106,1	18,3
Power price	increase + 10%	106,1	187,7

Statkraft contract (NSG)		Fair value 31.12.2017	Adjusted NPV
Power price	decrease -10%	(248,8)	(357,6)
Power price	increase + 10%	(248,8)	(140,0)
Discount (used 1.68%)	change to 0%	(248,8)	(255,2)
Discount (used 1.68%)	change to 5%	(248,8)	(237,0)

(iii) Interest rate risks

Combined Elkem AS group's interest rate risk arises from interest bearing liabilities from external financial institutions. Combined Elkem AS group's liabilities are mainly drawn in EUR and CNY.

Combined Elkem AS group has a floating interest rate policy and is hence exposed to fluctuating interest rates. Industry conditions are cyclical and prices and sales volumes for Combined Elkem AS group's products tend to correlate with general economic conditions. During an economic downturn sales prices and volumes are expected to go down, while prices and volumes tend to go up during an economic upturn. A floating interest rate policy is seen as appropriate from a financial risk perspective. Interest-rates have stayed low for a number of years due to a low-rate economic environment. However, many central banks have inflation targets and intend to adjust interest rates to control the general rise in the price level. With floating interest rates the group will normally be in a position to benefit from lower interest rates in an economic downturn, but a floating rate policy will also leave the group exposed to increased future interest rates.

As at 31 December 2017 Combined Elkem AS group has the following interest-bearing assets and liabilities

	Floating	Fixed	Total
Interest-bearing liabilities	8 232 272	-	8 232 272
Interest-bearing assets	2 874 768	-	2 874 768
Net exposure	**5 357 504**	**-**	**5 357 504**

Sensitivity

The interest rate sensitivity is based on a parallel shift in the interest rates that Combined Elkem AS group is exposed to. If interest rates had been 50 basis points higher for a full year, based on net debt as at 31 December 2017, with all other variables held constant, the profit after tax would have been NOK 19.8 million lower (NOK 18.9 million). An overview of Elkem's debt portfolio is presented in note 22 Interest-bearing assets / liabilities.

(b) Counterparty credit risk

Credit risk is the risk of financial losses to the group if a customer or counterparty fails to meet contractual obligations. For Combined Elkem AS group this arises mainly to accounts receivable and financial trading counterparties.

Accounts receivable are generally secured by credit insurance from a reputable credit insurance company. Credit limits for each customer and overdue receivables are monitored at Combined Elkem AS group level. For customers where credit insurance cannot be obtained, other methods are generally used to secure the sales proceeds, such as prepayment, letter of credit, documentary credit or guarantees. In particular, when sales are made in countries with a high political risk, or to remote customers, trade finance products are used to reduce the credit risk. Approximately 85 - 90% of Combined Elkem AS group's revenue outside China is covered by credit insurance, trade finance or prepayments. For Elkem entities in China, account receivable is settled by bills receivable which is mainly guaranteed by a financial institution.
Total booked value of account receivable for Combined Elkem AS group entities in China is NOK 757 million per 31 December 2017 (NOK 376 million)

Combined Elkem AS group realised credit losses of NOK 10.4 million in 2017 (NOK 9.9 million).
The maximum exposure to credit risk for the group is NOK 2,530 million per 31 December 2017 (NOK 2,020 million). Please also refer to note 18 accounts receivable.

Evaluation of financial counterparties is based on external credit ratings from Moody's and / or Standard and Poor's. The general policy is that financial counterparties should have a rating equal to, or higher than, A- (or the equivalent) from the rating agencies, but exceptions may be made on a case-by-case basis, mainly for local banks in emerging markets.
Combined Elkem AS group has not had any losses in 2017 or 2016 related to financial counterparties.

(c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities. Combined Elkem AS group is exposed to liquidity risk related to its operations and financing.

Combined Elkem AS group's cash flow will fluctuate due to economic conditions and financial performance. In order to assess its future operational liquidity risk, short-term and long-term cash flow forecasts are provided. The short-term forecast is updated each week, and the long-term cash flow projection is updated each quarter.

In order to mitigate the operational liquidity risk, Combined Elkem AS group has cash and revolving credit facilities with banks. As at 31 December 2017 Combined Elkem AS group has unrestricted cash of NOK 1,751 million (NOK 1,321 million). In addition, revolving credit facilities amount to NOK 2,978 million (NOK 2,848 million), of which NOK 2,351 million is undrawn (NOK 2,144 million).

The external loan agreements contains two financial covenants. The ratio of gross operating profit (loss) to consolidated net Interest payable, as defined herein, for each measurement period, where the period is calculated as the 12 months ending on the last day of a financial quarter, must exceed 4. Additionally, the ratio of total equity to total assets must be more than 30% at all times. Elkem comply with these covenants as of 31 December 2017 and complied with the covenants as of 31 December 2016.

The policy is to have cash and available credit facilities to cover known capital needs and generally not less than 10% of annual revenue. In addition, the policy is to ensure that the main credit facilities have a remaining maturity of at least 12 months. The maturity profile of the credit facilities per 31 December 2017 for Combined Elkem AS group is shown in the table below.

Year / maturity	2018	2020	Total
Total amount of credit facilities	1 009	1 969	2 978

The table below analyses the group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows, and the amounts are without interest payments.

At 31 December 2017	Less than 6 months	6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Interest-bearing liabilities	4 478 054	1 817 824	616 299	3 861 166	115 529
Financial lease	589	589	401	-	-
Accounts payable	2 650 387	-	-	-	-

At 31 December 2016	Less than 6 months	6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Interest-bearing liabilities	3 314 662	3 304 191	618 873	4 359 523	146 708
Financial lease	2 167	2 167	1 452	45	-
Accounts payable	2 310 509	-	-	-	-

A total overview of Combined Elkem AS group's debt portfolio and instalment profile is presented in note 22 Interest-bearing assets / liabilities.

CAPITAL MANAGEMENT

Compined Elkem AS group will focus on having an effective capital allocation. The company intends to pay dividends reflecting the underlying earnings and cash flow.

Elkem envisages a dividend pay-out ratio of 30 -50% based on net income. When deciding the annual dividend level, the group□s capital expenditure plans and financing requirements will be taken into consideration. Focus will also be on maintaining appropriate strategic flexibility.

As of 31 December 2017, Combined Elkem AS group's equity was NOK 8,565 million, including minority interests of NOK 102 million. The equity ratio was 34% and reflects the combined financial position of Elkem including Xinghuo and Yongdeng prior to the Initial Public Offering (IPO) of the company. Post IPO Elkem will target a leverage structure in the area of 2.2x with further deleveraging based on expected earnings trajectory. Leverage ration is defined as Net interest bearing debt as defined in note 22 Interest-bearing liabilities and assets divided by gross operating profit.

Combined Elkem AS group is managing its financing and liquidity position to reduce liquidity risk and to ensure that the company can meet its financial obligations at all times. The company aim to have a long-term and smooth maturity profile on its loan portfolio. Available liquidity reserves, defined as cash and cash equivalents and available long-term credit facilities, should exceed 10% of annual turnover. See note 33 Events after the reporting period for information about new loan agreements.

28. RELATED PARTY TRANSACTIONS

100% of the shares in Combined Elkem AS group are held by Bluestar Elkem International Co. Ltd S.A., see note 20 Shareholder information.
Balances and transactions between Elkem AS and subsidiaries have been eliminated in the combined financial statements and are not disclosed in this note.
Details of transactions between the group and other related parties are disclosed below.

2017	Trade sales	Trade purchases	Sale of services	Purchase of services	Interest income	Interest expenses
Bluestar Elkem International Co. Ltd S.A.	-	-	11 547	-	305	-
Joint arrangements and associates	-	-	59 426	(144 146)	2 076	-
Other related parties within China National Bluestar group	492 988	(547 999)	81 458	(3 986)	-	-
Total	**492 988**	**(547 999)**	**152 431**	**(148 132)**	**2 381**	**-**

2016	Trade sales	Trade purchases	Sale of services	Purchase of services	Interest income	Interest expenses
Bluestar Elkem International Co. Ltd S.A.	-	-	324	-	-	-
Joint arrangements and associates	121 245	(41 917)	103 160	(177 850)	2 556	-
Other related parties within China National Bluestar group	183 848	(318 890)	17 269	(37 109)	-	(535)
Total	**305 092**	**(360 807)**	**120 753**	**(214 960)**	**2 556**	**(535)**

Loans from / to related parties	31.12.2017	31.12.2016
Loans to joint arrangements	8 920	52 682
Receivables to joint arrangements	-	14 269
Loans to other related parties within China National Bluestar group	-	-
Loans from other related parties within China National Bluestar group	(6 873)	(767 582)
Accrued interest on loans from other related parties within China National Bluestar group	(157 076)	(150 766)
Receivables from Bluestar Elkem International Co. Ltd S.A	-	324
Payables to joint arrangements and associates	(10 039)	(12 656)
Receivables from joint arrangements and associates	5 387	2 227
Payables to other related parties within China National Bluestar group	(448 528)	(368 307)
Receivables from other related parties within China National Bluestar group	1 399 926	617 181

Information about transactions between related parties outside Combined Elkem AS group

The main transactions between Combined Elkem AS group and parties outside Combined Elkem AS group are:
- Sale of management and technology services to Elkem Solar AS
- Power supply and sale of raw materials to Elkem Solar AS
- Purchase of short and deep sea transport from North Sea Containerline AS and Elkem Chartering AS
- Purchase of warehousing for Combined Cargo Warehousing BV
- Sale of silicone to China Blue Chemical Ltd and other companies within China National Bluestar group
- Purchase of raw materials from companies within China National Bluestar group

Combined Elkem AS group also has loans from other related parties within China National Bluestar group. The main loans are given from:
- China National Bluestar (group) Co. Ltd
- Bluestar Silicones Investment Co. Ltd

The sale and purchase from related parties outside Combined Elkem AS group are made on terms equivalent to those that prevail in arm's length transactions. Prices are set upon negotiations between the parties.

Outstanding balances at year-end are unsecured, and the short-term receivables and payables are interest free, with an exception of the short-term loans. The long-term loans are interest bearing, and the interest is calculated based on interbank rates (for example LIBOR and EURIBOR) plus a margin.

Transactions with key management personnel
Information on transactions with key management personnel is included in note 5 Employee benefit expenses.

Information about eliminated transactions between related parties within Combined Elkem AS group
Combined Elkem AS group follows internationally accepted principles for transactions between related parties within the group. In general, Combined Elkem AS group seeks to use transaction based methods (comparable uncontrolled price, transactional net margin method, cost plus and resale price method) in order to set the price for the transaction.
Combined Elkem AS group's set-up for sales is based both on an agent structure and as a distribution network.

The related party transactions in Combined Elkem AS group can be divided as follows:

1. Buy-sell of products
   a. Supply of raw materials to manufacturers (sales from sourcing companies)
   b. Sale/supply of finished goods from one Elkem manufacturer to another Elkem manufacturer(as in-bound to further production)
   c. Distribution of manufactured goods (directly from the plant or indirectly for resale by distributors)
   d. Flow-through (products are sold to and from Elkem AS due to treatment of indirect taxes)
2. Services
   a. Sales agent/commissionaire services
   b. Order handling services performed for a large part of the companies by one service company (EDC)
   c. General services (cost plus)
      i. Sourcing services
      ii. Technical support services (assistance from one company to another)
      iii. Management services / Divisional management services / Cash management services
   d. Toll manufacturing services (milling services)
3. Financial services
   a. Cash pool
   b. Group loans

29. GRANTS

Combined Elkem AS group has received the following government grants	2017	2016
Funding from the Norwegian government R&D	33 407	25 813
Funding from the French government R&D	44 276	40 094
Funding from other R&D	4 842	2 291
CO2 Compensation from the Norwegian Environment Agency	76 955	86 333
Funding related to energy recovery	25 767	28 666
Other grants	46 975	32 136
Total government grants received	**232 222**	**215 333**

Combined Elkem AS group has received the following grants from other than government	2017	2016
Norwegian NOx fund for reduced emission of NOx[1)]	6 150	48 777
Norwegian emission fund for reduced emission of So2[1)]	12 165	32 222

Other grants	-	250
Total other grants received	**18 315**	**81 249**

[1]The industry in Norway pays a fee for their emission of NOx and So2 to two different foundations. The two foundations are self-financed by the fee and their purpose is to support projects that reduces So2 and NOx emission from the industry in Norway.

Grants received is included in the financial statement as follows:		
Other operating income	196 868	186 503
Deduction of carrying amount of fixed assets	53 669	110 079
Total	**250 537**	**296 582**
Receivables related to grants	296 002	320 690
Deferred income related to grants	(3 007)	(6 252)

30. CHANGES IN THE COMPOSITION OF THE GROUP

Combined Elkem AS group has in 2017 invested NOK 84,304 thousand related to increase its ownership in Igazú Alloys S.A from 50% to 100% and purchase of convertible shareholder loans.
In 2016 Combined Elkem AS group invested NOK 471,012 thousand related to acquisition of subsidiaries and business (business combination). See note 31 Business combination for more information.

In December 2016 Combined Elkem AS group has invested NOK 31,224 thousand related to increase of the ownership in Nor-Kvarts from 66.7% to 100%.

Changes in ownership interests in subsidiaries are accounted for as equity transactions. The effect on the equity attributable to owners of the parent is presented in the table below.

Effect of changes in composition of the group	**2016**
Net consideration received (paid)	(31 224)
Adjustment to non-controlling interest	27 321
Adjustment to equity attributable to owners of the parent	(3 903)

31. BUSINESS COMBINATIONS

Business combinations 2017

In September 2017 Combined Elkem AS group invested NOK 84,304 thousand related to increase its ownership in Igazú Alloys S.A from 50% to 100% and purchase of convertible shareholder loans. The amount comprises of loans from former shareholders reduced by cash and cash equivalents of the acquiree. The loan will be settled by annual payments over a seven years period. Iguazù Alloys owns a ferrosilicon plant in Paraguay that are under construction. The plant is expected to open in March 2018.

This transaction is considered a business combination according to IFRS 3. Acquisition method is applied by netting the fair value of consideration given to the transferee (the "acquisition cost"), excluding cost related to the acquisition, with the fair value of the acquired assets, liabilities and contingent liabilities assumed at the acquisition date. The acquisition cost of a purchase is equal to the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. The fair values of assets and liabilities under contingent consideration agreements are likewise included.

Combined Elkem AS group's management was required to allocate values in excess/deficit of the carrying amount of equity to assets acquired and liabilities assumed.

Acquisition-related costs of NOK 2.1 million is recognised in profit or loss in the line item other gains and losses. The tables below summarises the consideration transferred and the amounts recognised for assets acquired and liabilities assumed after the business combination.

Consideration	**Iguazú alloys**
Loans from former shareholders	84 507
Contingent consideration	**-**
Consideration transferred	**84 507**
Fair value of previously held equity interest including convertible shareholder loans[1]	84 507
Total	**169 014**

1) The purchase price is equal to the book value of the equity interest at the acquisition-date, hence no gain or loss is recognised as a result of remeasuring of the previously held equity interest.

Amounts for assets and liabilities recognised	**Iguazú alloys**
Property, plant and equipment	283 742
Other intangible assets	336
Inventories	2 141
Other current assets	11 847
Cash and cash equivalents	203
Provisions and other non-current liabilities	(122 012)
Accounts payable	(6 336)
Provisions and other current liabilities	(907)
Total	**169 014**
Goodwill	-
Total	**169 014**

For the period from purchase to 31 December 2017 Iguazú Alloys has contributed NOK 0.0 million to operating revenue and contributed negatively NOK 4.2 million to profit (loss) for the year. If the acquisition date of business combination was of 1 January 2017, the operating revenue of Elkem group would have increased by NOK 0.0 million and profit would have decreased by NOK 6.2 million.

The net assets recognised are based on provisional assessment of their fair value, as the business combinations where performed close to year end and the valuation has not been completed.

Adjustments recognised related to business combinations in 2016
In 2017 Combined Elkem AS group has adjusted the initial amounts for assets and liabilities recognised related to the purchases of Fesil Rana and Minex, see more information below. The following items are affected and adjustments recognised during 2017.

Amounts for assets and liabilities recognised	Total fair value recognised in 2016	Adjustments	Adjusted fair value recognised
Goodwill	98 030	(19 900)	78 130
Other intangible assets	36 297	(2 038)	34 259
Other non-current assets (including deferred tax assets)	13 404	(5 709)	7 695
Inventories	223 938	25 339	249 277
Provisions and other non-current liabilities	(204 041)	(1 552)	(205 593)
Adjustment of purchase price (cash received)		(3 860)	

Business combinations 2016:
Combined Elkem AS group has in 2016 invested NOK 439,788 thousand related to acquisition of new subsidiaries and business (business combination). The amount comprises cash consideration transferred reduced by cash and cash equivalents of the acquiree.

1 December 2016 Combined Elkem AS group acquired 100% of the shares in Fesil Rana Metall AS, a producer of standard and speciality ferrosilicon and microsilica from Fesil AS.

9 December 2016 Combined Elkem AS group acquired, through purchase of assets, the iron foundry business of the Indian Company Minex Metallurgical Co.Ltd, a leading provider of speciality alloys.

These transactions is considered a business combination according to IFRS 3. Acquisition method is applied by netting the fair value of consideration given to the transferee (the "acquisition cost"), excluding cost related to the acquisition, with the fair value of the acquired assets, liabilities and contingent liabilities assumed at the acquisition date. The acquisition cost of a purchase is equal to the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. The fair values of assets and liabilities under contingent consideration agreements are likewise included.

Combined Elkem AS group's management was required to allocate values in excess/deficit of the carrying amount of equity to assets acquired and liabilities assumed.

Acquisition-related costs of NOK 9.9 million is recognised in profit or loss in the line item other gains and losses. The tables below summarises the consideration transferred and the amounts recognised for assets acquired and liabilities assumed after the business combination.

Consideration	Fesil Rana	Minex	Total
Cash	349 844	109 594	459 438
Contingent consideration	-	-	-
Non-controlling ownership interest in subsidiary	-	-	-
Consideration transferred	**349 844**	**109 594**	**459 438**
Fair value of previously held equity interest	-	-	-
Total	**349 844**	**109 594**	**459 438**

Amounts for assets and liabilities recognised	Fesil Rana	Minex	Total
Property, plant and equipment	336 506	21 302	357 808
Other intangible assets	23 041	13 256	36 297
Investment in joint ventures	-	-	-
Interest in associated and other companies	75	-	75
Other non-current assets (including deferred tax assets)	13 404	-	13 404
Inventories	205 471	18 467	223 938
Accounts receivable	30 062	18 708	48 770
Derivatives, current asset	641	-	641
Other current assets	27 555	5 764	33 319
Cash and cash equivalents	19 650	-	19 650
Provisions and other non-current liabilities	(204 041)	-	(204 041)
Accounts payable	(85 950)	(2 273)	(88 223)
Income tax payables	-	-	-
Provisions and other current liabilities	(78 472)	(1 758)	(80 230)
Total	**287 942**	**73 466**	**361 408**
Non-controlling interests	-	-	-
Goodwill	61 902	36 128	98 030
Total	**349 844**	**109 594**	**459 438**

The goodwill of NOK 98 million recognised is attributable to the assembled workforce of the companies and synergies. The business combination is carried out as a part of Combined Elkem AS group's growth strategy.

The fair value of acquired receivables NOK 49 million is equal to the gross contractual amount of receivables. At acquisition date and finalisation of purchase price allocation, management deems the contractual cash flows are expected to be collectible. The companies have credit insurance for the main part of its accounts receivables.

For the period from purchase to 31 December 2016 Fesil Rana have contributed NOK 76 million to operating revenue and contributed positively NOK 3 million to combined profit. If the acquisition date of business combination was of 1 January 2016, the operating revenue of Combined Elkem group would have increased by NOK 740 million and profit would have decreased by NOK 31 million. The figures do not include business combinations completed through purchase of assets (Minex) for which no separate financial statements exists and intra group transactions.

32. SUPPLEMENTAL INFORMATION TO THE COMBINED STATEMENT OF CASH FLOWS

The liquidity effect of acquisitions consist of	2017	2016
Purchase price for new subsidiaries	-	459 438
Adjustments in purchase price prior periods	3 860	-
Cash and cash equivalents of the acquire	203	19 650
Acquisition of subsidiaries net of cash acquired	**(4 063)**	**439 788**

33. EVENTS AFTER THE REPORTING PERIOD

Purchase of Xinghuo and Yongdeng

30 January 2018 Elkem AS group signed an agreement with Bluestar Elkem Investment Co. Ltd. to purchase all the shares in Bluestar Silicone Material Co., Ltd. (hereafter Yongdeng) and Jiangxi Bluestar Xinghuo Silicone (hereafter Xinghuo) for a purchase price of CNY 3,274 million. The purchase is conditional on the completion of the Elkem AS initial public offering and will be closed at the IPO date. Both Elkem AS group, Yongdeng and Xinghuo are under common control by China National Bluestar (group) Co. Ltd. Business combinations involving entities under common control, are accounted for according to the 'pooling of interest method' and comparable figures are restated. Below an overview of the effects of the purchases. There is no acquisition related costs related to the transaction. Xinghuo has a receivable to their shareholder of NOK 1,222 million that will be settled in connection with the purchase.

Statement of income 1.1.17-31.12.17	**Elkem AS group**	**Xinghuo and Yongdeng**	**Eliminations**	**Combined Elkem AS group**
Revenue	16 441 894	5 047 344	(356 629)	21 132 609
Other operating income	215 988	19 649	-	235 637
Total operating income	**16 657 882**	**5 066 993**	**(356 629)**	**21 368 246**
Raw materials and energy for smelting	(8 125 907)	(3 033 046)	334 417	(10 824 536)
Employee benefit expenses	(2 857 634)	(287 185)	-	(3 144 819)
Other operating expenses	(3 575 874)	(686 779)	17 375	(4 245 278)
Gross operating profit (loss)	**2 098 467**	**1 059 983**	**(4 837)**	**3 153 613**
Amortisation and depreciation	(776 023)	(468 002)	-	(1 244 025)
Impairment loss	(16 809)	-	-	(16 809)
Other gains and losses	49 313	(5 675)	-	43 638
Operating profit (loss)	**1 354 948**	**586 306**	**(4 837)**	**1 936 417**
Income from associates and joint ventures	34 144	-	-	34 144
Finance income	19 219	11 217	-	30 436
Foreign exchange gain (loss)	(7 701)	-	-	(7 701)
Finance expenses	(119 376)	(355 123)	-	(474 499)
Profit (loss) before income tax	**1 281 234**	**242 400**	**(4 837)**	**1 518 797**
Tax (expense) / income	(269 391)	-	-	(269 391)
Profit (loss) for the year	**1 011 843**	**242 400**	**(4 837)**	**1 249 406**
Attributable to:				
Non-controlling interest's share of profit (loss)	38 682	-	-	38 682
Owners of the parent's share of profit (loss)	973 161	242 400	(4 837)	1 210 724

Statement of income 1.1.16-31.12.16	**Elkem AS group**	**Xinghuo and Yongdeng**	**Eliminations**	**Combined Elkem AS group**
Revenue	14 045 397	2 866 066	(189 824)	16 721 639
Other operating income	180 772	18 396	-	199 168
Total operating income	**14 226 169**	**2 884 462**	**(189 824)**	**16 920 807**
Raw materials and energy for smelting	(6 899 039)	(2 223 822)	181 097	(8 941 764)
Employee benefit expenses	(2 559 950)	(257 389)	-	(2 817 339)
Other operating expenses	(3 149 390)	(484 639)	8 727	(3 625 302)
Gross operating profit (loss)	**1 617 790**	**(81 388)**	**-**	**1 536 402**
Amortisation and depreciation	(717 781)	(499 474)	-	(1 217 255)
Impairment loss	(11 818)	(65 949)	-	(77 767)
Other gains and losses	52 438	4 849	-	57 287
Operating profit (loss)	**940 629**	**(641 962)**	**-**	**298 667**
Income from associates and joint ventures	22 130	-	-	22 130
Finance income	22 617	13 948	-	36 565
Foreign exchange gain (loss)	49 661	-	-	49 661
Finance expenses	(88 501)	(398 195)	-	(486 696)
Profit (loss) before income tax	**946 536**	**(1 026 209)**	**-**	**(79 673)**
Tax (expense) / income	(188 567)	-	-	(188 567)
Profit (loss) for the year	**757 969**	**(1 026 209)**	**-**	**(268 240)**
Attributable to:				
Non-controlling interest's share of profit (loss)	36 119	-	-	36 119
Owners of the parent's share of profit (loss)	721 850	(1 026 209)	-	(304 359)

Statement of financial position 31.12.17	Elkem AS group	Xinghuo and Yongdeng	Eliminations	Combined Elkem AS group
Property, plant and equipment	6 568 935	5 381 484	-	11 950 419
Goodwill	326 323	-	-	326 323
Other intangible assets	719 351	191 671	-	911 022
Deferred tax assets	89 584	-	-	89 584
Investment in joint ventures	97 871	-	-	97 871
Interest in associated and other companies	111 967	-	-	111 967
Derivatives	151 574	-	-	151 574
Other non-current assets	324 615	31 259	-	355 874
Total non-current assets	**8 390 220**	**5 604 414**	**-**	**13 994 634**
Inventories	3 561 007	543 430	(5 237)	4 099 200
Accounts receivable	2 264 479	322 446	(68 502)	2 518 423
Derivatives	33 357	-	-	33 357
Other current assets	601 822	1 489 127	-	2 090 949
Restricted deposits	3 773	1 016 018	-	1 019 791
Cash and cash equivalents	1 493 279	257 651	-	1 750 930
Total current assets	**7 957 717**	**3 628 672**	**(73 739)**	**11 512 650**
TOTAL ASSETS	**16 347 937**	**9 233 086**	**(73 739)**	**25 507 284**
Paid-in capital	2 918 203	-	-	2 918 203
Retained earnings	5 313 102	237 266	(5 238)	5 545 130
Non-controlling interest	101 557	-	-	101 557
Total equity	**8 332 862**	**237 266**	**(5 238)**	**8 564 890**
Non-current interest-bearing liabilities	2 681 976	1 902 998	-	4 584 974
Deferred tax liabilities	104 587	-	-	104 587
Pension liabilities	444 807	-	-	444 807
Derivatives	378 955	-	-	378 955
Provisions	389 859	36 356	-	426 215
Total non-current liabilities	**4 000 184**	**1 939 354**	**-**	**5 939 538**
Accounts payable	1 836 887	882 001	(68 501)	2 650 387
Income tax payables	138 669	247	-	138 916
Interest-bearing current liabilities	661 189	2 986 108	-	3 647 297
Bills payable	-	2 649 760	-	2 649 760
Derivatives	246 683	-	-	246 683
Other current liabilities	1 131 463	538 350	-	1 669 813
Total current liabilities	**4 014 891**	**7 056 466**	**(68 501)**	**11 002 856**
TOTAL EQUITY AND LIABILITIES	**16 347 937**	**9 233 086**	**(73 739)**	**25 507 284**

Statement of financial position 31.12.16	Elkem AS group	Xinghuo and Yongdeng	Eliminations	Combined Elkem AS group
Property, plant and equipment	5 909 086	5 501 315	-	11 410 401
Goodwill	342 645	-	-	342 645
Other intangible assets	693 014	198 975	-	891 989
Deferred tax assets	67 348	-	-	67 348
Investment in joint ventures	108 978	-	-	108 978
Interest in associated and other companies	100 516	-	-	100 516
Derivatives	119 161	-	-	119 161
Other non-current assets	370 697	22 111	-	392 808
Total non-current assets	**7 711 445**	**5 722 401**	**-**	**13 433 846**
Inventories	3 339 415	452 882	-	3 792 297
Accounts receivable	1 870 801	114 272	(32 600)	1 952 473
Derivatives	56 388	-	-	56 388
Other current assets	600 861	1 021 058	-	1 621 919
Restricted deposits cash	3 771	911 242	-	915 013
Cash and cash equivalents	1 230 660	89 137	-	1 319 797
Total current assets	**7 101 896**	**2 588 591**	**(32 600)**	**9 657 887**
TOTAL ASSETS	**14 813 341**	**8 310 992**	**(32 600)**	**23 091 733**
Paid-in capital	3 088 203	-	-	3 088 203
Retained earnings	4 283 286	(1 628 773)	-	2 654 513
Non-controlling interest	87 553	-	-	87 553
Total equity	**7 459 042**	**(1 628 773)**	**-**	**5 830 269**
Non-current interest-bearing liabilities	2 834 859	2 278 631	-	5 113 490
Deferred tax liabilities	114 182	-	-	114 182
Pension liabilities	425 488	-	-	425 488
Derivatives	561 131	-	-	561 131
Provisions	463 560	42 468	-	506 028
Total non-current liabilities	**4 399 220**	**2 321 099**	**-**	**6 720 319**
Accounts payable	1 527 587	815 522	(32 600)	2 310 509
Income tax payables	99 387	244	-	99 631
Interest-bearing current liabilities	277 970	3 926 270	-	4 204 240
Bills payable	-	2 418 946	-	2 418 946
Derivatives	128 001	-	-	128 001
Other current liabilities	922 134	457 684	-	1 379 818
Total current liabilities	**2 955 079**	**7 618 666**	**(32 600)**	**10 541 145**
TOTAL EQUITY AND LIABILITIES	**14 813 341**	**8 310 992**	**(32 600)**	**23 091 733**

New loan agreements

In connection with the Listing, Elkem plans to enter into several loan facilities agreements in an aggregate principal amount of approximately EUR 1,150 million (collectively, the "New Loan Facilities Agreements"), to refinance the facilities under the Syndicated Loan Facilities Agreement as well as certain additional outstanding indebtedness, including indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials as well as to finance general corporate purposes and working capital needs. Any such refinancing of indebtedness in China will be subject to compliance with Chinese law and regulations relating to exchange controls.

The assumed debt obligations of Xinghuo and Yongdeng consist of short-term and long-term bank loans, including bank bills. Certain local loan facilities in China will be maintained in order to have RMB (Renminbi, Chinese currency) denominated debt and to facilitate the use of local cash flows to service local debt. Elkem has, however, ensured through the New Loan Facilities Agreements that it has capacity to complete a full refinancing of the Chinese debt if needed. The New Loan Facilities Agreements covers the Group's total anticipated debt financing needs

The New Loan Facilities Agreement will consist of three facilities: (i) a single currency loan facility in an aggregate amount of EUR 400 million (the “Facility A Loan”), (ii) a multicurrency revolving loan facility in an aggregate amount of 250 million (the “Facility B Loan”) and (iii) a multicurrency term loan facility in an aggregate amount of 500 million (the “Facility C Loan”).
The Facility A Loan, Facility B Loan and Facility C Loan, respectively, under the New Loan Facilities Agreements are unsecured. The interest rate for borrowings under the New Loan Facilities Agreements will be an interest rate per annum equal to EURIBOR, LIBOR or NIBOR (depending on currency drawn under the facility) plus a margin of 1.50%. for the Facility A Loan, 1.20% for the Facility B Loan and for the Facility C Loan the margin will be 0.90% per annum from the date of the New Loan Facilities Agreements and increase by 0.10% per annum on each date which falls at three-monthly intervals after the date of the New Loan Facilities Agreements.

The New Loan Facilities Agreement will contain two financial covenants. The ratio of Gross operating profit to Consolidated Net Interest Payable, as defined in note 22 interest bearing liabilities and assets, for each measurement period, which period is calculated as the 12 months ending on the last day of a financial quarter, must not be less than 4.0:1.0. Additionally, the ratio of total equity to total assets must be more than 30% at all times.

The New Loan Facilities Agreement will contain a mandatory prepayment clause upon change of control. Change of control is defined as China National Bluestar Co. Ltd. ceasing, directly or indirectly, to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, more than 50% of the maximum number of votes that might be cast at a general meeting of the Company, or hold beneficially more than 50% of the issued share capital and/or the economic interest of the Company, or after the Listing has occurred, the shares in the Company cease to be listed on the Oslo Stock Exchange or on the principle stock exchange in any of Copenhagen, Frankfurt, London, Paris or Stockholm.

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To the Board of Directors of Elkem AS

Independent auditor's report

Report on the Audit of the Combined Financial Statements

Opinion

We have audited the combined financial statements of Elkem AS, its subsidiaries and its combined entities (the "Combined Elkem AS Group"), which comprise the combined statements of financial position as at 31 December 2017 and 2016 respectively, and the combined statements of income, combined statements of other comprehensive income, combined statements of changes in equity and combined statements of cash flow for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Combined Elkem AS Group as at 31 December 2017 and 2016 respectively, and its combined financial performance and its combined cash flows for each of the years then ended in accordance with the basis of preparation as set out in Note 1 to the combined financial statements.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Combined Financial Statements* section of our report. We are independent of the Combined Elkem AS Group as required by laws and regulations in Norway, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – basis of preparation

We draw attention to Note 1 to the combined financial statements, which describes the basis of preparation, including the approach to and the purpose for preparing them. These combined financial statements have been prepared for inclusion in the prospectus in connection with an initial public offering of shares of Elkem ASA on the Oslo Stock Exchange and for no other purpose. Our opinion is not modified in respect of this matter.

Responsibilities of the Board of Directors for the Combined Financial Statements

The Board of Directors (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the combined financial statements in accordance with the basis of preparation as set out in Note 1 to the combined financial statements, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management are responsible for assessing the Combined Elkem AS Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Combined Elkem AS Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Combined Elkem AS Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Combined Elkem AS Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the combined financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Combined Elkem AS Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the combined financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Combined Elkem AS Group to express an opinion on the combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Oslo, 21 February 2018
KPMG AS

Øyvind Skorgevik

Øyvind Skorgevik
State Authorised Public Accountant

APPENDIX C:

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 and 2015

Report from the board of directors

Strong results and business progress

About Elkem

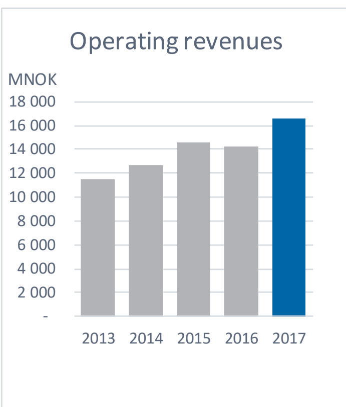
Elkem is one of the world's leading Groups for environmentally responsible production of materials. Its principal products are silicones, silicon, ferrosilicon, foundry alloys, carbon materials and microsilica. The Group has more than 3940 employees and reports four business areas: Silicones, Silicon Materials, Foundry Products and Carbon.

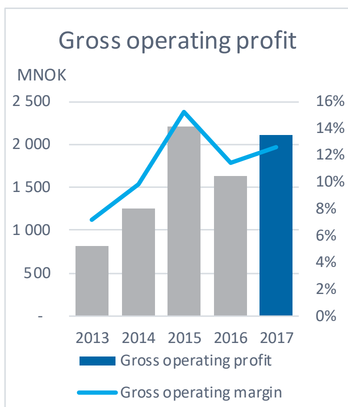
Elkem has production facilities in Europe, North and South America, Africa and Asia, as well as an extensive network of sales offices and agents covering the most important markets.

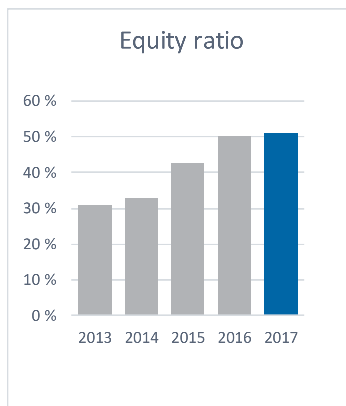
Elkem has centralised support functions and headquarters in Oslo, Norway.

As at 31.12.2017 Elkem AS is owned 100% by Bluestar Elkem International Co. Ltd. S.A., which is under the control of China National Bluestar Group Co. Ltd (Bluestar).

Elkem's performance in 2017







Elkem delivered strong results in 2017 following improved market conditions and delivering on its strategic plan via cost- and efficiency improvement programs, increased speciality products sales and focus on organic and acquisitive growth. Safety performance was better in 2017 than 2016, but Elkem still has improvement potentials and a zero accident ambition. Financial results were strong, following a year of near finance crisis price levels in 2016. Elkem has spent substantial time and resources on integrating new assets into the Elkem Group, and Elkem is positioned for further growth in 2018.

Operating revenues improved by 17% year-on-year. Gross operating profit[1] margin ended at 12.6%, which is an improvement from 2016. Equity[2] ratio ended at 51%, which is strong and enables Elkem for step-change growth and acquisitions.

During 2017, Elkem carried out several initiatives that supports Elkem's ambition for growth:

- Elkem celebrated the opening of a new Foundry plant in Shizuishan City, Ningxia province on 12 December. The new plant strengthens Elkem's footprint in China, increasing its capacity of special ferro-alloy materials from 10 000 mt per year to 30 000 mt per year.
- Elkem Carbon completed its environment friendly energy recovery and Sulphur treatment facility in Kristiansand. The plant will save energy equivalent to 800 households and cut Suplhur emissions by 620 mt per year.
- On 30 September, Elkem increased the ownership from 50% to 100% of a new Ferrosilicon and foundry alloy plant being constructed in Paraguay. The plant will have 1 furnace with a capacity of 11 000 mt. Elkem plans to ramp-up the plant during 1st half of 2018.
- During the year, Bluestar Silicones (BSI) changed its name to Elkem Silicones, marking a stronger integration to Elkem post Elkem's acquisition of BSI in 2015.
- As part of Elkem's growth strategy, Elkem resumed management responsibility for Jiangxi Bluestar Xinghuo Organix Silicone (Xinghuo) and Bluestar Silicone Material Co., Ltd. (Yongdeng) towards the end of June. These two companies were per 31.12.2017 owned by Bluestar. Yongdeng will be organised as part of the Silicon Materials, whereas Xinghuo Silicones will be organised as part of Silicones. On 30 January 2018, Elkem AS entered into an agreement with Bluestar Elkem Investment HK Ltd to purchase Xinghuo and Yongdeng. The share purchase agreement is subject to IPO of Elkem AS.

Elkem is persistent to strengthen its market position in the coming years and will target a sustainable improvement culture working along the principles of Elkem Business Systems (EBS) to achieve Environment, Health and Safety (EHS), quality, time and cost improvements.

Thanks to great work from our employees and in adherence to EBS principles, Elkem is well positioned to future growth complemented by a strong statement of financial position.

As part of Elkem's strategic direction, Elkem is planning an IPO during first quarter of 2018. Elkem was acquired by Bluestar in 2011, and has since then become a global integrated advanced material company with the acquisition of Bluestar Silicones in 2015 and the planned acquisition of Xinghuo and Yongdeng during first half of 2018. As part of the planned IPO and acquisition, Elkem is planning to refinance the debt and seek a healthy basis for further growth. Please see the section subsequent events for further details.

Financial results

Operating income for the Elkem group amounted to NOK 16,658 million compared to NOK 14,226 million in 2016. The operating income increased by 17%, due to higher sales prices, improved sales volumes and acquisitions. Silicones improved operating income mainly due to increased sales volume and improved sales prices. Silicon Materials operating income increased mainly due to acquisition of Rana, in addition to improved sales prices. Foundry Products operating income improved in 2017 helped by increased sales prices, improved sales volumes in particular for speciality products, and acquisition of Nagpur in India. Carbon increased operating income due to increased sales volumes.

[1] Gross operating profit: Gross operating profit (loss), excluding other gains and losses is also referred to as EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) in Elkem

[2] Equity ratio: defined as Total equity / Total equity and liabilities

Elkem's gross operating profit ended at strong NOK 2,098 million compared to NOK 1,618 million in 2016. The improvement in gross operating profit was supported by positive development in sales prices, in particular FeSi prices, favourable currency hedge effects, and positive sales volume improvements from all business areas. This was only partially countered by increased raw materials prices and other cost increases in 2017.

Silicones experienced 6% improved sales volume overall, whereof most of the growth came in the Surface business area. The sales volume in 2016 was negatively impacted by raw material availability issues following maintenance stops by certain suppliers. This was followed by a strong recovery in 2017 driven by an increase in specialties volumes split between the Surface and eXtensio business area. Sales prices also improved in the period helped by high demand in particular during the second half of 2017. The overall silicones market demand was strong in 2017 combined with tighter supply especially in Europe and China, which led to strong price increases.

Silicon Materials experienced positive contribution from the acquisition of Elkem Rana. This business was acquired in December 2016, whereby only 1 month was included into the 2016 financial statements compared to 12 months in 2017. In addition to positive contribution from Elkem Rana, sales prices contributed positively. On average, CRU[3] reference price for silicon increased by 19% during 2017 compared to 2016. In addition, Silicon Material's focus on cost roadmap helped to position the silicon smelters to the low end on CRU's competitive cost curve.

Foundry Products experienced a CRU reference ferrosilicon price increase of 38% on average during 2017 resulting in an improved gross operating profit compared to 2016. In addition, sales volume increased during the year, in particular sales of speciality products. The positive contribution from sales prices and sales volume was partially countered by increased raw materials prices.

Carbon delivered a satisfactory gross operating profit in 2017. Sales prices and raw material prices developed unfavourably during the year contributing negatively to the results, whereas sales volumes improved in the period countering the negative development.

Operating profit was NOK 1,355 million in 2017 compared to NOK 941 million in 2016. Impairment losses was NOK 17 million in 2017 compared to NOK 12 million in 2016. Other gains and losses was NOK 49 million in 2017 compared to NOK 52 million in 2016. Amortisations and depreciations was NOK 776 million in 2017 compared to NOK 718 million in 2016. The increase is partially explained by the acquisition of Elkem Rana and Elkem Nagpur.

Profit before income tax ended at NOK 1,281 million positive for the year. Net finance items recognized in profit or loss amounted to NOK 100 million negative while foreign exchange loss amounted to NOK 8 million. Income from associates and joint ventures amounted to NOK 34 million positive.

The consolidated profit for the year was NOK 1,012 million positive, including NOK 269 million tax expense for the year, giving an effective tax rate of 21%.

The main items recognized in the consolidated statement of other comprehensive income relates to cash flow hedges (foreign currency hedges and power price hedges). These items had a net positive effect of NOK 55 million for 2017, compared to a net positive effect of NOK 647 million in 2016. The positive effects in 2016 was largely related to positive cash flow hedges effects of NOK 930 million countered by tax effects on cash flow hedges of NOK 238 million and currency translation differences

[3] CRU: CRU offers business intelligence on the global metals, mining and fertilizer industries through market analysis and price assessments.

of NOK 65 million. In 2017 hedging of net investment in foreign operations amounted to NOK 209 million negative, countered by tax effects hedging of net investment in foreign operations of NOK 48 million and currency translation differences of NOK 226 million.

Cash flow and statement of financial position

Cash flow from operating activities was NOK 1,534 million positive for the year. Operating profit was NOK 1,355 million positive. Amortisation, depreciation and impairment changes amounted to NOK 793 million. Changes in net working capital and in other balance sheet items was NOK 255 million due to increased activity resulting in higher accounts receivables and inventory partially countered by increased accounts payables. Interest payments made amounted to NOK 92 million. Taxes paid amounted to NOK 198 million for the year.

Cash flow from investing activities amounted to outflow of NOK 927 million for the year. Elkem invested NOK 712 million into maintenance, EHS, and productivity improvement initiatives during the year. In addition, Elkem invested NOK 299 million into growth and step-change investments. The strategic investments in 2017 were primarily related to Silicones' specialisation volume development, energy recovery and Sulphur treatment at Carbon Fiskaa plant, capacity increases and relocation of Elkem Foundry China and technical and environmental upgrades at the Elkem Rana plant within the Silicon Materials.

Cash flow from financing activities was NOK 355 million negative. Dividends paid to the owner amounted to NOK 144 million, and repayment of interest-bearing loans and borrowings amounted to NOK 245 million.

Elkem's financial position continued to improve during the year. Elkem's equity was NOK 8,333 million at the end of the year, including non-controlling interest. The equity ratio improved from 50% in 2016 to 51% in 2017. The strong equity ratio constitutes a healthy basis for further expansion and growth.

Net interest-bearing debt[4] amounted to NOK 1,742 million per 31.12.2017. Cash and cash equivalents amounted to NOK 1,601 million, in addition to NOK 2,331 million in undrawn credit facilities.

The board of directors confirms that the company satisfies the going concern assumption, and that the 2017 financial statements have been prepared on this basis.

Governance

Elkem considers good corporate governance to be a prerequisite for value creation and trustworthiness. The Norwegian Code of Practice for Corporate Governance (Code of Practice) is primarily intended for companies listed on regulated markets. However, the group intends to follow the principles in the Code of Practice.

The board of directors is responsible for managing the group and ensuring proper organisation and monitoring of the group's activities. Elkem has governance documents approved by the board, setting out the principles for how the group should conduct its business.

The board of directors consists of eight members, six of which are appointed by Bluestar and two which are elected by the employees. The board had four regular board meetings scheduled in 2017.

[4] Please refer to Note 22 Interest-bearing assets/liabilities

In addition, the board had extraordinary meetings scheduled during the year. During the year, board member Dazhuang Wang was replaced by Zhigang Hao.

Elkem's executive management team was unchanged during 2017.

Risk Management
Elkem aims to manage risk in a systematic and professional manner. The group has policies and procedures in place to secure proper risk management and internal control. Assessment of risks is delegated as a line responsibility to ensure clear ownership for own activities and efficient processes. Corporate management and the board of directors are updated on the development and the overall risk picture for Elkem on a regular basis through internal business reviews and management reports as well as an annual risk review.

Elkem has a corporate social responsibility (CSR) steering committee. The steering committee defines, obtains approval and follows up CSR governing documents in Elkem. The purpose is to safeguard basic human rights, the employees' rights as workers, environmental concerns, sustainable utilisation of natural resources and business integrity. Elkem does not permit or tolerate engagement in any form of corruption and has implemented policies for anti-corruption, competition law compliance and whistle blowing.

The group is exposed to several risk factors, which could have considerable effect on its business performance. Elkem has grouped its main risks into five categories, strategic risk, financial risk, raw materials risk, production and process risk and market and product risk.

The most significant risk is related to prices and sales volumes for silicon related materials, as well as costs for key raw materials, energy and other consumables. The demand for silicon related materials has increased over the past years and the growth is expected to exceed the growth in global GDP. Demand and prices will however fluctuate based on economic cycles and competition, and significant price and volume changes can be observed depending on the overall business sentiment. The executive management and the board closely follow up Elkem's financial performance and the market development. Elkem's strategy is to focus on specialised products to meet customer demands and improve pricing stability. In addition, Elkem aims to keep a strong financial profile with adequate equity and liquidity reserves to handle and mitigate the effects of economic downturns.

Elkem's strategy on raw materials and energy is to secure timely supply, and stable and predictable prices to reduce net exposure through the cycles. The group has long-term contracts in place to secure volume of key input factors. Long-term energy contracts are in place to secure base volume and predictable prices. In order to secure operational flexibility some of the energy volume is covered through short-term contracts. Quartz is mainly sourced from own mines.

Elkem has sales revenues and operating costs in various currencies, mainly EUR and USD. The group aims to mitigate the currency risk by sourcing raw materials and other costs in the same currencies as the group's sales revenues. However, the location of Elkem's plants give rise to net cost base in certain currencies, e.g. Norwegian kroner, Canadian dollars, Brazilian real and Icelandic krone. Elkem has a predefined hedging programme to hedge 90% of the net exposure on a 0-3 month rolling basis, and approximately 45% of forecasted cash flows on a 4-12 month rolling basis, to even out effects of currency movements on result and cash flow. The hedging of forecasted cash flows may vary between 25% and 75%. In 2017, the Elkem board of directors approved a mandate to hedge up to 75% of net cash flows in EUR and USD for 2018. Forward contracts are mainly used as hedging instruments. Forward contracts are mainly used as hedging instruments. The group's use of financial instruments and hedge accounting are disclosed in note 26.

Elkem is actively managing liquidity risk. The group has centralised its liquidity management and monitors the liquidity development through short- and long-term cash forecasts and daily reporting of the liquidity position. The policy is to have a liquidity buffer of minimum 10% of expected annual revenue. The liquidity buffer may consist of cash and undrawn credit facilities. An overview of the group's financing is included in note 22.

Counterparty risk is managed centrally and the main part of the accounts receivables is insured by a reputable credit insurance company. Elkem is monitoring the credit risk also for financial trading counterparties. Further information about the group's financial risk and capital management policies are disclosed in note 27.

Social responsibility
Elkem is a signatory to the UN Global Compact and has made a strong commitment to socially responsible and sustainable business practices. Our definition of corporate social responsibility is based on the Global Compact's ten principles for human rights, labour rights, environment and anti-corruption. All employees are obliged to follow Elkem's policies and principles and to report discrepancies according to company guidelines. Our sustainability report details our commitment and activities related to social responsibility, and is written within the framework of the Global Reporting Initiative.

The latest sustainability report can be found online at www.elkem.com/sustainability.

Health and safety
Elkem is committed to high environmental, health and safety standards and has closely integrated efforts in these areas with all other activities throughout the company. Elkem uses considerable resources to identify hazards and implement appropriate measures to reduce risk to an acceptable level, so that all employees and contractors performing work at Elkem can leave their jobs just as healthy as they were when they arrived.

Absenteeism is the key performance indicator for health in Elkem. The average rate of absenteeism measured in percent of available working days for 2017 was 3.5%. This is lower than in 2016, but in line with normal variations the past 5 years. This also represents a normal level taking into account the combination of European and non-European plants. Ongoing activities to increase health and wellbeing at Elkem locations include working environment assessments and improvement efforts in the areas of ergonomics, chemical control and noise and dust reduction.

The employee Lost Work Time Injury Rate (H1 = number of lost time injuries per 1.000.000 working hours) for 2017 was 1.6 (2.4 in 2016) while the employee Total Recordable Rate (TRR = H1+H2 = total number of lost work time, medical treatment and restricted work injuries per 1.000.000 working hours) was 4.5 (5.3 in 2016). This represents a good improvement from 2016. Most plants continue to have very good results and two business areas (Foundry Products and Silicones) have shown great improvement in 2017.

None of the recordable injuries for own employees caused long term injury or loss of function.

Recordable contractor injuries are managed in the same manner as own employee injuries even though they are recorded in separate statistics. There were 12 incidents of contractor Lost Work Time injuries in 2017 compared to 20 in 2016.

Gender equality
Elkem is committed to provide equal opportunities for all our employees in an inclusive work culture. We appreciate and recognise that every individual is unique and valuable, and should be respected

for his or her individual abilities. We do not accept any form of harassment or discrimination based on gender, religion, race, national or ethnic origin, cultural background, social group, disability, sexual orientation, marital status, age or political opinion. Elkem will provide equal employment opportunities and treat all our employees – and job seekers - fairly.

The company has a well-established policy and practice to ensure that there is no discrimination. The policy and established practises include code of conduct, recruitment, compensation and benefits, working conditions, possibilities for promotion, development and protection against harassment.

In 2017 the overall share of female employees in Elkem was 22%, which was the same as in 2016. Amongst managers the share was 28%, and amongst white collar workers 36%, slightly up from the previous year. Amongst operators the share of women was only 7%. 22% of the employees that left Elkem were women. Elkem monitors the rate of female employees per country to be able to take specific measures to improve the gender balance where appropriate.

Our recruitment policy states that we will encourage female applicants, both through recruitment advertisements and by actively encouraging suitable internal candidates to apply. In our trainee programme we actively prioritise young women applicants and the rate of female trainees was 66% in 2017.

Elkem's policy is equal pay and equal work hours for men and women. Flexible arrangements can be made for employees where appropriate. We are constantly working to improve the automation of our processes, reducing the amount of physically demanding tasks and thereby improving employee health and increasing the number of female operators.

In order to increase the focus on diversity and discrimination across Elkem, we have developed a specific training module about diversity in our leadership programmes. The goal is to teach our leaders the value of diversity, how to lead diverse teams and how they can increase the diversity in their teams, e.g. to avoid unconscious bias and unintended discrimination.

External environment
Elkem converts natural resources such as water, coal, ores and minerals into products that are essential in global economic growth for present and future generations. This conversion of natural resources causes emissions, discharges, and waste. All emissions, discharges and wastes are recorded and dealt with in compliance with public permits at our sites. Elkem is committed to environmentally responsible production and works continuously to reduce our impact on the external environment.

The main environmental focus during 2017 has been on reducing emissions of NOx, SO2 and some volatiles, and on reducing discharge of suspended substances and oxygen depleting substances to water. Special efforts include:

- From 2017 waste to landfill has been included as a main KPI in Elkem's monthly EHS reporting for selected plants to visualize and further increase the focus on waste reduction.
- Fiskaa Carbon finalized the installation of a scrubber capable of reducing their total SO2 emissions by 50% (600 tons per year) with financial support from the Norwegian So2 fund in 2017.
- New projects for energy recovery, including recovery of 34 GWh at Fiskaa industrial park.

Our environmental efforts are further described and accounted for in our sustainability report.

Strategic overview

Foundation

The Elkem Business System (EBS) plays an important role in all of Elkem's operations. EBS is first and foremost about improving customer satisfaction. The aim is to secure excellence in EHS, delivery, quality and cost. EBS is designed and aligned to support the strategic direction and operational goals of Elkem and will drive the behaviour in the organisation to foster a culture of operational excellence, continuous improvement and deep learning.

EBS is built on four basic principles:

- **Make to use** puts the customer first, both internal and external.
- **Empowered people** is a conviction that the people who perform the tasks are the experts. Elkem ascribes 70% of its success to human input.
- **Eliminating waste** is to drive for perfection and sustainability. Waste includes all unnecessary costs and inefficient use of resources.
- **Processes in control** is about stable, predictable and consistent processes where unwanted variations are removed.

The Four Values of Elkem are closely linked to our Business System and are:

- **Respect** for the law, the environment, our employees, colleagues, customers, suppliers, owners, the society, local communities and cultures.
- **Precision** in developing and following the highest quality standards for best practice and operational excellence so that we can measure and continuously improve them.
- **Continuous improvement** of the value chain by experimenting, implementing new solutions, and continuously eliminating waste using scientific methods.
- **Involvement** of everyone in the organization to identify problems and opportunities and to participate in implementing improvements.

Research and development

Elkem has almost 400 people involved in Research and Development (R&D) activities and devotes considerable effort and resources to R&D, in order to create and develop innovative products, develop environmentally friendly and energy efficient production technologies and to optimise the full value chains.

Throughout its more than 110-year history, Elkem has supplied and commissioned several hundred furnaces worldwide, and has extensive experience with silicon related processes and other metals and materials. Elkem Pilot Plant is a R&D centre with core competence in metallurgical high temperature processes. Projects and experiments carried out at Elkem Pilot Plant have been decisive for Elkem's development and progress.

Silicones has research centres worldwide, with the Lyon Research & Innovation Centre as the main hub. The aim is to constantly source innovation opportunities inside and outside the company to develop and commercialise new silicone technologies. In addition, there is strong cooperation with a broad range of partners: business and industrial partners, universities and research centres, competitive clusters, start-ups and many other institutions throughout the world. Relationships with outside experts allow us to quickly identify new technologies or to work on new developments in existing technologies.

In 2017 Elkem's R&D expenses related to processes, products and business development, including improvement projects and technical support to customers were NOK 413 million where of NOK 53 million was capitalised and NOK 360 million was expensed.

Strategic priorities

Elkem's strategy is based on systematic cost improvements, further product specialisation and an ambition to strengthen the group's position across all business segments. It is important to focus on cost and continuous improvement as Elkem operates in highly competitive and global markets. In addition, the focus on product specialisation and strengthening of the market position are important to enable the group to take advantage of global mega trends which are expected to impact societies, economies and businesses.

<u>Improve operational efficiencies and value chain optimisation</u>

The Elkem Business System together with operational excellence, economies of scale, low cost power, integrated value chain from raw materials to end-products and advanced energy recovery systems, will continue to be fundamental for cost improvements. In addition, Elkem will continue to invest in research and development to ensure technological improvements that reduce costs and improve production efficiencies as well as the development of new products and applications.

Elkem will pursue operational excellence by utilising its internal "cost roadmap" programme to identify and support cost reduction projects in a standardised manner and transfer best practices, process expertise and technological competence across the group.

Elkem also focuses on strategic raw material sourcing to remain a fully integrated low-cost producer.

<u>Improving sales of speciality products</u>

Elkem intends to pursue its specialty strategy to increase sales of higher margin products and reduce cyclicality through building on its long-term customer relationships and extensive research and development base.

Elkem believes that there is substantial room for further increased specialty products sales and the group intends to continue efforts to drive specialty volumes through investments, sales and marketing efforts and addressing new market opportunities.

<u>Focus on organic and acquisitive growth</u>

Elkem continuously evaluates attractive options for growth, particularly through capacity expansion in underserved or growing regions. Elkem's goal is to increase its production capacity, either by capacity expansion at existing plants, new greenfield investments or through merger and acquisitions.

In addition, Elkem intends to pursue selected bolt-on acquisitions as it believes there are potential opportunities for capacity expansion and entrance into new product sub-segments.

Management responsibility for Chinese assets of the Bluestar Group

In order to strengthen the silicones value chain of Bluestar, Elkem assumed the management responsibility of Xinghuo and Yongdeng from end of June 2017. Elkem has also previously worked closely with Xinghuo and Yongdeng to support product development and operational excellence.

Xinghuo is located in Jiangxi province in China and produces organic silicone monomer and organic silicone-related downstream products. The facility has an annual production capacity of approximately 220,000 tonnes of siloxane and 120,000 tonnes downstream production capacity. The plant employed 1,649 employees as of 31 December 2017.

Yongdeng is located in Gansu province in China. The main product is silicon metal and the plant has a production capacity of approximately 55,000 tonnes of silicon and 25,000 tonnes of Microsilica. The plant employed 522 employees as of 31 December 2017.

The two Chinese entities were not legally or financially integrated in Elkem as of 31. December 2017, but Elkem management has full day-to-day management responsibilities. The management integration is expected to create significant synergies in the areas of technology, supply and distribution and production.

On 30 January 2018, Elkem AS group entered into an agreement with Bluestar Elkem Investment Co. Ltd. to purchase all the shares in Xinghuo and Yongdeng.

The management responsibility and legal integration of Xinghuo and Yongdeng strengthens Elkem's position in China which is the fastest growing consumer of the products in Elkem's portfolio.

Financial prospects

Forward-looking statements are normally subject to considerable uncertainty.

Elkem is sensitive to changes in the macro economic development. World Economic Outlook, issued by International Monetary Fund in October 2017, expects global growth to increase from 3.6% in 2017 to 3.7% in 2018. The prices for silicon and ferrosilicon have shown an increasing trend from second half of 2017 and into 2018. Based on this the market conditions for Elkem's products seem relatively good.

However, raw material prices are also expected to increase, especially energy and coal. The Norwegian krone has remained weak compared to USD and EUR in particular during 2017 and a strengthening of the Norwegian krone will have negative effects on Elkem's results.

A key focus area for Elkem in 2018 is to further develop the Silicone value chain and continue the integration of acquired businesses and to continue to deliver on the strategic goals of cost and products specialisation.

Elkem AS

Elkem AS is the parent company of the Elkem group. The company's accounts have been presented in accordance with the Norwegian Accounting Act and generally accepted accounting practices in Norway. The accounts are prepared on the basis of a going concern assumption.

For Elkem AS the operating income amounted to NOK 7,177 million compared to NOK 7,011 million in 2016. The operating income increased by 2%. Elkem AS operates in the silicon, ferrosilicon and foundry alloys market and experienced the same improvement in prices and sales volumes as the group during 2017. The operating profit ended at NOK 333 million compared to NOK 550 million previous year. The decrease is in large parts explained by other gains and losses related to operating activities, which was positive by NOK 221 million in 2016 and decreased to NOK 53 million negative in 2017. The change in other gains and losses compared to the previous year is explained by the effects of the forward contracts and the development of power prices affecting the valuation of power contracts, reference is made to note 9.

For Elkem AS the financial position weakened during the year. Elkem AS' equity was NOK 4,421 million at the end of the year. The equity ratio decreased from 42% in 2016 to 38% in 2017, mainly due to increase in interest-bearing liabilities. Profit for the year was NOK 310 million. The net interest-bearing debt amounted to NOK 3,324 million per 31.12.2017. Cash and cash equivalents amounted to NOK 847 million.

Allocation of the net profit for the parent company

The net profit for the year was NOK 309 925 thousands. The board of directors proposes the following allocation (in NOK thousands):

Transfer from other paid in capital:	-170 000
Additional dividend for 2016:	170 000
Transfer to retained earnings:	309 925
Allocated	309 925

Subsequent events

On 30 January 2018 Elkem AS group signed an agreement with Bluestar Elkem Investment Co. Ltd. to purchase all the shares in Bluestar Silicone Material Co., Ltd. (Yongdeng) and Jiangxi Bluestar Xinghuo Organix Silicone (Xinghuo) for a purchase price of RMB 3,274 million. The transaction is expected to be closed during first half of 2018. The transaction will be executed in parallel and is dependent on a successful IPO of Elkem AS.

In relation to the planned acquisition of Xinghuo and Yongdeng and the planned IPO of Elkem AS, Elkem signed a refinancing debt agreement with four banks on 12 February 2018. The financing consist of a revolving credit facility (RCF) of EUR 250 million, a term loan of EUR 400 million, and a bridge financing of EUR 500 million. The loan agreement allows for the refinancing of Elkem including Xinghuo and Yongdeng. The financing is underwritten by Nordea, DNB, Citibank and Natixis. The loan agreement is subject to successful IPO of Elkem AS.

Further details may be found in Note 33.

Oslo, 21th February 2018

Michael Koenig
Chairman of the board

Einar Støfringshaug

Marianne Færøyvik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

Zhigang Hao

CONSOLIDATED
FINANCIAL STATEMENTS

Elkem AS group

2017

CONTENT

CONSOLIDATED STATEMENT OF INCOME

Amounts in NOK thousand *1 January - 31 December*	Note	**2017**	**2016**
Revenues		16 441 894	14 045 397
Other operating income		215 988	180 772
Total operating income	4	**16 657 882**	**14 226 169**
Raw materials and energy for smelting		(8 125 907)	(6 899 039)
Employee benefit expenses	5	(2 857 634)	(2 559 950)
Other operating expenses	7,8	(3 575 874)	(3 149 390)
Gross operating profit (loss)		**2 098 467**	**1 617 790**
Amortisations and depreciations	12	(776 023)	(717 781)
Impairment losses	12	(16 809)	(11 818)
Other gains and losses	9	49 313	52 438
Operating profit (loss)		**1 354 948**	**940 629**
Income from associates and joint ventures	13,14	34 144	22 130
Finance income	10	19 219	22 617
Foreign exchange gains (losses)	10	(7 701)	49 661
Finance expenses	10	(119 376)	(88 501)
Profit (loss) before income tax		**1 281 234**	**946 537**
Income tax (expense) benefit	11	(269 390)	(188 567)
Profit (loss) for the year		**1 011 844**	**757 969**
Attributable to:			
Non-controlling interest's share of profit (loss)		38 682	36 119
Owners of the parent's share of profit (loss)		973 162	721 850
Combined earnings per share (Basic / Diluted)			
Earnings per share (one share)		973 162	721 850

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in NOK thousand *1 January - 31 December*	Note	**2017**	**2016**
Profit (loss) for the year		**1 011 844**	**757 969**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligation	6	971	(55 177)
Tax effects on remeasurements of post employment benefit obligation	11	2 264	13 587
Share of other comprehensive income from associates and joint ventures	13, 14	-	-
		3 235	**(41 590)**
Items that will be reclassified to profit or loss in subsequent periods			
Currency translation differences		225 938	(64 508)
Hedging of net investment in foreign operations		(208 865)	25 449
Tax effects hedging of net investment in foreign operations	11	48 039	(6 108)
Cash flow hedges	26	(5 973)	930 150
Tax effects on cash flow hedges	11	(4 444)	(238 356)
Share of other comprehensive income from associates and joint ventures	13, 14	(325)	(1 141)
Change in value of available-for-sale financial assets		492	1 718
		54 862	**647 204**
Other comprehensive income for the year, net of tax		**58 097**	**605 614**
Total comprehensive income for the year		**1 069 941**	**1 363 583**
Attributable to:			
Non-controlling interest's share of comprehensive income		40 125	32 019
Owners of the parent's share of comprehensive income		1 029 816	1 331 564
Total comprehensive income for the year		**1 069 941**	**1 363 583**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in NOK thousand	Note	31.12.2017	31.12.2016
ASSETS			
Property, plant and equipment	12	6 568 934	5 909 087
Goodwill	12	326 323	342 645
Other intangible assets	12	719 350	693 013
Deferred tax assets	11	89 584	67 348
Investment in joint ventures	13	97 871	108 978
Interest in associates and other companies	14	111 967	100 516
Derivatives	26	151 574	119 161
Other non-current assets	16	324 615	370 697
Total non-current assets		**8 390 218**	**7 711 445**
Inventories	17	3 561 007	3 339 415
Accounts receivable	18	2 264 479	1 870 770
Derivatives	26	33 357	56 388
Other current assets	19	605 595	604 656
Cash and cash equivalents	22	1 493 279	1 230 668
Total current assets		**7 957 717**	**7 101 897**
TOTAL ASSETS		**16 347 935**	**14 813 342**
EQUITY AND LIABILITIES			
Paid-in capital	20	2 918 203	3 088 203
Retained earnings		5 313 102	4 283 286
Non-controlling interest		101 557	87 553
Total equity		**8 332 862**	**7 459 042**
Interest-bearing non-current liabilities	22	2 681 975	2 834 859
Deferred tax liabilities	11	104 587	114 182
Pension liabilities	6	444 807	425 488
Derivatives	26	378 955	561 131
Provisions and other non-current liabilities	24	389 859	463 560
Total non-current liabilities		**4 000 183**	**4 399 220**
Accounts payable		1 836 888	1 527 587
Income tax payables		138 668	99 387
Interest-bearing current liabilities	22	661 189	277 970
Derivatives	26	246 683	128 001
Provisions and other current liabilities	25	1 131 462	922 135
Total current liabilities		**4 014 890**	**2 955 080**
TOTAL EQUITY AND LIABILITIES		**16 347 935**	**14 813 342**

Oslo, 21 February 2018

Michael Koenig
Chairman of the board

Einar Støfringshaug

Marianne Færøyvik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

Zhigang Hao

Notes 1 to 33 and the accounting policies are an integrated part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in NOK thousand	Share capital	Other paid-in capital	Total paid-in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2017	2 010 000	1 078 203	**3 088 203**	399 667	(442 177)	4 325 796	**4 283 286**	**7 371 489**	87 553	**7 459 042**
Profit (loss) for the year	-	-	-	-	-	973 162	**973 162**	**973 162**	38 682	**1 011 844**
Other comprehensive income for the year	-	-	-	63 669	(10 417)	3 402	**56 654**	**56 654**	1 443	**58 097**
Total comprehensive income for the year	-	-	-	63 669	(10 417)	976 564	**1 029 816**	**1 029 816**	**40 125**	**1 069 941**
Dividends to equity holders[1)]	-	(170 000)	**(170 000)**	-	-	-	-	**(170 000)**	(26 121)	**(196 121)**
Balance 31 December 2017	**2 010 000**	**908 203**	**2 918 203**	**463 336**	**(452 594)**	**5 302 360**	**5 313 102**	**8 231 305**	**101 557**	**8 332 862**

[1)] Of the NOK 170 million in dividend paid, NOK 26 million was net settled against loans to shareholders.

Amounts in NOK thousand	Share capital	Other paid-in capital	Total paid-in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2016	2 010 000	1 078 203	**3 088 203**	440 734	(1 133 971)	3 648 862	**2 955 625**	**6 043 828**	**123 219**	**6 167 047**
Profit (loss) for the year	-	-	-	-	-	721 850	**721 850**	**721 850**	36 119	**757 969**
Other comprehensive income for the year	-	-	-	(41 067)	691 794	(41 013)	**609 714**	**609 714**	(4 100)	**605 614**
Total comprehensive income for the year	-	-	-	(41 067)	691 794	680 837	**1 331 564**	**1 331 564**	**32 019**	**1 363 583**
Dividends to equity holders	-	-	-	-	-	-	-	-	(40 364)	**(40 364)**
Changes in the composition of the group[1)]	-	-	-	-	-	(3 903)	**(3 903)**	**(3 903)**	(27 321)	**(31 224)**
Balance 31 December 2016	**2 010 000**	**1 078 203**	**3 088 203**	**399 667**	**(442 177)**	**4 325 796**	**4 283 286**	**7 371 489**	**87 553**	**7 459 042**

[1)] See note 30 Changes in composition of the group

Notes 1 to 33 and the accounting policies are an integrated part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in NOK thousand *1 January - 31 December*	Note	2017	2016
Operating profit (loss)		1 354 948	940 629
Changes in fair value commodity contracts		(79 093)	(77 598)
Amortisation, depreciation and impairment changes	12	792 832	729 599
Changes in working capital[1)]		(139 377)	98 410
Changes in provisions, pension obligations and other		(116 049)	(123 900)
Interest payments received		12 412	13 919
Interest payments made		(91 693)	(77 151)
Other financial items		(1 034)	160
Income taxes paid		(198 456)	(200 104)
Cash flow from operating activities		**1 534 490**	**1 303 964**
Investments in property, plant and equipment and intangible assets	12	(930 344)	(755 281)
Sale of property, plant and equipment	12	5 814	3 860
Dividend received		25 037	26 190
Acquisition of subsidiaries, net of cash acquired	32	4 063	(439 788)
Acquisition of Joint ventures and other shares		(19 528)	-
Loan to associate and joint venture		(12 150)	(34 258)
Other investments / sales		(226)	277
Cash flow from investing activities		**(927 334)**	**(1 199 000)**
Dividends paid to non-controlling interests		(26 121)	(40 364)
Dividends paid to owner of the parent		(143 947)	-
Payments due to increase in ownership interest in subsidiaries	30	-	(31 224)
New interest-bearing loans and borrowings	22	60 175	110 115
Repayment of interest-bearing loans and borrowings	22	(245 005)	(204 603)
Cash flow from financing activities		**(354 898)**	**(166 076)**
Change in cash and cash equivalents		252 258	(61 112)
Currency exchange differences		10 353	(13 812)
Cash and cash equivalents opening balance		**1 230 668**	**1 305 592**
Cash and cash equivalents closing balance	22	**1 493 279**	**1 230 668**

[1)] See note 4 Operating segments for definition of working capital

Notes 1 to 35 and the accounting policies are an integrated part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Amounts in NOK thousand

1. GENERAL INFORMATION AND BASIS FOR PRESENTATION

The consolidated financial statements for Elkem AS (hereafter Elkem AS group/the group), including notes, for the year 2017 were approved by the Board of Directors of Elkem AS on 21 February 2018. Elkem AS is a limited liability company located in Norway. Elkem AS is fully owned by Bluestar Elkem International Co. Ltd S.A., Luxembourg, which is under control of China National Bluestar (group) Co. Ltd (Bluestar) a company registered and domiciled in China.

Elkem AS group is one of the world's leading companies in the environmentally friendly manufacture of metals and materials. The main activities are related to production and sale of silicon materials, silicones, ferrosilicon, speciality alloys for the foundry industry, carbon products and microsilica. Elkem AS group serves several global industries, such as construction, transport, engineering, packaging, aluminium, chemicals, release coatings, healthcare products and electronic markets, and has organised its business to handle market presence and customer focus. Elkem AS group has multiple production facilities located in Europe, North America, South America, Africa and Asia, and an extensive network of sales offices and agents covering most important markets. Core production processes are focused on converting high quality raw material to specialised metals and materials through high temperature melting processes and further processing. Thus, the business has a high consumption of electrical power, and is also capital intensive, due to the requirement for large and complex processing plants.

The presentation currency of Elkem AS group is NOK (Norwegian Krone). All financial information is presented in NOK thousand, unless otherwise stated. As a result of rounding adjustments, the figures in one or more columns included in the consolidated financial statements, may not add up to the total.

Basis for preparation

The consolidated financial statements include the financial statements of Elkem AS and entities controlled directly and indirectly by Elkem AS. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The consolidated financial statements are prepared and based on International Financial Reporting Standards as adopted by the EU (IFRS). All subsidiaries are using accounting policies consistent within the group, and all intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The consolidated financial statements have been prepared on the basis of the going concern assumption.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared on a historical cost basis, with the exception of derivative financial instruments and financial assets available for sale, which are measured at fair value.

Changes in accounting policies, changes in accounting estimates and errors

Change in accounting policies and errors are recognised retrospectively by restating the comparative amounts for the prior period presented, including the opening balance of the prior year. Change in accounting estimate is recognised prospectively by including it in profit or loss in the period of the change and future periods, if the change affects both.

Segments

Elkem AS group's segments are based on the organisation of the group and correspond to the internal management reporting to the chief operating decision maker, defined as the CEO.

Business combinations

Business combinations are generally accounted for using the acquisition method in accordance with IFRS 3. The consideration transferred in a business combination, is measured at fair value, and goodwill is measured as the excess of the sum of consideration transferred, and net identifiable value of transferred assets and liabilities. Acquisition-related costs are expensed as incurred.

Business combinations involving entities under common control, are accounted for according to the "pooling of interest method", also called "the merger method". This method involves the following:

- Assets and liabilities of the combining entities are reflected at their carrying amounts
- No new goodwill is recognised as a result of the combination
- The statement of income reflects the result of the combining entities for the full year, irrespective of when the combination took place. Comparable figures are restated.

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

Investment in associates

Associates are those entities in which the group has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity. Investment in associates are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

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

Joint arrangements

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss, and other comprehensive income of the investee after the date of acquisition.

The group's interest in joint operations is recognised in relation to its interest in the joint operation:
- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Foreign currencies

Separate financial statements

Each entity in the group determines its functional currency based on the economic environment in which it operates, and items included in the financial statements of each entity are measured using that functional currency. When preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognised in the functional currency, using the transaction date's currency rate.

Monetary items denominated in foreign currencies are translated using the closing rate at the end of the reporting period, and any gains / losses are reported in the statement of income. Currency gains / losses related to operating activities, i.e. receivables, payables, bank accounts for operating purposes including short term intragroup balances, are classified as a part of other gains and losses. Currency effects included in Finance income and expenses are only related to financing activities like loans, long term placements and dividends.

Foreign currency differences are recognised in Other comprehensive income for the following items:
- loans to subsidiaries treated as a part of the net investment
- a financial asset or liability designated as a hedging instrument in a cash flow hedge, to the extent that the hedge is effective
- loans and currency in foreign currencies, designated as hedging instruments in a hedge of a net investment in a foreign operation

Financial statements

In consolidation of the statement of income and the statement of financial position for the separate group entities with other functional currency than the group's presentation currency, it is translated directly into the presentation currency as follows:
- Assets and liabilities are translated using the exchange rate on the balance sheet date
- Income and expenses are translated using an average exchange rate per month
- Equity transactions, except net profit or loss for the period, are translated using the transaction date rates

All resulting exchange differences are booked as a separate component in Other comprehensive income (OCI)

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

Goodwill

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

Intangible assets

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

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

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

Property, plant and equipment

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

Initial cost includes expenditures that are directly attributable to the acquisition of the asset, cost of materials, direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use and estimated dismantling or removing charges.

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

Depreciations are calculated based on estimated useful life and expected residual value for each recognised item of PPE, and are recognised in profit or loss using the straight-line method. The estimated useful lives, residual values (if any) and depreciation method is reviewed, and if necessary adjusted, at least annually. Depreciation commences when the assets are ready for their intended use.

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

Impairment of tangible and intangible assets

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

The group's cash generating units are reflecting the company's business areas, which are the basis for the management review and monthly reports. The capitalised value of tangible and intangible assets within the cash generating units is measured against the value in use of tangible assets, intangible assets and working capital within these units.

Leasing

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

Non-derivative financial assets not at fair value through profit or loss

Purchases and sales of financial assets are recognised at the date of transaction on which the group is committed to the purchase or the sale of the asset.

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

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

Financial assets at fair value through profit or loss

These are financial assets classified as held for trading as the group has acquired the assets for the purpose of selling it in the near term. The assets are carried at fair value in the statement of financial position, with gains or losses recognised in the statement of income.

Financial assets available for sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These assets are included in non-current assets in the statement of financial position, unless the management intends to sell the investment within twelve months after the reporting period.

Included in this group are investments in equity instruments that do not have a quoted market price in an active market, which therefore are measured at cost. Such investments are subject to regularly review for impairment.

Loans and receivables

This category includes accounts receivable, bills receivable, loans, restricted / guarantee deposits, and cash and cash equivalents.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. After initial recognition, they are recognised at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Cash and cash equivalents are held for the purpose of meeting short term fluctuations in liquidity, rather than for investment purposes. Bank overdrafts are shown within interest bearing current liabilities on the statement of financial position. Restricted deposits are presented separately in the statement of financial position, and are not included the cash and cash equivalents presented in the statement of cash flows.

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

Non derivative financial liabilities

Non-derivative financial liabilities include interest bearing liabilities, bills payable and accounts payable. The liabilities are initially recognised at fair value of the amount required to settle the associated obligation, net of prepaid costs directly attributable to the liability. Subsequently and insofar, as they are not designated as liabilities at fair value through profit or loss, such liabilities are recognised at amortised cost using the effective interest rate method, and the difference between the cost and the amount of repayment being recognised in the statement of income over the term of the interest bearing liabilities.

Derivative financial instruments including derivative hedging instruments and non-financial contracts with net settlements that are to be treated as financial derivatives

Derivatives are initially recognised at fair value at the date when the derivative contracts are entered into. Transaction costs that are directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss, are recognised immediately in the statement of income. Subsequently the derivatives are remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the statement of income immediately, unless the derivative is designated and is effective as a hedging instrument, in which case the change in fair value is recognised in profit or loss in the same period(s) as the hedged objects affects the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished.

Hedge accounting

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

i) Fair value hedges

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

ii) Cash flow hedges

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

iii) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and included in foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other gains and losses. Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

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

Commodity contract within the scope of IAS 39

Non-financial commodity contracts where the relevant commodity is readily convertible to cash, and where the contracts are not for own use, fall within the scope of IAS 39 Financial instruments - recognition and measurement. Such contracts are treated as derivatives in accordance with IAS 39. The group currently has energy contracts in Norway that do not meet the own use criteria according to IAS 39.5, since the power under the contracts are delivered in another grid area than the plants are located. Transfer between different grid areas is assessed to be net settlement according to IFRS as this is considered to be two different transactions. The contracts must therefore be treated as derivatives and are booked at fair value through profit or loss. Commodity contracts within the scope of IAS 39 are classified as current assets or liabilities, unless they are expected to be realised more than 12 months after the reporting period. In that case, they are classified as non-current assets. See notes 9 Other gains and losses, 26 Financial instruments and 27 Financial risk and capital management.

Inventories

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

Cost of goods sold is included in different lines in the statement of income based on nature; Raw materials and energy for smelting, Employee benefits and Other operating cost, for the remaining part.

Entities within the group sell goods to other group entities, consequently finished goods from one entity become raw materials or semi finished goods for an other group entity. The classification of goods in Elkem AS group's financial statements is based on the separate entity's classification.

Taxation

Income taxes

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

Interest and penalties related to income taxes are classified as tax expense in the statement of income, and accrued interest and penalties are included in income tax payables in statement of financial position.

Deferred tax

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

Employee retirement benefits

Defined contribution plans

Defined contribution plans comprise of arrangements whereby the company makes monthly contributions to the employees' pension plans, and where the future pensions are determined by the amount of the contributions and the return on the individual pension plan asset. The contributions are expensed as incurred, there are no further obligation related to the contribution plans. Prepaid contributions are recognised as an asset.

Long term employee benefits are presented as a part of Provisions.

Defined benefit plans

Defined benefit plans are recognised at present value of future liabilities considered retained at the end of the reporting period, calculated separately for each plan. Plan assets are recorded at fair value, and deducted in calculating the net pension liability. Past service cost arising due to amendments in the benefit plans are expensed as incurred. Accumulated effects of changes in estimates and financial and actuarial assumptions are recognised as Other comprehensive income. Service costs are classified as part of Employee benefit expenses and other employee remuneration and net interest on pension liabilities / assets are presented as a part of Finance expenses.

Multi-employer defined benefit plans where available information is insufficient to be able to calculate each participant's obligation, are accounted for as contribution plans.

Provisions

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

Contingent liabilities

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

Contingent assets

Contingent assets are not recognised, but disclosed in the notes if probable.

Revenue recognition and other income

Revenue is recognised when it is probable that a transaction will generate future economic benefits for the group and the revenue can be measured reliably. Revenue is measured at the fair value of the considerations received or receivable, net of any taxes, rebates and discounts. Revenue and expenses that relate to the same transaction are recognised simultaneously.

Revenue from sale of goods is recognised when the significant risk and reward of ownership of the goods are transferred to the buyer, according to the agreed delivery term for each sale. Delivery terms are based on Incoterms 2010 issued by International Chamber of Commerce, and the main terms are
"F" terms, where the buyer arranges and pays for the main carriage. The risk and reward are transferred to buyer when the goods are handed to the carrier engaged by the buyer.
"C" terms, where the group arranges and pays for the main carriage but without assuming the risk of the main carriage. The risk and reward are transferred buyer when the goods are handed over to the carrier engaged by the seller.
"D" terms, where the group arranges and pays for the carriage and retain the risk and reward of the goods until delivery at agreed destination. The ownership is transferred to byer upon arrival at agreed destination, usually the purchaser's warehouse.

Revenue from sale of services is recognised when the services has been provided, and are presented as other operating revenue.
External sales of electric power are recognised in income on the basis of the price agreed with the customer upon delivery.

Income from insurance settlements are recognised when it is virtually certain that the group will receive the compensation, and presented as other operating income.
Interest income is recognised on accrual basis. Dividends are recognised when shareholders' right to receive dividends is determined by the shareholder's meeting.

Grants

Grants are recognised when it is reasonable assured that the group will comply with the conditions attached to them, and the grants will be received. Grants relating to property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the lifetime of a depreciable asset by reducing the depreciation charge. Grants related to expenses are classified as Other operating income.

CO2 emission quotas

CO2 emission quotas allocated from the government are classified as grants, measured at nominal value (zero). The CO2 quotas are meant to cover CO2 emissions from the group's plants in Norway. If actual emissions exceed the allocated emission quotas, additional quotas are purchased. Purchased CO2 quotas are recognised at cost as Other operating expenses, and any sale of CO2 quotas are recognised as Revenue, according to transaction price.

CO2 compensation

The Norwegian government has, from 2013, established a CO2 compensation scheme to compensate for CO2 costs included in the power prices. The extent of the scheme may vary considerably from year to year depending on the future carbon price. This compensation scheme applies for the Norwegian plants, and is recognised as Other operating income when there is reasonable assurance that the entity will comply with the conditions attached and the grants will be received.

Statement of cash flows

The statement of cash flows is prepared under the indirect method. Cash inflows and outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash effect items. Interest received and paid and other financial expenses, such as bank guarantee expenses, are reported as a part of operating activities. Net currency gains or losses related to financing activities are reported as part of financing activities. Dividend received from joint ventures and associates are included in investing activities.

3. ACCOUNTING ESTIMATES

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions of reported estimates are recognised in the period in which the estimates are revised and in any future period affected.

The management makes estimates and assumptions concerning the future, the resulting accounting estimates will, by definition, seldom equal the actual outcome.
The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Property, plant and equipment, intangible assets and goodwill
The valuation of assets in connection with business combinations and testing of property, plant and equipment, intangible assets and goodwill for impairment (see note 12 Property, plant and equipment, Intangible assets and goodwill), is to a large extent based on estimated future cash flows. These calculations require the use of estimates for cash flows and the choice of discount rate before tax for discounting the cash flows. Tangible and intangible assets including goodwill, are tested for impairment if there are indicators that an asset may be impaired. Indicators of impairment will typically be changes in technological development and changes in the competitive situation. Intangible assets that are not amortised and goodwill are, as a minimum, tested annually for impairment.

Estimated useful lives, residual values (if any) included in calculation of depreciation and amortisation are reviewed, and if necessary adjusted, at least annually.

Deferred tax assets
The group performs annual tests for impairment of deferred tax assets. Part of the basis for recognising deferred tax assets is based on applying the loss carried forward against future taxable income in the group, which requires use of estimates for calculating future taxable income.

Financial instruments
Fair value for financial instruments are based on observable prices and assumptions derived from observable prices for comparable instruments. Net booked value as of 31 December 2017 is in total negative NOK 389 million, see note 26 Financial instruments for further details and note 27 Financial risk and capital management for sensitivity.

Provisions

Elkem AS group has several type of provisions due to its operations. The main types of provisions are related to commitments to restore the site of operations to its original conditions after use, environmental measurements and litigations. Such liabilities are normally uncertain in timing and amount, and recognised amounts are estimates based on the available information at the end of reporting period. The estimates are updated when new or updated information are available. See note 24 Provisions and other non-current liabilities.

4. REPORTABLE SEGMENTS

Elkem AS group has four reportable segments; Silicones, Silicon materials, Foundry products and Carbon.

The Silicones division produces and sells a range of silicone based products across various sub-sectors including release coatings, engineering elastomers, healthcare products, specialty fluids, emulsions and resins. The Silicones division produces siloxanes and a comprehensive range of silicones, which are a family of specialty, high performance products and materials, as well as commoditized products produced by reacting silicon with methyl chloride through various chemical reactions and formulations.

The Silicon materials division produces and sells various grades of metallurgical silicon and microsilica for use in a wide range of end applications. The Silicon Materials division manufactures and sells silicon and microsilica for a large number of applications, including for the production of silicones.

The Foundry Products division provides metal treatment solutions to iron foundries and is a supplier of high quality speciality ferrosilicon to the steel industry.

The Carbon division produces carbon electrode materials, lining materials and speciality carbon products for metallurgical processes for the production of a range of metals. The Carbon division produces carbon materials used in the production of silicon and ferroalloys.

Other comprise Elkem AS group management and centralised functions within finance, sales, logistics, power purchase and technology. External sales of power are included in revenue from sale of goods is NOK 418,180 thousand in 2017 (NOK 349,855 thousand).

Eliminations comprise intersegment sales and profit. Transaction between operating segments are conducted on an arm's length basis in a manner similar to transactions with third parties.

Elkem AS group identifies its segments according to the organisation and reporting structure decided by group management. Operating segments are components of a business that are evaluated regularly by the chief operating decision maker, defined as the CEO, for the purpose of assessing performance and allocating resources. Elkem AS group operating segments represent separately managed business areas with unique products serving different markets. Segment performance is evaluated based on gross operating profit and operating profit (loss) before other gains and losses. Elkem AS group's financing and taxes are managed on a group basis and are not allocated to operating segments.

Elkem AS group has several smaller and larger external customers, no single customer amount to 10% or more of total operating income.
Revenue from sale of goods is affected by realised effects from the group's hedging program and is included in other, see note 26 Financial instruments (section hedge accounting).

2017	**Silicones**	**Silicon materials**	**Foundry Products**	**Carbon**	**Other**	**Eliminations**	**Total**
Revenue from sale of goods	5 315 918	4 836 448	3 986 532	1 310 248	564 739	-	16 013 885
Other revenue[1]	40 986	44 807	46 654	46 964	248 598	-	428 009
Other operating income	83 396	60 663	38 956	4 984	27 989	-	215 988
Total operating income from external customers	5 440 300	4 941 918	4 072 142	1 362 196	841 326	-	16 657 882
Revenue from other group segments	10 595	592 082	175 114	214 455	376 444	(1 368 690)	-
Total operating income	5 450 895	5 534 000	4 247 256	1 576 651	1 217 770	(1 368 690)	16 657 882
Operating expenses	(4 916 742)	(4 828 515)	(3 539 876)	(1 302 916)	(1 336 574)	1 365 208	(14 559 415)
Gross operating profit	**534 153**	**705 485**	**707 380**	**273 735**	**(118 804)**	**(3 482)**	**2 098 467**
Operating profit (loss) before other gains and losses	**274 692**	**480 644**	**492 277**	**208 888**	**(147 384)**	**(3 482)**	**1 305 635**
Cash flow from operations[2]	287 621	545 762	328 807	163 372	(81 362)	3 157	1 247 357
Working capital[3]	695 151	1 160 267	1 360 293	309 753	37 181	(33 354)	3 529 291
Capital employed[4]	3 131 156	2 863 892	3 280 388	830 796	171 595	(33 354)	10 244 473
Reinvestments[5]							(711 733)
Strategic investments[6]							(299 158)
Movement CAPEX payables							80 547
Cash flow from investments in property, plant and equipment and intangible assets							(930 344)

2016	**Silicones**	**Silicon materials**	**Foundry Products**	**Carbon**	**Other**	**Eliminations**	**Total**
Revenue from sale of goods	4 870 532	3 881 820	3 420 807	1 162 891	391 341	-	13 727 391
Other revenue[1]	95 764	73 002	47 104	9 917	92 219	-	318 006
Other operating income	60 728	64 939	31 147	6 178	17 780	-	180 772
Total operating income from external customers	5 027 024	4 019 761	3 499 058	1 178 986	501 340	-	14 226 169
Revenue from other group segments	2 198	520 390	142 963	196 089	273 245	(1 134 885)	-
Total operating income	5 029 222	4 540 151	3 642 021	1 375 075	774 585	(1 134 885)	14 226 169
Operating expenses	(4 616 236)	(3 867 261)	(3 139 405)	(1 099 814)	(1 028 173)	1 142 510	(12 608 379)
Gross operating profit (loss)	**412 986**	**672 890**	**502 616**	**275 261**	**(253 588)**	**7 625**	**1 617 790**
Operating profit (loss) before other gains and losses	**148 158**	**488 309**	**304 752**	**219 612**	**(280 265)**	**7 625**	**888 191**
Cash flow from operations[2]	248 557	621 132	309 200	214 407	(295 705)	1 764	1 099 355

Working capital[3]	803 346	1 174 133	1 152 619	279 420	100 510	(29 742)	3 480 286
Capital employed[4]	2 849 342	2 827 841	2 738 915	777 297	225 719	(29 742)	9 389 372
Reinvestments[5]							(616 845)
Strategic investments[6]							(179 470)
Movement CAPEX payables							41 034
Cash flow from investments in property, plant and equipment and intangible assets							(755 281)

[1] Other revenue mainly consist of sale of services

[2] Elkem AS group definition of cash flow from operations is gross operating profit (loss) including changes in working capital and reinvestments.

[3] Working capital consists of accounts receivable, inventory, accounts payable, other current assets, other current liabilities. The definition of accounts receivable and inventory correspond with the definition for the group. Other current assets does not include short term receivables to related parties, tax receivables, grants that are net settled against tax payables, restricted deposits and accrued interest, see note 19 Other current assets. Other current liabilities does not include short-term provision and Liabilities to other related parties within China National Bluestar group, see note 25 Provision and other current liabilities. Accounts payable does not include accounts payable related to purchase of non-current assets, NOK 146 million as of 31 December 2017 (NOK 60 million).

[4] Capital employed consists of working capital as defined above, and property, plant and equipment. The definition of property, plant and equipment corresponds with the definition for the group.

[5] Reinvestments generally consist of maintenance capital expenditure to maintain existing activities or that involve investments designed to improve health, safety or the environment.

[6] Strategic investments generally consist of investments which result in capacity increases at Elkem's existing plants or that involve an investment made to meet demand in a new geographic or product area.

Total operating income by geographic market (customer location)	**2017**	**2016**
Nordic countries	2 033 454	1 537 040
United Kingdom	838 614	663 971
Germany	2 153 125	2 110 424
France	574 089	584 478
Italy	679 086	586 826
Poland	354 052	318 919
Luxembourg	568 517	281 462
Other European countries	2 189 196	1 667 185
Europe	**9 390 133**	**7 750 304**
Africa	**165 142**	**112 217**
North America	2 173 373	2 106 207
South America	981 217	880 824
America	**3 154 590**	**2 987 031**
China	1 211 387	1 030 290
Japan	694 001	675 183
South Korea	522 327	437 043
Other Asian countries	1 457 782	1 168 473
Asia	**3 885 497**	**3 310 989**
Rest of the world	**62 520**	**65 628**
Total	**16 657 882**	**14 226 169**

Information about geographical areas	**Non-current assets[1]**	
	2017	**2016**
Norway	2 821 018	2 840 677
Other Nordic countries	537 440	555 013
United Kingdom	4 487	4 415
Germany	57 611	55 585
France	2 452 347	2 187 079
Italy	87 904	71 392
Other European countries	290 373	270 097
Europe	**6 251 179**	**5 984 258**
Africa	**74 689**	**72 249**
USA	381 418	343 304
Canada	414 843	431 365
Brazil	330 430	317 740
Other South American countries	292 871	42 516
America	**1 419 561**	**1 134 924**
China	212 488	141 424
Japan	3 501	3 696
Other Asian countries	187 641	188 384
Asia	**403 630**	**333 505**
Rest of the world	-	-
Total	**8 149 059**	**7 524 936**

[1] The identification of non-current assets is based on location of operation. Excluded from non-current assets are financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

Details of other operating income:	**2017**	**2016**
Sale of fixed assets	5 202	4 040
Insurance settlement	23 118	216
Grants[1]	186 350	175 777
Other	1 317	739
Total other operating income	**215 988**	**180 772**

[1] See note 29 Grants.

5. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries and other benefits	(2 253 966)	(1 993 557)
Employer's national insurance contribution	(453 202)	(432 723)
Employee retirement benefits[1)]	(95 787)	(79 347)
Other payments / benefits	(54 680)	(54 323)
Total employee benefit expenses	**(2 857 634)**	**(2 559 950)**

[1)] See note 6 Employee retirement benefits.

Number of full time equivalents in Elkem AS group	3 851	3 652

Salary, wages and other compensations above include the following compensations:

Compensation to members of the board	**2017**	**2016**
Payment to board members in total	(500)	(489)

Senior staff compensation
Helge Aasen is the CEO of Elkem AS.

Salary and other compensations to the CEO	**2017**	**2016**
Salary, including holiday pay	(5 417)	(5 111)
Bonus [1)]	(4 932)	(3 148)
Free car	(130)	(130)
Other compensation	(31)	(28)
Pension cost	(693)	(640)

[1)] In addition to the performance bonus, a strategic project bonus of NOK 3,542 thousand was paid in 2017. In 2016 an additional strategic bonus of NOK 407 thousand and ChemChina award of NOK 604 thousand was paid.

Retirement age for the CEO is 65-70 years. Pension from the age of 70 and other pensions regarding spouse, children and disability are paid in accordance with the general pension policy of the company. In addition to the general pension policy of the company, the CEO is entitled to an early retirement annual pension, from the age of 65, of 60% of pensionable salary.

The CEO is also entitled to a performance bonus equivalent to maximum 100% of the base salary, based on the company performance.

The following applies for the CEO upon termination by the company:
- Termination payment equal to 12 months' salary is to be paid on the last working day
- Severance payment equivalent to 18 months' salary

Loans and guarantees to employees
There are no loans or guarantees to board members or the CEO.

6. EMPLOYEE RETIREMENT BENEFITS

The group has both defined contribution and defined benefit plans. For defined contribution plans the cost is equal to the group's contribution to the employee's pension savings during the period. For defined benefit plans the cost is calculated based on actuarial valuation methods, taking assumptions related to the employee's salary, turnover, mortality, discount rate, etc. into consideration.

Defined contribution plans
Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employee's pension plan, and where the employee's future pension is determined by the amount of the contributions and the return on the pension plan asset. In addition a multi-employer plan where sufficient information to calculate each participant's pension obligation is not available should be accounted for as it is a defined contribution plan.

The group's Norwegian entities are participants in the early retirement scheme AFP. This is as a multi-employer plan accounted for as a defined contribution plan, in accordance with the Ministry of Finance's conclusion. The participants in the pension plan is jointly responsible for 2/3 of the plan's pension obligation, the government is responsible for the remaining part. The yearly pension premium paid by the participants in 2017 is 2,5% of the employees salary between 1 and 7.1 G, covering this year's pension payments and contribution to a security fund for future pension obligations. The premium in per cent of salary for 2018 is equal to 2017.

Employees in the group's Norwegian entities are primarily covered by pension plans that are classified as contribution plans.

Defined benefit plans
Defined benefit plans are pension plans where the group is responsible for paying pensions at a certain level, based on employees' salaries when retiring. The group has funded and unfunded benefit plans in Norway, France, Germany, UK, Canada, Japan and South Africa, distributed as follows: Norway 16 per cent, France 45 per cent, other Europe 21 per cent, Canada 16 per cent, other countries 2 per cent, based on net pension obligation per 31 December 2017. In Norway most of the pension plans comprise pension on salaries above a certain level (12G, where G refers to the national insurance scheme's basic amount in Norway, amounting to NOK 93,634 for 2017) and closed individual retirement schemes, plans which are unfunded. In Canada provisions are made for medical insurance as well as pension benefit plans.

Net interest is calculated based on net pension liability at the start of the period, multiplied by the discount rate. Any difference between actual return on pension assets and the interest income calculated as a part of the net interest, will be recognised directly in OCI. Interest on net pension liabilities are presented as a part of Finance expenses.

Breakdown of net pension expenses	**2017**	**2016**
Current service expenses	(27 989)	(23 704)
Accrued employer's national insurance contribution	(345)	(290)
General administration expenses	(559)	(820)
Net pension expenses, defined benefit plans	(28 893)	(24 814)
Curtailment/settlement of pension plans	4 106	11 241
Defined contribution plans	(57 496)	(52 160)
Early retirement scheme AFP (Norway)	(13 504)	(13 614)
Pension contribution expenses	(66 894)	(54 533)
Net pension expenses total	**(95 787)**	**(79 347)**
In addition, interest expenses on net pension liabilities is recognised as a part of finance expenses.	(8 758)	(9 640)

Net liabilities arising from defined benefit obligations	**2017**	**2016**
Present value of funded pension obligation	(422 642)	(434 716)
Fair value of plan assets	385 561	395 299
Net funded pension obligation	(37 081)	(39 417)
Present value of unfunded pension obligation	(407 325)	(383 122)
Net value of funded and unfunded obligations	(444 406)	(422 539)
Net pension liabilities	**(444 406)**	**(422 539)**
Net pension assets	401	2 949
Net pension liabilities	(444 807)	(425 488)
Net pension liabilities	**(444 406)**	**(422 539)**

Movement in the defined benefit obligations and plan assets

Movement in defined benefit obligations	**2017**	**2016**
Opening balance	(817 838)	(757 368)
Current service expenses and social contribution tax	(28 022)	(23 994)
Interest expenses	(22 865)	(23 938)
Actuarial gains / (losses)	8 234	(64 736)
Benefits paid	46 732	40 710
Business combinations and disposals	-	(27 288)
Curtailments/settlements	60 494	11 241
Other changes	(42 050)	(5 570)
Currency translation	(34 651)	33 104
Present value of pension obligation as at 31 December	(829 967)	(817 838)

Movement in fair value of plan assets	**2017**	**2016**
Opening balance	395 300	363 633
Interest income	14 107	14 298
Administration cost	(559)	(820)
Actuarial gains / (losses)	(7 263)	9 559
Contributions from employer	16 166	15 648
Benefits paid	(24 920)	(21 229)
Business combinations and disposals	-	26 509
Curtailments/settlements	(56 388)	-
Other changes	40 785	4 800
Currency translation	8 333	(17 099)
Fair value of plan assets as at 31 December	385 561	395 300

Breakdown of pension plan assets (fair value) as at 31 December	**Distribution % 2017**	**Fair value of plan assets 2017**	**Distribution % 2016**	**Fair value of plan assets 2016**
Cash, cash equivalents and money market investments	2 %	9 553	10 %	40 124
Bonds	45 %	172 080	40 %	156 610
Shares	52 %	199 336	49 %	194 518
Property	1 %	4 593	1 %	4 049
Total pension fund	100 %	**385 561**	100 %	**395 300**

	2017		**2016**	
Actual return on plan assets	4,8 %	**20 860**	6,1 %	**22 352**

In addition, some Norwegian entities have pension contribution funds, mainly based on excess pension assets from settlement of the defined benefit plans in 2010.
The pension contribution funds are classified as long-term pension funds, except next year's expected contributions which are classified as short-term (see note 16 Other non-current assets and 19 Other current assets).

Pension contribution funds	**2017**	**2016**
Current part of contribution fund	2 928	6 094
Long-term part of contribution fund	1 200	2 760
	4 128	**8 854**

Summary of pension liabilities and remeasurements

Net pension liabilities	**2017**	**2016**
Pension obligations	(829 967)	(817 838)
Pension plan assets	385 561	395 299
	(444 406)	**(422 539)**

Remeasurement effects recognised in other comprehensive income this period	**2017**	**2016**
Changes in actuarial gain / (loss) in pension obligation	8 234	(64 736)
Changes in actuarial gain / (loss) in pension assets	(7 263)	9 559
	971	**(55 177)**

The principal assumptions used for the actuarial valuations in 2017 and 2016

	Norway	**France**	**Canada**	**Germany**	**UK**
Discount rate	2.2% (2.0%)	1.5% (1.0%)	3.5% (3.8%)	1.7% (1.8%)	2.4% (2.6%)
Expected rate of salary increase	2.3% (2.0%)	2,5% (2.5%)	3,5% (3.5%)	3.0% (3.0%)	3.3% (3.4%)
Annual regulation of pensions paid	1.0% (1.0%)	-	-	2.0% (2.0%)	-
Change in public pension base rate (G)	2.3% (2.0%)	-	-	-	-

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country.

Sensitivity on pension liabilities based on changes in main actuarial assumptions:
The defined benefit pension schemes exposes the group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk.
A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities.

The sensitivity analysis below shows estimated effects in the defined pension liabilities based on reasonable changes in the main assumptions.
The calculations are based on a change in one assumption while holding all other assumptions constant. Negative amounts shows a expected decrease in the net pension liability.

Assumption	**Discount rate**		**Life expectancy**		**Salary growth**	
	0.5% increase	0.5% decrease	1 year increase	1 year decrease	0.5% increase	0.5% decrease
2017: Effect on the pension liability in NOK million	(51)	56	28	(29)	21	(20)
2016: Effect on the pension liability in NOK million	(53)	58	25	(25)	25	(23)

As the group's main pension plans are defined contribution plans, there are no group policies for funding of the defined benefit plans. This is managed locally, based on the terms and status for the individual plan.

Expected contribution for the pension plans next year and average duration for the main defined benefit plans

	Norway	**France**	**Canada**	**Germany**	**UK**
Contribution to be paid to defined pension plans next year	4 809	38 116	16 031	1 569	4 058
Weighted average duration of the defined benefit obligation	8 years	10 years	18 years	15 years	15 years

7. OTHER OPERATING EXPENSES

	2017	2016
Loss on disposal of fixed assets	(1 216)	(2 464)
Freight and commission expenses	(1 031 434)	(835 773)
Leasing expenses	(163 255)	(139 667)
External services [1]	(1 393 075)	(1 250 508)
Insurance expenses	(55 718)	(58 786)
Impairment losses receivables	(4 897)	(7 329)
Other operating expenses [2) 3)]	(926 279)	(854 865)
Total other operating expenses	**(3 575 874)**	**(3 149 390)**
[1] Including services from auditor, see specification below		
[2] Including change in direct costs on inventory	65 442	69 566
[3] Including capitalised salary on fixed asset projects of NOK 65,442 thousand (NOK 69,566 thousand)		

During 2017, Elkem AS group expensed NOK 359,600 thousand (NOK 338,753 thousand) as research and development related to processes, products and business development, including improvement projects and technical customer support to customers. In addition, capitalised R&D expenses amounts to NOK 53,530 thousand (NOK 52,341 thousand).

Grants received relating to research and development amount to NOK 81,000 thousand for 2016 (NOK 65,907 thousand) are included in other operating income.

KPMG is the group auditor of Elkem AS group. KPMG succeeded PwC as Elkem AS group auditor with effect from the fiscal year 2016.
The following table shows fees to KPMG and fees to PwC and other audit firms.

Audit and other services	**2017**	**2016**
KPMG		
Audit fee	(12 296)	(8 348)
Other assurance services	(187)	(1 268)
Tax services	(287)	-
Other services	(298)	-
PwC and other audit firms		
Audit fee	(1 579)	(4 858)
Other assurance services	(1 002)	(680)
Tax services	(5 188)	(5 568)
Other services	(3 591)	(1 880)
Total	**(24 428)**	**(22 602)**

In addition to the above, services of NOK 21 969 thousand in other service from KPMG have been provided and invoiced through Elkem AS to Bluestar Elkem International Co., Ltd. S.A. with NOK 16 057 thousand in 2017 and NOK 5 912 thousand in 2016.

Fees to auditors are reported exclusive of VAT.

8. OPERATING LEASE

	Machinery and plant	Land, buildings and other properties	Equipment, furniture, systems and vehicles	Total
Lease expenses 2017	(22 286)	(96 249)	(44 720)	**(163 255)**
Lease in accordance to contract due:				
Within one year	(6 663)	(57 417)	(34 464)	**(98 544)**
In the second to fifth year inclusive	(4 178)	(121 775)	(62 688)	**(188 641)**
Over five years	(559)	(18 241)	(1 576)	**(20 376)**

	Machinery and plant	Land, buildings and other properties	Equipment, furniture, systems and vehicles	Total
Lease expenses 2016	(13 659)	(82 380)	(43 628)	**(139 667)**
Lease in accordance to contract due:				
Within one year	(6 061)	(50 969)	(36 847)	**(93 877)**
In the second to fifth year inclusive	(2 196)	(124 961)	(104 950)	**(232 106)**
Over five years	-	(50 112)	(16 439)	**(66 551)**

New IFRS 16 Leases

The new standard, applicable in 2019, requires lessees to initially recognize a right-of-use asset and the associated lease liability for the lease term for all lease contracts (with an option to exclude leases with a lease term of 12 months or less and leases for which the underlying asset is of low value). The lease liability is measured at the present value of the lease payments over the lease term. Based on reported leases the effect of implementing the new standard is estimated to a capitalisation of more than NOK 250,000 thousand. The effect would reduce the group's equity ratio in 2017 from 51% to approximately 50%. Under the current IFRS, leases classified as operational leases are presented as operating expenses. Under the new IFRS 16 the capitalised leases will be depreciated over the lease term and presented as depreciation, and the interest effect from the discounted liability will be presented as a financial item in the statement of income. There will be limited effects in Profit (loss) before income tax due to the changes.

9. OTHER GAINS AND LOSSES

	2017	2016
Dividend from shares	4 361	2 344
Write-down / reversal of write down of interest in other companies	2 052	(1 838)
Gains / losses disposal of shares	10	-
Gains / losses disposal of subsidiaries	-	1 305
Change in fair value commodity contracts	26 071	58 563
Ineffectiveness on cash flow hedges	43 023	(4 584)
Net foreign exchange gains / losses - foreign exchange forward contracts	(3 180)	26 595
Operating foreign exchange gains / losses	(5 108)	(19 936)
Other expenses [1]	(17 916)	(10 011)
Total other gains and losses	**49 313**	**52 438**

[1] Other expenses consist mainly of expenses related to business projects and business combinations.

See note 26 Financial instruments for details related to valuation and recognition of financial assets and liabilities.

10. FINANCE INCOME AND EXPENSES

	2017	2016
Interest income	17 918	21 779
Interest income from Bluestar Elkem International Co. Ltd. S.A	308	-
Other financial income	993	838
Total finance income	**19 219**	**22 617**
Interest expenses on interest-bearing liabilities measured at amortised cost	(73 046)	(70 833)
Interest expenses from other financial liabilities measured at amortised cost	(25 373)	(10 881)
Unwinding of discounted liabilities	(10 259)	3 669
Interest on net pension liabilities	(8 758)	(9 640)
Other financial expenses	(1 940)	(816)
Total finance expenses	**(119 376)**	**(88 501)**
Net foreign currency translation expenses	(7 701)	49 661
Net Finance income (expenses)	**(107 858)**	**(16 223)**

11. TAXES

Income tax recognised in profit or loss	2017	2016
Profit (loss) before income tax	1 281 234	946 537
Current taxes	(259 305)	(158 281)
Deferred taxes	(10 086)	(30 286)
Total income tax (expense) benefit	**(269 390)**	**(188 567)**

Income taxes recognised in other comprehensive income (OCI)	2017	2016
Remeasurements of post employment benefit obligation	2 264	13 587
Hedging of net investment in foreign operations	48 039	(6 108)
Cash flow hedges	(4 444)	(238 356)
Total tax charged to OCI	**45 859**	**(230 877)**

Reconciliation of income tax (expense) benefit	2017	2016
Profit (loss) before income tax	**1 281 234**	**946 537**
Expected income taxes, 24% of profit before tax (25%)	(307 496)	(236 634)
Tax effects of:		
Difference in tax rates for each individual jurisdiction	(8 844)	(12 252)
Permanent differences		
Tax effect of income from Norwegian controlled foreign companies (NOKUS)	(6 907)	(6 619)
Tax effect share of profit (loss) associates and joint ventures	7 458	4 667
Tax effects other permanent differences	26 857	10 407
Other effects		
Tax effect of changes in not recognised deferred tax assets	14 306	65 500
Tax credits utilised	12 014	(1 199)
Tax effect change in tax rate[1]	11 177	6 190
Other current tax paid[2]	(24 065)	(33 258)
Previous year tax adjustment	6 110	14 631
Income tax (expense) benefit	**(269 390)**	**(188 567)**
Effective tax rate	21 %	20 %

[1] The effect relates mainly to changes in tax rate from 24% to 23% in Norway and 38,6% to 21% in USA from 2018 and in 2016 changes in tax rate from 25% to 24% in Norway from 2017. The changes in tax rates were approved by the governments before year end the respective years.

[2] Other current tax relates mainly to withholding tax on dividend from subsidiaries.

Deferred tax assets and deferred tax liabilities	31.12.2017	31.12.2016
Cash flow hedges recognised in other comprehensive income	135 191	139 635
Property, Plant, Equipment and Intangible assets	(449 146)	(446 245)
Pension fund	116 965	118 629
Other differences	(60 467)	(37 681)
Accounts receivable	3 377	(1 378)
Inventories	(11 168)	(51 759)
Provisions	100 538	95 745
Debt forgivenes[1)]	376 139	448 547
Tax losses to carry forward	451 347	415 510
Deferred tax assets (liabilities)	**662 776**	**681 003**
Not recognised deferred tax asset to tax losses to carry forward	(300 666)	(279 290)
Not recognised deferred tax asset other items[1)]	(377 113)	(448 547)
Net deferred tax assets (liabilities) recognised	**(15 003)**	**(46 834)**

[1)] See section other maters below

Change in net deferred tax assets and deferred tax liabilities	2017	2016
1 January	(46 834)	199 493
Recognised in profit or loss for the year	(10 086)	(30 286)
Effect of business combination	(5 689)	12 303
Recognised in other comprehensive income	45 859	(230 877)
Foreign currency exchange differences	1 747	2 533
31 December	**(15 003)**	**(46 834)**

Deferred taxes	31.12.2017	31.12.2016
Deferred tax assets	89 584	67 348
Deferred tax liabilities	(104 587)	(114 182)
Net deferred tax assets (liabilities)	**(15 003)**	**(46 834)**

31.12.2017 Tax losses to carryforward	Gross tax losses to carryforward	Net tax losses to carryforward	Not recognised tax loss carryforward	Recognised tax loss carryforward
France	1 067 494	355 648	(207 641)	148 007
Brazil	249 603	84 865	(84 865)	-
USA	3 963	1 530	-	1 530
UK	5 458	928	-	928
Malaysia	16 732	4 016	(3 812)	204
Paraguay	33 038	3 304	(3 304)	-
India	3 054	1 057	(1 045)	12
Total related to loss carryforward	**1 379 342**	**451 348**	**(300 667)**	**150 681**

31.12.2016 Tax losses to carryforward	Gross tax losses to carryforward	Net tax losses to carryforward	Not recognised tax loss carryforward	Recognised tax loss carryforward
France	955 235	328 509	(199 721)	128 788
Brazil	234 689	79 794	(75 450)	4 344
USA	7 929	3 062	-	3 062
UK	3 686	737	(733)	4
Malaysia	14 108	3 386	(3 386)	-
Croatia	109	22	-	22
Total related to loss carryforward	**1 215 756**	**415 510**	**(279 290)**	**136 220**

The major part of the taxable loss can be carried forward for an unlimited period.

Deferred tax assets not recognised current year

When an entity has a history of recent losses, the deferred tax assets arising from unused tax losses is recognised only to the extent that there is convincing evidence that sufficient future taxable profit will be generated.

Other tax related matters

Elkem Silicones France SAS has four Elkem AS group internal debt-forgiveness agreements where internal loans were converted to equity and the converted amounts were treated as taxable income. Elkem Silicones France SAS can only utilise the agreements to the extent that the company has an accounting profit according to IFRS. All debt that is repaid under the agreements can be deducted against taxable income. Nominal value of the agreements as of 31 December 2017 are EUR 136 million (EUR 148 million). Elkem Silicones France SAS has repaid NOK 114,534 thousand in 2017 (NOK 47,100 thousand) that gives a tax credit of NOK 38,186 thousand (NOK 15,703 thousand). The amount is included in tax effect of changes in not recognised deferred tax assets in the reconciliation of income tax (expense) benefit above.

Debt forgiveness in	2010	2012	2013	2014	Total
Gross value of debt forgiveness	835 036	196 896	157 517	268 438	1 457 887
Usage 2017	(114 534)	-	-	-	(114 534)
Total debt that can be reversed	**720 502**	**196 896**	**157 517**	**268 438**	**1 343 353**
Deferred tax asset not recognised[1)]	**201 741**	**55 131**	**44 105**	**75 163**	**376 139**

[1)] Based on tax rate 28%, which is applicable in France from 2019, compared to 33,3% per today.

The respective agreements expire in	8 years	10 years	11 years	12 years	

Debt forgiveness in	2010	2012	2013	2014	Total
Gross value of debt forgiveness	817 675	181 705	145 364	247 728	1 392 472
Usage 2016	(47 100)	-	-	-	(47 100)
Total debt that can be reversed	**770 575**	**181 705**	**145 364**	**247 728**	**1 345 372**
Deferred tax asset not recognised	**256 910**	**60 580**	**48 464**	**82 593**	**448 547**

The respective agreements expire in	9 years	11 years	12 years	13 years	

Pending tax issues with the tax authorities

See note 24 Provisions and other non-current liabilities.

12. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

PROPERTY, PLANT AND EQUIPMENT

2017	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2017	**114 078**	**1 431 076**	**3 754 746**	**182 526**	**426 660**	**5 909 087**
Additions	646	2 895	9 030	4 863	912 447	**929 881**
Disposals	-	(16)	(1 536)	(279)	-	**(1 831)**
Business combination[1]	26 704	-	4 070	1 311	251 657	**283 742**
Reclassification	1 336	189	(4 378)	5 086	(479)	**1 754**
Transferred from CiP	28 764	41 616	472 542	23 348	(566 270)	**-**
Impairment losses	(255)	(772)	(14 527)	(1 255)	-	**(16 809)**
Depreciation expenses	(4 436)	(104 630)	(538 753)	(38 727)	-	**(686 546)**
Foreign currency exchange differences	7 438	25 281	94 567	1 817	20 554	**149 657**
Closing balance Net booked value 2017	**174 275**	**1 395 639**	**3 775 761**	**178 690**	**1 044 569**	**6 568 934**
Fixed assets under financial leasing						
Included in Net booked value	-	-	2 955	719	-	**3 674**
Historical cost	229 780	3 104 394	10 444 606	567 483	1 044 569	**15 390 832**
Accumulated depreciation	(44 198)	(1 696 745)	(6 570 795)	(388 157)	-	**(8 699 895)**
Accumulated impairment losses	(11 307)	(12 010)	(98 050)	(636)	-	**(122 003)**
Closing balance Net booked value 2017	**174 275**	**1 395 639**	**3 775 761**	**178 690**	**1 044 569**	**6 568 934**
Estimated useful life	0–50 years	5–50 years	3–50 years	3–20 years		
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line		

[1] See note 31 Business combination

Depreciations start when the asset is ready for it's intended use. Land is not depreciated.

2016	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2016	**110 050**	**1 331 921**	**3 403 958**	**161 142**	**595 138**	**5 602 208**
Additions	856	554	22 442	6 496	663 362	**693 710**
Disposals	-	(50)	(1 683)	(527)	-	**(2 261)**
Business combination[1]	-	116 017	232 153	1 270	8 367	**357 808**
Reclassification[2]	(137)	(10 064)	(7 786)	427	-	**(17 560)**
Transferred from CiP	10 023	110 987	664 265	53 272	(838 548)	**-**
Impairment losses	-	(7 079)	(4 646)	(93)	-	**(11 818)**
Depreciation expenses	(2 369)	(93 463)	(501 569)	(37 464)	-	**(634 865)**
Foreign currency exchange differences	(4 345)	(17 747)	(52 387)	(1 998)	(1 659)	**(78 135)**
Closing balance Net booked value 2016	**114 078**	**1 431 076**	**3 754 746**	**182 526**	**426 660**	**5 909 087**
Fixed assets under financial leasing						
Included in Net booked value	21 193	-	10 408	1 378	-	**32 979**
Historical cost	160 860	3 022 230	9 812 611	531 801	426 660	**13 954 162**
Accumulated depreciation	(36 071)	(1 579 672)	(5 962 242)	(348 647)	-	**(7 926 630)**
Accumulated impairment losses	(10 711)	(11 482)	(95 624)	(628)	-	**(118 445)**
Closing balance Net booked value 2016	**114 078**	**1 431 076**	**3 754 746**	**182 526**	**426 660**	**5 909 087**

[1] See note 31 Business combination

[2] In 2014 when Elkem group purchased assets from MSCH Europe GmbH, the right to use the technology related to the production process was included. In 2016 the value of the technology, NOK 17,560 thousand, is reclassified from Machinery and plants to intangible assets. The estimated useful life is not changed, and the reclassification does not affect comparable figures in the statement of income.

INTANGIBLE ASSETS AND GOODWILL

2017	Goodwill	Other intangible assets	Technology and licences	New products	IT systems and programmes	Intangible assets under construction	Total other intangible assets
Opening balance Net booked value 2017	**342 645**	**105 479**	**153 976**	**162 385**	**118 539**	**152 635**	**693 013**
Additions	**-**	226	-	-	1 613	84 825	**86 664**
Business combination	**(19 900)**	(2 038)	-	-	336	-	**(1 702)**
Reclassification	**-**	672	(984)	-	(1 442)	-	**(1 754)**
Transferred from CiP	**-**	-	6 594	99 726	20 762	(127 082)	**-**
Amortisation	**-**	(6 214)	(20 022)	(38 325)	(24 916)	-	**(89 477)**
Foreign currency exchange differences	**3 578**	3 781	11 690	10 145	9	6 981	**32 605**
Closing balance Net booked value 2017	**326 323**	**101 906**	**151 254**	**233 931**	**114 900**	**117 359**	**719 350**
Historical cost	**326 323**	173 898	476 853	548 397	339 890	117 359	**1 656 397**
Accumulated amortisation	**-**	(71 135)	(325 599)	(314 466)	(224 990)	-	**(936 190)**
Accumulated write-downs	**-**	(857)	-	-	-	-	**(857)**
Closing balance Net booked value 2017	**326 323**	**101 906**	**151 254**	**233 931**	**114 900**	**117 359**	**719 350**
Estimated useful life	Indefinite	3–10 years	3–15 years	3–16 years	3–10 years		
Amortisation plan		Straight-line	Straight-line	Straight-line	Straight-line		

Additions in 2017 mainly consist of development projects of NOK 53,530 thousand.

2016	Goodwill	Other intangible assets	Technology and licences	New products	IT systems and programmes	Intangible assets under construction	Total other intangible assets
Opening balance Net booked value 2016	**244 088**	**63 681**	**168 533**	**189 076**	**120 805**	**101 398**	**643 493**
Additions	-	6 517	102	-	5 547	93 292	**105 458**
Disposals	**(23)**	-	-	-	-	-	**-**
Business combination	**98 030**	36 289	-	-	8	-	**36 297**
Reclassification	**-**	12 617	3 138	869	937	-	**17 560**
Transferred from CiP	-	-	5 720	16 722	14 237	(36 679)	**-**
Amortisation	**-**	(2 988)	(21 242)	(35 793)	(22 893)	-	**(82 916)**
Foreign currency exchange differences	**550**	(10 637)	(2 275)	(8 489)	(102)	(5 376)	**(26 879)**
Closing balance Net booked value 2016	**342 645**	**105 479**	**153 976**	**162 385**	**118 539**	**152 635**	**693 013**
Historical cost	**342 645**	166 153	436 128	416 141	318 256	152 635	**1 489 314**
Accumulated amortisation	**-**	(59 883)	(282 153)	(253 757)	(199 717)	-	**(795 510)**
Accumulated write-downs	**-**	(790)	-	-	-	-	**(790)**
Closing balance Net booked value 2016	**342 645**	**105 480**	**153 975**	**162 385**	**118 539**	**152 635**	**693 013**
Estimated useful life	Indefinite	3–10 years	3–15 years	3–16 years	3–10 years		
Amortisation plan		Straight-line	Straight-line	Straight-line	Straight-line		

Additions in 2016 mainly consist of development projects of NOK 52,926 thousand.

Goodwill

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

Impairment test goodwill and intangible assets

Goodwill per entity/CGU 2017	Silicon materials	Silicones	Foundry products	Carbon	Total
Elkem Foundry Hingna Nagpur	-	-	40 418	-	**40 418**
Elkem Rana AS	39 965	-	-	-	**39 965**
Elkem Oilfield Chemical FZCO	19 139	-	-	-	**19 139**
Elkem Materials Process Services BV	142	-	-	-	**142**
Elkem Participacòes Indústria e Comércio Limitada	-	-	-	10 325	**10 325**
Ferroveld JV	-	-	-	49 161	**49 161**
Elkem Carbon China Comp Ltd	-	-	-	1 000	**1 000**
NEH Inc.	21 479	-	55 663	14 259	**91 401**
Silicones	-	74 771	-	-	**74 771**
Total Goodwill	**80 725**	**74 771**	**96 081**	**74 745**	**326 323**

Goodwill per entity/CGU 2016	Silicon materials	Silicones	Foundry products	Carbon	Total
Elkem Foundry Hingna Nagpur	-	-	36 979	-	**36 979**
Elkem Rana AS	61 903	-	-	-	**61 903**
Elkem Oilfield Chemical FZCO	20 110	-	-	-	**20 110**
Elkem Materials Process Services BV	142	-	-	-	**142**
Elkem Participacòes Indústria e Comércio Limitada	-	-	-	10 930	**10 930**
Ferroveld JV	-	-	-	46 559	**46 559**
Elkem Carbon China Comp Ltd	-	-	-	1 000	**1 000**
NEH Inc.	22 565	-	58 476	14 979	**96 020**
Silicones		69 003	-	-	**69 003**
Total Goodwill	**104 719**	**95 455**	**69 003**	**73 468**	**342 645**

Discounted cash flow models are applied to determine the value in use for the cash-generating units. Management in each CGU has projected cash flows based on forecast and strategy plans covering a four-year period. Currency rates and power prices are based on external official sources such as Reuters and Nasdaq. Beyond the explicit forecast period of four years, the cash flows are extrapolated using constant nominal growth rates.

Key assumptions

Key assumptions used in the calculation of value in use are growth rate, gross operating profit (loss) levels, capital expenditure and discount rates.

Growth rates: The expected growth rates for a cash-generating unit converge from its current level experienced over the last few years, to the long-term growth level in the market in which the entity operates. The growth rates used to extrapolate cash flow projections beyond the explicit forecast period, are based on management's past experience, assumptions in terms of market share and expectations for the market development in which the entity operates.

Gross operating profit (loss) levels: The gross operating profit (loss) level represents the operating margin before depreciation and amortisation, and it is estimated based on the current level and expected future market development, which also takes into consideration committed operational efficiency programs. Changes to the outcome of these initiatives may affect future estimated gross operating profit (loss) levels.

Capital expenditure ("Capex"): A normalised capex is assumed in the long run. Estimated capital expenditures do not include capital expenditures that significantly enhance the current performance, as such effects generally are not included in the cash flow projections.

Discount rates: The required rate of return was calculated by the WACC method. The cost of a company's equity and liabilities, weighted to reflect its capital structure of 50:50 respectively, derive from its weighted average cost of capital. The WACC rates used in discounting the future cash flows, are based on Norwegian 10 year risk-free interest rate for Foundry products, Silicon Materials and Carbon. For Silicones the interest rate is based on the European 10 year bond rate.
The rates are adjusted for inflation differential and country risk premium. The discount rates also take into account the debt premium, market risk premium, corporate tax rate and asset beta.

The following post-tax discount rates (WACC) and sustained growth rate for year five and forward have been used for the impairment tests:

	WACC	Growth
Foundry products	7.8%	2.0 %
Silicon materials	7.8%	2.0 %
Carbon	8.9%	2.0 %
Silicones	8.7%	2.0 %

Impairment test results and conclusion
Value in use for each CGU exceeds carrying amount. The impairment tests indicate no requirement for write-down.

Sensitivity of estimated cash flows
An increase of 1 percentage point in WACC will not result in an impairment for the Elkem AS group.
A change of 10 % in other key assumptions will not result in an impairment for the Elkem AS group.

13. JOINT ARRANGEMENTS

Elkem AS group has interests in the following jointly controlled arrangements:

Name of entity	Business office	Country	Principal activities
Elkem Ferroveld JV	Ferrobank Emalahleni	South Africa	Electrode paste production
Dehong Elkem Materials Co. Ltd	Dehong, Yunnan	China	Microsilica production
Elkania DA	Hauge i Dalane	Norway	Microfine weighting material
Elkem Uruguay SA (formerly Igazú Alloys S.A.)	Montevideo	Uruguay	Production of foundry products
North Sea Container Line AS	Haugesund	Norway	Shipping services
Kaif EHF	Gradating, Atranes	Iceland	Transportation / harbour services
Salten Energigjenvinning AS	Oslo	Norway	Energy production

Name of entity	% equity interest 2017	% equity interest 2016	2017 Classification[1]	2016 Classification[1]
Elkem Ferroveld JV	50 %	50 %	JO	JO
Dehong Elkem Materials Co. Ltd[2]	-	-	-	JO
Elkania DA	50 %	50 %	JO	JO
Elkem Uruguay SA[3]	-	50 %	-	JV
North Sea Container Line AS	50 %	50 %	JV	JV
Klafi EHF	50 %	50 %	JV	JV
Salten Energigjenvinning AS[4]	50 %	-	JV	JV

[1] JO is equal to joint operations and JV is equal to joint ventures.
[2] Liquidated during 2016.
[3]The remaining shares in Elkem Uruguay SA (formerly Igazú Alloys S.A.) were purchased in September 2017, see note 31 business combination. The company's results are included as a joint venture up to the date its remaining shares were purchased. No gain or loss is recognised from remeassurement of previously held equity interests due to the transaction.
[4] Incorporated 1 June 2017.

There is no quoted market price for the investments.

See note 28 Related party transactions for transactions with joint arrangements.
There are no contingent liabilities or commitments related to the joint ventures.

	2017	2016
Total interest in joint ventures 1 January	**108 978**	**52 935**
Acquired shares	19 528	60 272
Disposal of shares in Joint ventures	(28 519)	-
Dividend received	(12 000)	(15 000)
Share of profit (loss) for the year	17 682	1 408
Currency translation differences transferred to income on disposal	(4 835)	-
Currency translation differences	(2 963)	9 363
Total interest in joint ventures 31 December	**97 871**	**108 978**

Summary of financial information for joint ventures

	2017
Current assets, including cash and cash equivalents NOK 105,683 thousand	211 124
Non-current assets	31 932
Current liabilities, including current financial liabilities NOK 0	42 607
Non-current liabilities, including non-current financial liabilities NOK 4,707 thousand	4 707
Net assets/equity	**195 742**
Group's carrying amount	97 871
Total revenue	489 772
Total expenses, including depreciation and amortisation NOK 2,768 thousand	(458 057)
Financial income, including interest income NOK 1,054 thousand	1 054
Financial expenses, including interest expenses NOK 146 thousand	2 981
Tax expense	(388)
Total profit for the year	35 363
Other comprehensive income	-
Total comprehensive income	35 363
Group's share of profit for the year	17 682
Group's share of other comprehensive income	-

Summary of financial information for joint ventures

	2016
Current assets, including cash and cash equivalents NOK 91,851 thousand	171 551
Non-current assets	289 129
Current liabilities, including current financial liabilities NOK 5,373 thousand	41 464
Non-current liabilities, including non-current financial liabilities NOK 200,531 thousand	201 261
Net assets/equity	217 955
Group's carrying amount	108 978
Total revenue	423 875
Total expenses, including depreciation and amortisation NOK 2,197 thousand	(417 845)
Financial income, including interest income NOK 785 thousand	785
Financial expenses, including interest expenses NOK 298 thousand	(3 433)
Tax expense	(567)
Total profit for the year	2 815
Other comprehensive income	-
Total comprehensive income	2 815
Group's share of profit for the year	1 408
Group's share of other comprehensive income	-

14. INTEREST IN ASSOCIATES AND OTHER COMPANIES

	31.12.2017	31.12.2016
Interest in associates	60 644	54 543
Interest in other companies	51 323	45 973
Total interest in associates and other companies	**111 967**	**100 516**

	2017	2016
Total interest in associates at opening balance	54 543	47 788
Share of profit	16 462	20 722
Dividend received	(13 037)	(11 190)
Part of other comprehensive income	(325)	-
Other changes	3 001	(2 777)
Total interest in associates	**60 644**	**54 543**

As at 31 December 2017 Elkem AS group has interest in the following associates:

Name of entity	Principal activities	Country	Proportion of shares/votes (%)	Net assets	Total operating income	Group's share of profit	Carrying amount
Elkem Chartering AS	Deep sea charter services	Oslo, NO	25 %	91 528	91 418	7 638	22 882
Euro Nordic Agencies Belgium NV	Ship agencies services	Antwerp, BE	50 %	2 780	124 084	557	1 390
Euro Partnership BV	Ship management services	Moerdijk, NL	50 %	60 638	489	5 310	30 319
Combined Cargo Warehousing BV	Warehousing	Moerdijk, NL	33 %	18 342	23 463	2 957	6 053
Total interest in associates						**16 462**	**60 644**

As at 31 December 2016 Elkem AS group has interest in the following associates:

Name of entity	Principal activities	Country	Proportion of shares/votes (%)	Net assets	Total operating income	Group's share of profit	Carrying amount
Elkem Chartering AS	Deep sea charter services	Oslo, NO	25 %	62 276	93 877	7 740	15 569
Euro Nordic Agencies Belgium NV	Ship agencies services	Antwerp, BE	50 %	1 494	564	282	747
Euro Partnership BV	Ship management services	Moerdijk, NL	50 %	66 426	20 650	10 325	33 213
Combined Cargo Warehousing BV	Warehousing	Moerdijk, NL	33 %	15 194	28 790	2 375	5 014
Total interest in associates						**20 722**	**54 543**

15. GROUP ENTITIES

The following entities are included in the consolidated financial statements

Company	Functional currency	Country of incorporation	2017 Equity interest	2016 Equity interest	Owner
Aleaciones Yguazú S.A.[1]	PYG	Paraguay	100 %	50 %	Elkem Uruguay SA
Elkania DA	NOK	Norway	50 %	50 %	Elkem AS
Elkem Carbon (China) Comp Ltd	CNY	China	100 %	100 %	Elkem Carbon Singapore Pte. Ltd.
Elkem Carbon AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem Carbon Malaysia Sdn. Bhd.	MYR	Malaysia	100 %	100 %	Elkem Carbon AS
Elkem Carbon Singapore Pte. Ltd.	SGD	Singapore	100 %	100 %	Elkem Carbon AS
Elkem Chartering Holding AS	NOK	Norway	80 %	80 %	Elkem AS
Elkem Distribution Center B.V.	EUR	Netherlands	100 %	100 %	Elkem AS
Elkem Egypt for Industry, Contracting & Trading S.A.E	USD	Egypt	100 %	100 %	Elkem International AS
Elkem Ferroveld JV	ZAR	South Africa	50 %	50 %	Elkem Carbon AS
Elkem Foundry (China) Co. Ltd	CNY	China	100 %	100 %	Elkem AS
Elkem Foundry Invest AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem GmbH	EUR	Germany	100 %	100 %	Elkem AS
Elkem Iberia SLU	EUR	Spain	100 %	100 %	Elkem AS
Elkem International AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem International Trade (Shanghai) Co. Ltd.	CNY	China	100 %	100 %	Elkem International AS
Elkem Island EhF	NOK	Iceland	100 %	100 %	Elkem AS
Elkem Japan K.K	JPY	Japan	100 %	100 %	Elkem AS
Elkem LTD	GBP	United Kingdom	100 %	100 %	Elkem AS
Elkem Madencilik Metalurji Sanayi Ve Ticaret Ltd STI	EUR	Turkey	100 %	100 %	Elkem International AS
Elkem Materials Delaware Inc.	USD	USA	100 %	100 %	Elkem Materials Inc
Elkem Materials Inc.	USD	USA	100 %	100 %	NEH LLC
Elkem Materials Processing (Tianjin) Co.,Ltd	CNY	China	100 %	100 %	Elkem AS
Elkem Materials Processing Services BV	EUR	Netherlands	100 %	100 %	Elkem AS
Elkem Materials South America Ltda	BRL	Brazil	100 %	100 %	Elkem Materials Inc
Elkem Metal Canada Inc	CAD	Canada	100 %	100 %	Elkem AS
Elkem Milling Services GmbH	EUR	Germany	100 %	100 %	Elkem AS
Elkem Nordic A.S.	DKK	Denmark	100 %	100 %	Elkem AS
Elkem Oilfield Chemicals FZCO	AED	Dubai	51 %	51 %	Elkem AS
Elkem Participacòes Indústria e Comércio Limitada	BRL	Brazil	100 %	100 %	Elkem Carbon AS
Elkem Rana AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem S.a.r.l.	EUR	France	100 %	100 %	Elkem AS
Elkem S.r.l.	EUR	Italy	100 %	100 %	Elkem AS
Elkem Siliconas España S.A.U	EUR	Spain	100 %	100 %	Elkem AS
Elkem Silicones (UK) Ltd	GBP	United Kingdom	100 %	100 %	Elkem AS
Elkem Silicones Brasil Ltda	BRL	Brazil	100 %	100 %	Elkem AS
Elkem Silicones Canada Corp.	CAD	Canada	100 %	100 %	Elkem AS
Elkem Silicones Czech Republic s.r.o	CZK	Czech Republic	100 %	100 %	Elkem AS
Elkem Silicones Finland OY	EUR	Finland	100 %	100 %	Elkem AS
Elkem Silicones France SAS	EUR	France	100 %	100 %	Elkem AS
Elkem Silicones Germany GmbH	EUR	Germany	100 %	100 %	Elkem AS
Elkem Silicones Hong Kong Co. Limited	HKD	Hong Kong	100 %	100 %	Elkem AS
Elkem Silicones Poland p. z o.o	PLN	Poland	100 %	100 %	Elkem AS
Elkem Silicones Scandinavia AS	NOK	Norway	100 %	100 %	Elkem AS
Elkem Silicones Services S.à.r.l	EUR	France	100 %	100 %	Elkem AS
Elkem Silicones Shanghai Co. Limited	CNY	China	100 %	100 %	Elkem AS
Elkem Silicones USA Corp.	USD	USA	100 %	100 %	Elkem AS
Elkem Siliconi Italia S.r.l	EUR	Italy	100 %	100 %	Elkem AS
Elkem Singapore Materials Pte. Ltd	SGD	Singapore	100 %	100 %	Elkem AS
Elkem South Asia Private Limited	INR	India	100 %	100 %	Elkem AS
Elkem Uruguay SA[1]	UYU	Uruguay	100 %	50 %	Elkem Foundry Invest AS
Euro Nordic Belgium BVBa[4]	EUR	Belgium	-	-	Euro Nordic Logistics BV (NL)
Euro Nordic Logistics BV	EUR	Netherlands	80 %	80 %	Elkem Chartering Holding AS
Euro Nordic Netherlands BV	EUR	Netherlands	80 %	80 %	Euro Nordic Logistics BV (NL)
Explotacion de Rocas Industriales y Minerales S.A.	EUR	Spain	100 %	100 %	Elkem AS
Dehong Elkem Materials Co. Ltd[4]	CNY	China	-	-	Elkem AS
Gimtrade Ltd.[2]	GBP	United Kingdom	100 %	100 %	Elkem LTD.
Iniconce, S.L	EUR	Spain	97 %	97 %	Explotacion de Rocas Industriale sy M
Mill Street Ltd.[2]	GBP	United Kingdom	100 %	100 %	Elkem LTD.
NEH LLC	USD	USA	100 %	100 %	Elkem AS
NorenoComercial Importada e Exportadora Limitada	BRL	Brazil	100 %	100 %	Elkem Participacòes Indústria e Com
Nor-Kvarts AS[3]	NOK	Norway	-	100 %	Elkem AS
Norsil, S.A.	EUR	Spain	100 %	100 %	Iniconce, S.L (ES)
Tifwer Trade S.A.[1]	UYU	Uruguay	100 %	50 %	Elkem Uruguay SA

[1] In September 2017 Elkem Foundry Invest AS purchased the remaining 50% of the shares in Elkem Uruguay SA (formerly Igazú Alloys S.A.). For more information see note 30 Changes in the composition of the group and note 31 Business combinations.

[2] The companies are dormant and were liquidated in January 2018.

[3] On 1 January 2017 Nor-Kvarts AS merged with Elkem AS.

[4] The companies were liquidated during 2016.

16. OTHER NON-CURRENT ASSETS

	31.12.2017	31.12.2016
Long-term pension contribution fund[1]	1 200	2 760
Defined benefit pension asset[1]	401	2 949
Long-term deposit pension guarantee[2]	18 775	17 905
Restricted deposits[3]	76 136	78 028
Other deposits	29 504	34 785
Prepaid lease	1 284	2 897
Grants receivable[5]	155 425	136 234
Loans to joint arrangements and associates[4]	8 921	52 682
Receivables from joint ventures[4]	-	14 269
Prepayments to supplier	28 023	9 776
Other long-term receivables	4 946	18 411
Total other non-current assets	**324 615**	**370 697**

[1] See note 6 Employee retirement benefits.

[2] Long-term deposit pension guarantee is related to unfunded pension liabilities for salaries above 12G.

[3] The restricted deposits are related to tax litigation in Elkem AS group's business in Brazil, see note 24 Provisions and other long term liabilities.

[4] See note 28 Related party transactions.

[5] See note 29 Grants

17. INVENTORIES

	31.12.2017	31.12.2016
Finished goods	2 238 276	2 111 814
Work in progress	231 964	251 356
Raw materials	713 843	652 333
Operating materials and spare parts	376 925	323 912
Total inventories	**3 561 007**	**3 339 415**
Provisions for write down of inventories as at 31 December	46 690	64 605

18. ACCOUNTS RECEIVABLE

	31.12.2017	31.12.2016
Accounts receivable	2 157 318	1 819 355
Accounts receivable, related parties	59 422	33 304
Provision for doubtful accounts	(36 425)	(31 840)
Bills receivable[1]	84 165	49 951
Total accounts receivable	**2 264 479**	**1 870 770**

[1] A bill receivable is a document where the customer formally agrees to pay for delivered goods or services at maturity date, and are normally guaranteed by a financial institution. A bill receivable is transferable and can be used to pay accounts payable. The bills receivable-document effectively replaces, for the specified amount, the open debt exchanged for the bill. Bills receivable are used by Elkem AS group's Chinese entities, and the duration is normally below six months.

Analysis of gross accounts receivable by age, presented based on the due date

	31.12.2017	31.12.2016
Not due	1 778 456	1 583 220
1–30 days	296 148	167 715
31–60 days	67 864	33 938
61–90 days	29 987	17 004
More than 90 days	44 285	50 782
Total accounts receivable	**2 216 740**	**1 852 659**

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

Movement in allowance for doubtful accounts	31.12.2017	31.12.2016
Opening balance	(31 840)	(27 466)
Provisions / losses on doubtful accounts during the year	(8 697)	(10 577)
Reversed provisions	5 683	5 401
Foreign currency exchange differences	(1 571)	803
Closing balance	**(36 425)**	**(31 840)**

Analysis of current receivables that are past due date and impaired, by age:

Overdue by	31.12.2017	31.12.2016
0-3 months	(5 319)	(6 231)
3-6 months	(4 130)	(3 650)
6-12 months	(840)	(1 241)
Over a year	(26 137)	(20 719)
Total impaired overdue receivables	**(36 425)**	**(31 840)**

19. OTHER CURRENT ASSETS

	31.12.2017	31.12.2016
Pension contribution fund, short-term part[1]	2 928	6 094
Restricted deposits	3 773	3 771
Prepayments	123 248	66 670
Grants receivable[2]	29 288	133 090
Grants receivable, settled net against taxes payable[2]	55 929	51 366
VAT receivables	316 722	265 656
Corporate income tax receivables	24 989	51 093
Other receivables	48 717	26 916
Total other current assets	**605 595**	**604 656**

[1] See note 6 Employee retirement benefits.

[2] See note 29 Grants.

20. SHAREHOLDER INFORMATION

Elkem AS is the parent company of Elkem AS group.
As of 31 December 2017 Elkem AS is 100% owned by Bluestar Elkem International Co. Ltd S.A.
Elkem AS has its registered company address: Drammensveien 169, 0277 Oslo, Norway.

Share Capital
Share capital as at 31 December 2017 in Elkem AS is NOK 2,010 million, divided in 1 share. There has been no changes in number of shares outstanding during the periods presented.

21. FINANCE LEASE LIABILITIES

Elkem AS group leases some of its manufacturing equipment under finance lease. Interest rates range from 3.06% to 6.99%.
The group has options to purchase the equipment for a nominal amount at the end of the lease term. The obligations under finance lease are secured by the lessors title to the leased assets.

Overview of finance lease	31.12.2017	31.12.2016
Within one year	1 059	4 394
Between 1 and 5 years	401	1 527
Over 5 years	-	-
Total lease payments	1 460	5 921
Less future finance charges	120	(91)
Present value of lease obligations	**1 580**	**5 830**
Less amount due for settlement within 12 months	1 179	4 333
Total non-current finance lease obligations	**401**	**1 497**
Leasing payments current year	4 311	35 787

See also note 22 Interest-bearing assets / liabilities.

22. INTEREST-BEARING ASSETS / LIABILITIES

	31.12.2017	31.12.2016
Non-current interest-bearing liabilities		
Financing from Bluestar Elkem International Co. Ltd S.A	-	-
Loans from other related parties within China National Bluestar group	6 873	6 341
Financial leases[1]	401	1 497
Loans from external part, other than bank	79 521	-
Bank financing	2 595 180	2 827 021
Total non-current interest-bearing liabilities	**2 681 975**	**2 834 859**
Current interest-bearing liabilities		
Financial leases[1]	1 179	4 333
Bank financing	595 558	211 700
Loans from external part, other than bank	60 625	58 433
Accrued interest	3 827	3 504
Total current interest-bearing liabilities	**661 189**	**277 970**
Total interest-bearing liabilities	**3 343 164**	**3 112 829**
Interest-bearing assets		
Cash and bank balances	1 493 279	1 230 668
Restricted deposits	98 683	99 704
Loans to joint arrangements	8 921	52 682
Accrued interest income	215	1 010
Total interest-bearing assets	**1 601 098**	**1 384 064**
Net interest-bearing assets / (liabilities)	**(1 742 066)**	**(1 728 765)**

[1] See note 21 Finance lease liabilities

Interest-bearing liabilities by currency	Currency amount	NOK 31.12.2017	Currency amount	NOK 31.12.2016
EUR	317 115	3 121 933	326 453	2 965 922
USD	26 513	217 511	5 772	49 747
NOK	(6 086)	(6 086)	97 163	97 163
Other currencies	-	9 806	-	(3)
Total interest-bearing liabilities		**3 343 164**		**3 112 829**

Maturity of interest-bearing liabilities as at 31 December 2017	Loans from other related parties	Financial leases	Loans from external party, other than bank	Bank financing	Accrued interest	Total
2018	-	1 179	60 625	595 558	3 827	661 189
2019	6 873	401	12 471	596 954	-	616 699
2020	-	-	12 644	1 786 706	-	1 799 350
2021	-	-	13 062	64 634	-	77 696
2022	-	-	13 494	67 628	-	81 122
2023 and later	-	-	27 850	87 679	-	115 528
Total	**6 873**	**1 580**	**140 146**	**3 199 159**	**3 827**	**3 351 585**
Prepaid loan fees	**-**	**-**	**-**	**(8 420)**	**-**	**(8 420)**
Total interest bearing liabilities	**6 873**	**1 580**	**140 146**	**3 190 739**	**3 827**	**3 343 164**

[1] The main part of interest bearing liabilities are expected to be refinanced in March / April 2018, see note 33 Events after the reporting period

Maturity of interest-bearing liabilities as at 31 December 2016	Loans from other related parties	Financial leases	Loans from external party, other than bank	Bank financing	Accrued interest	Total
2017	-	4 333	-	270 133	3 504	277 970
2018	6 341	1 452	-	550 479	-	558 272
2019	-	45	-	504 442	-	504 487
2020	-	-	-	1 639 614	-	1 639 614
2021	-	-	-	48 533	-	48 533
2022 and later	-	-	-	97 065	-	97 065
Total	**6 341**	**5 830**	**-**	**3 110 266**	**3 504**	**3 125 941**
Prepaid loan fees	**-**	**-**	**-**	**(13 112)**	**-**	**(13 112)**
Total interest bearing liabilities	**6 341**	**5 830**	**-**	**3 097 154**	**3 504**	**3 112 829**

Net investment hedge
Elkem AS has entered into a bank loan amounting to EUR 275 million that is included in the line item bank financing above. The spot rate of the loan has been designated as a hedge of the net investment in the group's subsidiaries with EUR as functional currency. The fair value and carrying amount of the borrowing at 31 December 2017 was NOK 2,498 million (NOK 2,707 million). The foreign exchange loss of NOK 208,865 thousand (a gain of NOK 25,449 thousand) on translation of the borrowing from EUR to NOK at the end of the reporting period is recognised in other comprehensive income and accumulated in the foreign currency translation reserve, in statement of changes in equity. There was no ineffectiveness to be recorded from net investments in foreign entity hedges.

Credit facilities
As of 31 December 2017 the group has un-drawn total granted credit facilities of NOK 2,331 million.
As of 31 December 2016 the group has drawn NOK 62 million of total granted credit facilities of NOK 2,167 million.
The drawn amounts are classified as short term bank financing.

The main revolving-credit facilities are granted to Elkem AS but the facilities can be utilised by Elkem AS and its subsidiaries. The main facilities amount to EUR 200 million (NOK 1,969 million) and NOK 250 million respectively. See note 27 Financial risk and capital management for more information, section liquidity risk for more information.

Loan covenant
Elkem AS group has covenants related to it's two main external interest bearing loan facilities. In addition to the covenants on these two loan facilities there are loan covenants related to the credit facilities in Elkem Metal Canada Inc of CAD 2 million. Elkem Metal Canada Inc. is not in breach with its covenants at the end of 2017 and 2016.

For the two main credit facilities and term loans in Elkem AS group, the loan covenants relates to the financial performance of Elkem AS group as specified in the table below.

Covenant Elkem AS group related to drawn loan of NOK 2,834 million (NOK 3,023 million) in Elkem AS		31.12.2017	31.12.2016	Loan covenant
Total Equity	NOK	8 332 862	7 459 042	
Total Assets	NOK	16 347 935	14 813 342	
Equity ratio		**51,0 %**	**50,4 %**	**> 30%**
Gross operating profit (loss)	NOK	2 098 467	1 617 790	
Net finance charges	NOK	66 747	61 639	
Interest cover ratio		**31,44**	**26,25**	**> 4.00**

		Cash flows	Non-cash changes				
Movement in interest-bearing liabilities	**31.12.2016**	Receipts/ Payments	Debt conversion	Re-classification	Business combination	Foreign exchange changes	**31.12.2017**
Loans from other related parties within China National Bluestar group	6 341	-	-	-	-	532	6 873
Financial leases	1 497	(4 311)	-	3 154	-	61	401
Loans from external part, other than bank	-	-	-	-	76 868	2 653	79 521
Bank financing	2 827 021	(55 883)	-	(496 216)	84 207	236 051	2 595 180
Total movement non-current interest-bearing liabilities	**2 834 859**	**(60 194)**	**-**	**(493 062)**	**161 075**	**239 297**	**2 681 975**
Financial leases	4 333	-	-	(3 154)	-	-	1 179
Bank financing	211 704	(116 080)	-	495 881	-	4 053	595 558
Loans from external part, other than bank	58 433	(8 556)	-	335	7 639	2 774	60 625
Total movement current interest-bearing liabilities	**274 470**	**(124 636)**	**-**	**493 062**	**7 639**	**6 827**	**657 362**
Total movement interest-bearing liabilities	**3 109 329**	**(184 830)**	**-**	**-**	**168 714**	**246 124**	**3 339 337**

23. PLEDGE OF ASSETS AND GUARANTEES

Pledges
The main part of Elkem AS group's interest-bearing liabilities are neither pledged nor guaranteed. Details of liabilities that have pledged assets related to them are stated below:

Mortgaged liabilities	31.12.2017	31.12.2016
Mortgaged liabilities	117 664	67 847
Mortgaged provisions	-	55 596

Book value mortgaged assets	31.12.2017	31.12.2016
Building	380 461	163 029
Machinery and plant	45 028	843
Other assets	35 934	92 034

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

Guarantee commitments	31.12.2017	31.12.2016
Guarantee commitment KLIF (Climate and Pollution Agency)	31 274	4 618
Other guarantees	118	107

24. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Total provisions and other non-current liabilities	31.12.2017	31.12.2016
Total provisions	347 461	429 413
Deferred Income	42 398	33 915
Other non-current liabilities	-	232
Total provisions and other non-current liabilities	**389 859**	**463 560**

Provisions include the following:	Litigations	Site restoration	Contracts obligation	Employee benefits	Other provisions	Total provisions
Balance 1 January 2017	**171 731**	**77 437**	**256 911**	**76 455**	**7 969**	**590 503**
Additional provisions recognised	28 669	24 480	-	7 063	2 648	62 860
Additions business combinations	-	-	(1 552)	-	-	(1 552)
Used during the year	(76 696)	(13 219)	(49 260)	(9 404)	(7 547)	(156 126)
Foreign currency exchange differences	(4 734)	3 023	-	3 989	(233)	2 045
Balance 31 December 2017	**118 970**	**91 721**	**206 099**	**78 103**	**2 837**	**497 730**
Hereof classified as provisions and other non-current liabilities	96 728	52 145	123 885	71 866	2 837	347 461
Hereof classified as provisions and other current liabilities	22 242	39 576	82 214	6 237	-	150 269
	118 970	**91 721**	**206 099**	**78 103**	**2 837**	**497 730**

Provisions include the following:	Litigations	Site restoration	Contracts obligations	Employee benefits	Other provisions	Total provisions
Balance 1 January 2016	**262 398**	**68 227**	**-**	**73 652**	**9 101**	**413 378**
Additional provisions recognised	26 633	11 830	2 590	13 347	7 390	61 790
Additions business combinations	-	-	254 321	-	-	254 321
Used during the year	(129 316)	(1 828)	-	(5 770)	(8 021)	(144 935)
Foreign currency exchange differences	12 016	(792)	-	(4 774)	(501)	5 949
Balance 31 December 2016	**171 731**	**77 437**	**256 911**	**76 455**	**7 969**	**590 503**
Hereof classified as provisions and other non-current liabilities	97 225	59 385	202 754	68 931	1 118	429 413
Hereof classified as provisions and other current liabilities	74 506	18 052	54 157	7 524	6 851	161 090
	171 731	**77 437**	**256 911**	**76 455**	**7 969**	**590 503**

Litigation

The provisions due to litigations are mainly related to tax cases in the Carbon division in Brazil. Opening balance also consists of provisions related to tax reassessments for value added tax and withholding tax in the Silicones division. The tax reassessment cases regarding withholding tax were concluded in 2016 and the tax reassessment cases regarding VAT were closed in 2017.

Tax cases in Brazil can take a substantial amount of time before resolution by the tax authorities, hence the time of settlement is uncertain. Provisions are made for each case based on the estimated amount expected to be paid, including interest and penalties. In accordance with Brazilian regulations, agreed amounts have been transferred to restricted bank accounts and are adjusted for interest. The restricted cash is included in other non-current assets, see note 16 Other non-current assets.

Site restoration

Elkem AS group has provisions for future remediation work related to the necessary site remediation work that it will have to undertake in respect of its quartz mines and for site remediation work on land areas where waste from the production is disposed of. Total provision NOK 33,399 thousand (NOK 26,930 thousand).

Elkem AS group has worldwide operations representing potential exposure towards environmental consequences. Elkem AS group has established clear procedures to minimise environmental emissions, well within public emission limits. Total provision of NOK 58,323 thousand (NOK 50,507 thousand) relates to estimated clean-up costs related to a closed production site and landfills.

Contracts obligation

The provisions regarding contracts obligation mainly relates to the purchase of Fesil Rana. The provision is calculated based on differences between contract price and market price at date of purchase, 1 December 2016 and subsequently measured at cost. The contracts lasts until 31 December 2020.

Employee benefits

Employee benefits consist of provisions related to jubilee and long-service benefits and post-employment benefits mainly in the silicones division. Estimated duration of the obligation is approximately 9 years.

Contingent liabilities

Elkem AS group has a potential future obligation for remediation work of the fjord nearby the Carbon plant in Kristiansand in Norway. A decision from Miljødirektoratet was received in 2017 requiring Elkem to submit a clean-up plan for specific pollution in the Kristiansandfjord within April 2018. No legal proceedings are running. The assessment of the potential future obligation is uncertain and no provision has been made at the end of reporting period.

25. PROVISIONS AND OTHER CURRENT LIABILITIES

	31.12.2017	31.12.2016
Employee withholding taxes, social security, vacation pay, etc.	635 115	548 290
VAT payable	142 136	53 678
Deferred income	52 242	26 693
Provisions, short term part [1]	150 269	161 090
Liabilities to other related parties within China National Bluestar group	1 204	1 077
Accrued expenses	143 409	117 229
Other current liabilities	7 087	14 078
Provisions and other current liabilities	**1 131 462**	**922 135**

[1] See note 24 Provisions and other non-current liabilities

26. FINANCIAL INSTRUMENTS

Financial assets and liabilities by category 31 December 2017

	Note	Assets at fair value through profit or loss	Derivatives used for hedging	Financial assets available for sale	Loans and receivables	Non-financial assets	Total
Interest in associated and other companies	14	-	-	51 323	-	60 644	**111 967**
Derivatives, non-current		126 249	25 325	-	-	-	**151 574**
Other non-current assets	16	-	-	-	269 803	54 812	**324 615**
Accounts receivable	18	-	-	-	2 264 479	-	**2 264 479**
Derivatives, current		625	32 733	-	-	-	**33 357**
Other current assets	19	-	-	-	92 763	512 832	**605 595**
Cash and cash equivalents	22	-	-	-	1 493 279	-	**1 493 279**
Total		**126 874**	**58 058**	**51 323**	**4 120 324**	**628 288**	

	Note	Liabilities at fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing liabilities, non-current[1]	22	-	21 908	2 660 067	-	**2 681 975**
Derivatives, non-current		17 968	360 988	-	-	**378 955**
Provisions and other non-current liabilities	24	-	-	-	389 859	**389 859**
Accounts payable		-	-	1 836 888	-	**1 836 888**
Interest-bearing liabilities, current[1]	22	-	4 382	656 807	-	**661 189**
Derivatives, current[2]		(18 072)	264 755	-	-	**246 683**
Provisions and other current liabilities	25	-	-	-	1 131 462	**1 131 462**
Total		**(104)**	**652 032**	**5 153 762**	**1 521 321**	

[1] In addition to the hedging instruments specified below, currency effect of EUR loan is designated as a hedging instrument in a cash flow hedge of highly probable future sales. See note 22 Interest-bearing assets and liabilities.

[2] The group applies hedge accounting for certain contracts and certain parts of power contracts. The negative value reported as 'Liabilities at fair value through profit and loss' is representing the value of parts of power contracts where hedge accounting are not applied.

Financial assets and liabilities by category 31 December 2016

	Note	Assets at fair value through profit or loss	Derivatives used for hedging	Financial assets available for sale	Loans and receivables	Non-financial assets	Total
Interest in associated and other companies	14	-	-	45 973	-	54 543	**100 516**
Derivatives, non-current		83 113	36 048	-	-	-	**119 161**
Other non-current assets	16	-	-	-	315 998	54 699	**370 697**
Accounts receivable	18	-	-	-	1 870 770	-	**1 870 770**
Derivatives, current		2 607	53 782	-	-	-	**56 388**
Other current assets	19	-	-	-	188 227	416 429	**604 656**
Cash and cash equivalents	22	-	-	-	1 230 668	-	**1 230 668**
Total		**85 720**	**89 829**	**45 973**	**3 605 662**	**525 671**	

	Note	Liabilities at fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing liabilities, non-current[1]	22	-	1 953	2 832 906	-	**2 834 859**
Derivatives, non-current		(7 998)	569 129	-	-	**561 131**
Provisions and other non-current liabilities	24	-	-	-	463 560	**463 560**
Accounts payable		-	-	1 527 587	-	**1 527 587**
Interest-bearing liabilities, current[1]	22	-	318	277 652	-	**277 970**
Derivatives, current[2]		(21 152)	149 153	-	-	**128 001**
Other current liabilities	25	-	-	-	922 135	**922 135**
Total		**(29 150)**	**720 553**	**4 638 145**	**1 385 695**	

[1] In addition to the hedging instruments specified below, currency effect of EUR loan is designated as a hedging instrument in a cash flow hedge of highly probable future sales. See note 22 Interest-bearing assets and liabilities.

[2] The group applies hedge accounting for certain contracts and certain parts of power contracts. The negative value reported as 'Liabilities at fair value through profit and loss' is representing the value of parts of power contracts where hedge accounting are not applied.

Fair value measurement

Financial instruments at fair value through profit or loss and financial assets available for sale are measured using different levels of input.
There are no material differences between fair value and amortised cost for financial liabilities and financial assets at amortised cost.

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

Elkem AS group's assets and liabilities measured at fair value as at 31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	625	126 249	**126 874**
Derivatives designated in a hedging relationship	-	58 058	-	**58 058**
Financial assets available for sale	11 166		40 157	**51 323**
Total assets	**11 166**	**58 682**	**166 406**	**236 254**
Financial liabilities at fair value through profit or loss	-	88 520	(88 624)	**(104)**
Derivatives designated in a hedging relationship	26 290	208 421	417 322	**652 032**
Total liabilities	**26 290**	**296 940**	**328 698**	**651 928**

Elkem AS group's assets and liabilities measured at fair value as at 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	2 607	83 113	**85 720**
Derivatives designated in a hedging relationship	-	89 829	-	**89 829**
Financial assets available for sale	9 262	-	36 711	**45 973**
Total assets	**9 262**	**92 436**	**119 824**	**221 522**
Financial liabilities at fair value through profit or loss	-	91 650	(120 800)	**(29 150)**
Derivatives designated in a hedging relationship	2 271	49 514	668 769	**720 553**
Total liabilities	**2 271**	**141 164**	**547 968**	**691 403**

Level 1:

Financial assets measured at level 1 apply to external noted shares. The noted shares are measured based on the listed price.
Dividends from the external shares are classified as other gains and losses.

Level 2:

Financial assets and liabilities measured at level 2 applies to forward foreign exchange contracts, commodity contracts and embedded foreign currency derivatives.
The contracts are measured at fair value by estimating the future cash flows.

Level 3:

The financial assets and liabilities at fair value through profit or loss measured at level 3 consist of power contracts with Statkraft (one contract bought from Norske Skog in 2010 and swap contracts) and a contract called "30-øringen" based on how the power price in the contract is determined. The usage of power from the contract bought from Norske Skog is restricted to industrial purposes, and the power from the 30-øring contract are restricted to be used at Elkem AS plants. The contracts are assessed to be settled net in cash and are therefore within the scope of IAS 39 and recognised as financial instruments.

When valuing these contracts observable data is used, such as power price, currency rates, CPI and CfD, when available. The power prices for long-term electricity contracts in Norway are not directly observable in the market for the whole contract length. Power prices are observable until 2026, CfD to 2021 and the currency rates are observable until 2022. Valuation of the contracts for the remaining periods are based on the latest observable data adjusted for CPI, if relevant.

See note 27 Financial risk and capital management for sensitivity analysis.

<u>Assessment of fair value of contracts with Statkraft</u>

The Elkem AS group pays fixed power prices to Statkraft, specified for each contract/year in the contracts.

Assumptions for valuation of the contracts

- Discount rate: 1.68% (1.68%) p.a. based on the estimated risk of the contract, including credit risk.
- Power prices: Market prices at 31 December for the duration of the contract.
- CfD's: Four year average historic CfD prices based on Nord Pool Spot prices.
- Currency rate EUR: Market prices tradable for the group as of 31 December for the duration of the contract.

As of 1 January 2013, the Statkraft contract bought from Norske Skog has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are therefore from the same date booked against OCI. Realised effects from the fair value as at 31 December 2012 are booked through profit or loss. Swap contracts with Statkraft and embedded derivatives EUR are booked according to hedge accounting principles from 1 January 2016.

<u>Assessment of fair value of 30-øring contract</u>

The 30-øre power contracts last until 31 December 2030.
For the years 2018 - 2020 the price under the contract is fixed except if the spot price at the relevant grid points exceed a certain threshold, in which case the price equals the spot price.
For the last 10 years of the contract the price is fixed based on the average spot price the preceding four years, adjusted for inflation.
The fixed price and the threshold price are based on a start date and adjusted with inflation annually year thereafter.

Assumptions for valuation of the contract

- Discount rate: 3.6% (3.6%) p.a. based on the estimated risk of the contract including credit risk.
- Inflation: 2.0% p.a., (2,0% p.a.)
- Power prices: Market prices per 31 December 2017until 2027, thereafter prices are based on 2027, adjusted with inflation rate.
- CfD's: Four year average historic CfD prices based on Nord Pool Spot prices.
- Currency rate EUR: Market prices tradable for the group as of 31 December 2017 until 2022, thereafter prices equal to 2022 rates.

Changes in fair value for the "30-øringen" contract are presented as a part of other gains and losses.

In addition, level 3 includes shares in unlisted external companies. These shares are booked at cost and written down if the value of the company is assessed to be lower than cost.

Specification of movements in measurement on level 3	2017	2016
Opening balance 01.01	(428 144)	(813 530)
Transfer to / from other levels	-	(4 829)

Change in fair value recognised in OCI, cash flow hedges	136 421	236 481
Settlement	56 310	99 652
Disposal	(141)	(261)
Acquisition	29	75
Other changes in fair value through profit or loss	70 320	56 060
Translation effects	2 913	(1 793)
Closing balance 31.12	**(162 292)**	**(428 144)**

Details of financial instruments

Details of foreign exchange contracts as at 31 December 2017

Purchase currency	Purchase ccy 1000	Sale currency	Sale ccy 1000	Type of instrument	Currency deal rate	Due	Fair value NOK thousand	Notional amount[1] NOK thousand
USD	1 269	JPY	142 510	Fwd	0,0089	2018	32	10 388
NOK	9 355	AUD	1 500	Fwd	6,2366	2018	(257)	9 618
CAD	28 035	EUR	18 800	Fwd	1,4912	2018	(3 341)	185 082
NOK	2 504 556	EUR	261 875	Fwd	9,5639	2018	(87 625)	2 578 107
CAD	1 869	NOK	12 075	Fwd	0,1548	2018	44	12 230
NOK	90 837	GBP	8 500	Fwd	10,6867	2018	(3 511)	94 294
NOK	115 004	JPY	1 406 000	Fwd	0,0818	2018	12 063	102 491
NOK	741 675	USD	91 200	Fwd	8,1324	2018	(2 181)	748 205
NOK	110 393	JPY	1 316 000	Fwd	0,0839	2019	12 603	95 930
NOK	107 766	JPY	1 268 000	Fwd	0,0850	2020	11 969	92 431
NOK	4 059 624	EUR	396 375	Embedded[2]	10,2419	2018-2034	(183 669)	3 902 236
Total fair value currency exchange contracts[3]							**(243 875)**	

[1] Notional value of the contracts, based on currency rates 31.12.

[2] Embedded derivatives EUR in commodity contracts.

[3] The spot element of currency forward contracts with duration more than 3 months are designated as hedging instruments is a cash flow hedge of highly probable future sales, hence this part is classified as 'Derivatives used for hedging' in the table 'Financial assets and liabilities classified by category'. The interest element of these contracts and contracts of duration < 3 months are classified as 'Assets/liabilities at fair value through profit and loss'.

Details of foreign exchange contracts as at 31 December 2016

Purchase currency	Purchase ccy 1000	Sale currency	Sale ccy 1000	Type of instrument	Currency deal rate	Due	Fair value NOK thousand	Notional amount[1] NOK thousand
CAD	7 517	EUR	5 200	Fwd	1,4455	2017	449	47 244
NOK	1 227 584	EUR	132 050	Fwd	9,2964	2017	17 788	1 199 713
CAD	1 499	GBP	800	Fwd	1,8743	2017	1 092	8 499
NOK	46 356	GBP	4 200	Fwd	11,0372	2017	1 592	44 618
NOK	146 124	JPY	1 980 000	Fwd	0,0738	2017	(740)	145 810
NOK	536 836	USD	65 800	Fwd	8,1586	2017	(29 286)	567 104
CAD	3 951	USD	3 000	Fwd	1,3171	2017	(463)	25 856
NOK	524 796	EUR	58 000	Fwd	9,0482	2018	(12 850)	526 947
NOK	88 663	JPY	1 036 000	Fwd	0,0856	2018	10 352	76 292
NOK	101 569	USD	13 000	Fwd	7,8130	2018	(9 884)	112 042
NOK	89 917	JPY	1 036 000	Fwd	0,0868	2019	10 128	76 292
NOK	87 003	JPY	988 000	Fwd	0,0881	2020	9 351	72 758
NOK	1 889 767	EUR	199 408	Embedded[2]	9,4769	2017-2027	(62 384)	1 811 685
Total fair value currency exchange contracts[3]							**(64 855)**	

[1] Notional value of the contracts, based on currency rates 31.12.

[2] Embedded derivatives EUR in commodity contracts.

[3] The spot element of currency forward contracts with duration more than 3 months are designated as hedging instruments is a cash flow hedge of highly probable future sales, hence this part is classified as 'Derivatives used for hedging' in the table 'Financial assets and liabilities classified by category'. The interest element of these contracts and contracts of duration < 3 months are classified as 'Assets/liabilities at fair value through profit and loss'.

Details of power contracts and other commodity contracts within the scope of IAS 39 as at 31 December 2017

	Volume GWh / Oz	Due	Fair value	Notional amount[1]
Forward contracts financial institutions	299	2018	5 678	74 263
Commodity contract "30-øringen"	501	2018	(20 146)	146 653
Commodity contract "30-øringen"	6 016	2019-2030	126 249	1 692 993
Commodity contracts Statkraft	1 498	2018	(78 671)	446 722
Commodity contracts Statkraft	3 000	2019-2020	(170 177)	925 792
Commodity contract Statkraft, swap	201	2018	(15 521)	65 218
Commodity contract Statkraft, swap	605	2019-2034	(44 183)	195 834
Commodity contracts Platinum	900	2018	11	4 085
Commodity contracts Platinum	980	2019	(73)	7 752
Fair value contracts within scope of IAS 39[2]			**(196 832)**	

1) Notional value of underlying asset at the end of reporting period, calculated as volume * price * currency rate as 31.12 (if other currencies than NOK).

2) Certain power contracts and part of power contract Statkraft are designated as hedging instruments, the remaining contracts/parts of contracts are classified as 'Assets/liabilities at fair value through profit and loss'.

Details of power contracts and other commodity contracts within the scope of IAS 39 as at 31 December 2017

	Volume GWh / Oz	Due	Fair value	Notional amount[1]
Forward contracts financial institutions	307	2017	16 161	71 858
Forward contracts financial institutions	140	2018	6 216	26 113
Forward contracts other	(26)	2017	(1 165)	(5 611)
Commodity contract "30-øringen"	501	2017	(10 713)	141 589
Commodity contract "30-øringen"	6 517	2018 - 2030	83 113	1 688 680
Commodity contracts Statkraft	1 498	2017	(47 231)	436 685
Commodity contracts Statkraft	4 498	2018-2020	(415 054)	1 372 513
Commodity contract Statkraft, swap	201	2017	(8 250)	60 187
Commodity contract Statkraft, swap	806	2018-2027	(66 721)	240 913
Commodity contracts Platinum	4 560	2017	(5 085)	38 514
Fair value contracts within scope of IAS 39[2]			**(448 728)**	

[1] Notional value of underlying asset at the end of reporting period, calculated as volume * price * currency rate as 31.12 (if other currencies than NOK).

[2] Certain power contracts and part of power contract Statkraft are designated as hedging instruments, the remaining contracts/parts of contracts are classified as 'Assets/liabilities at fair value through profit and loss'.

Hedge Accounting

Elkem group is applying hedge accounting for parts of the foreign exchange forward contracts, for embedded EUR derivatives in power contracts and for certain power contracts.
The currency exchange contracts are designated in a cash flow hedge to hedge currency fluctuations in highly probable future sales, mainly in USD and EUR. Realised effects from these contracts, a loss of NOK 41,393 thousand (loss NOK 175,569 thousand), is therefore booked as an adjustment of the sales revenue. Also embedded EUR derivatives in power contracts are designed as hedging instruments to hedge currency fluctuations in highly probable future sales. Realised effects from these contracts are a loss of NOK 1,215 thousand (no realisation in 2016). Effects from other currency forward contracts, both unrealised and realised, are booked directly to other gains and losses.
Certain commodity contracts power are designated as hedging instruments in a cash flow hedge of price fluctuations for highly probable future purchases. Hence, the effective part of change in fair value is booked against OCI, and booked as a adjustment of the power cost (part of COGS) when realised. The realised effects for these contracts was in 2017 a loss of 60,003 thousand (loss of 157,371 thousand). An ineffectiveness gain of NOK 43,023 thousand (loss of NOK 4,6 thousand) is booked as other gains and losses.

In addition the group applies hedge accounting principles related to currency risk from a net investment in foreign operation, see note 22 Interest-bearing assets and liabilities.

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

Derivative financial instruments	**2017 Assets fair value**	**2017 Liabilities fair value**	**2016 Assets fair value**	**2016 Liabilities fair value**
Forward foreign exchange contracts - cash flow hedges	52 380	126 300	68 617	94 030
Forward power contract Statkraft - cash flow hedges	-	435 530	-	692 336
Forward power contract Statkraft swap- cash flow hedges	-	(18 208)	-	(23 567)
Forward power contracts embedded derivatives cash flow hedges	-	82 120	-	(44 517)
Forward power contracts financial institutions- cash flow hedges	5 678	-	21 212	-
Currency effect loan EUR - cash flow hedge [1]	-	26 290	-	2 271
Total derivative instruments	**58 058**	**652 032**	**89 829**	**720 553**
Less non-current portion:				
Forward foreign exchange contracts - cash flow hedges	25 325	-	29 832	22 734
Forward power contract Statkraft - cash flow hedges	-	300 773	-	596 837
Forward power contract Statkraft swap- cash flow hedges	-	(12 195)	-	(9 932)
Forward power contracts embedded derivatives cash flow hedges	-	72 409	-	(40 510)
Forward power contracts financial institutions- cash flow hedges	-	-	6 216	-
Currency effect loan EUR - cash flow hedge [1]	-	21 908	-	1 953
Current portion of derivative instruments	**32 733**	**269 136**	**53 781**	**149 471**

[1] See note 22 Net interest-bearing assets / liabilities

The table below shows the movements in OCI related to hedging instruments

Derivative financial instruments recognised against OCI	**Opening balance 2017**	**Net change in fair value**	**Reclassified to P&L**	**Closing balance 2017**
Change in fair value from derivatives designated as a hedge of future sales	(25 413)	(89 900)	41 393	(73 920)
Change in fair value from derivatives designated as a hedge of future need for power (Financial institutions) [1]	21 213	(3 170)	(12 365)	5 678
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft) [2]	(643 424)	133 137	80 946	(429 342)
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft swap) [3]	23 567	3 284	(8 643)	18 208
Change in fair value from embedded derivatives designated as a hedge of future sales [4]	44 517	(127 852)	1 215	(82 120)
Change in fair value from derivatives designated as a hedge of future sales [5]	(2 271)	(26 161)	2 143	(26 290)
Total gains / losses (before tax) in OCI 31.12.	**(581 812)**	**(110 663)**	**104 689**	**(587 785)**

[1] Contracts with other financial institutions.

[2] Contract with Statkraft. As of 1 January 2013, the Statkraft contract has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are therefore from the same date booked against OCI. Changes in fair value up to 31 December 2012 were booked in the statement of income, classified as other gains and losses. Reversal of unrealised effects from these contracts will be offset by realised effects, only the interest element will affect the statement of income.

[3] Power contracts swap, with Statkraft. Hedge accounting applied from 2016.

[4] Embedded derivatives EUR power contracts. Hedge accounting applied from 2016.

[5] Currency effects loan EUR.

The table below shows the movements in OCI related to hedging instruments

Derivative financial instruments recognised against OCI	**Opening balance 2016**	**Net change in fair value**	**Reclassified to P&L**	**Closing balance 2016**
Change in fair value from derivatives designated as a hedge of future sales	(445 545)	244 562	175 569	(25 413)
Change in fair value from derivatives designated as a hedge of future need for power (Financial institutions) [1]	(95 518)	72 131	44 599	21 213
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft) [2]	(970 899)	214 752	112 723	(643 424)
Change in fair value from derivatives designated as a hedging of future need for power (Statkraft swap) [3]	-	23 567	-	23 567
Change in fair value from embedded derivatives designated as a hedge of future sales [4]	-	44 517	-	44 517
Change in fair value from derivatives designated as a hedge of future sales [5]	-	(2 271)	-	(2 271)
Total gains / losses (before tax) in OCI 31.12.	**(1 511 961)**	**597 258**	**332 891**	**(581 812)**

[1] Contracts with Nasdaq and other financial institutions.

[2] Contract with Statkraft. As of 1 January 2013, the Statkraft contract has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are therefore from the same date booked against OCI. Changes in fair value up to 31 December 2012 were booked in the statement of income, classified as other gains and losses. Reversal of unrealised effects from these contracts will be offset by realised effects, only the interest element will affect the statement of income.

[3] Power contracts swap, with Statkraft. Hedge accounting applied from 2016.

[4] Embedded derivatives EUR power contracts. Hedge accounting applied from 2016.

[5] Currency effects loan EUR.

Accumulated gains / losses from cash flow hedges recognised in OCI are expected to be recycled to profit or loss in the period of 2018 2034, see further details in the tables above specifying financial instruments by duration.

Offsetting financial assets and liabilities

Financial assets subject to offsetting

2017	Gross amount of financial assets	Gross amount of financial liabilities set off in the statement of financial position	Net amounts of financial assets recognised / presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	2 028	(2 028)	-	-	-	-
Commodity contracts NASDAQ and other financial institutions	6 846	(1 168)	5 678	-	-	5 678
Foreign exchange forward contracts	52 973	-	52 973	(26 895)	-	26 078
Total	**61 847**	**(3 196)**	**58 651**	**(26 895)**	**-**	**31 756**

Financial liabilities subject to offsetting

2017	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	185 697	(2 028)	183 669	-	-	183 669
Commodity contracts NASDAQ and other financial institutions	1 168	(1 168)	-	-	-	-
Foreign exchange forward contracts	113 210	-	113 210	(26 895)	-	86 315
Total	**300 075**	**(3 196)**	**296 879**	**(26 895)**	**-**	**269 984**

The following financial assets are subject to offsetting:

2016	Gross amount of financial assets	Gross amount of financial liabilities set off in the statement of financial position	Net amounts of financial assets recognised / presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	6 457	(6 457)	-	-	-	-
Commodity contracts NASDAQ and other financial institutions	22 804	(1 592)	21 212	-	-	21 212
Foreign exchange forward contracts	70 059	-	70 059	(7 714)	-	62 345
Total	**99 320**	**(8 049)**	**91 271**	**(7 714)**	**-**	**83 557**

The following financial liabilities are subject to offsetting:

2016	Gross amount of recognised financial liabilities	Gross amount of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented	Financial instruments not set off in the statement of financial position	Cash collateral pledged	Net amount
Commodity contracts, embedded derivatives	68 842	(6 457)	62 384	-	-	62 384
Commodity contracts NASDAQ and other financial institutions	1 592	(1 592)	-	-	-	-
Foreign exchange forward contracts	72 529	-	72 529	(7 714)	-	64 815
Total	**142 963**	**(8 049)**	**134 914**	**(7 714)**	**-**	**127 200**

27. FINANCIAL RISK AND CAPITAL MANAGEMENT

Introduction
Elkem AS group operates in an international and cyclical industry which expose the business to a variety of financial risks such as currency risk, liquidity risk, interest rate risk, credit risk and risks relating to prices of finished goods and raw materials. The financial risks affect the group's income and/or the value of financial instruments held. Financial risks related to its operations are monitored and handled centrally at Elkem AS group level. Elkem AS group has financial risk policies in place, approved by its board of directors.

FINANCIAL RISK FACTORS

(a) Market risk

(i) Currency risk

Transaction risk - cash flow hedge
Elkem AS group has sales revenue and operating costs in various currencies. The prices of finished goods are to a large extent determined in international markets, primarily in US Dollar and Euro. This is partly offset by purchase of raw materials denominated in the same currencies. Elkem AS group has net positive cash flows in most currencies, mainly US dollar and Euro, but has a net cost position in certain other currencies, mainly Norwegian krone but also in Canadian dollars, Brazilian real and Icelandic krona.

Elkem AS group's policy is to hedge foreign exchange risk against functional currency to even out fluctuations in result and cash flow. The target is to hedge net cash flow for 0–3 months on a 90% hedging ratio. Net cash flow for 4–12 months should be hedged on a rolling basis based on a 45% hedging ratio. The hedging ratio for 4–12 months may vary between 25% and 75%. Elkem AS group decided to increase the hedging ratio for EUR and USD to 75% for 2018. Elkem AS group also has a hedge in JPY until 2020 related to a long-term customer contract. Elkem AS group uses hedge accounting for all cash flow hedges over 3 months.

In 2017, Elkem AS group realised a loss of NOK 41 million from this hedging program (loss of NOK 175 million).

Foreign exchange - sensitivity analysis on financial instruments
Elkem AS group is presenting its accounts in Norwegian krone, but it has underlying assets and liabilities in various currencies. These effects are monitored and managed centrally.

The table bellow shows currency effect by lines in the financial statement:

Currency effect included in financial statement	2017	2016
Net foreign exchange gains / losses - foreign exchange forward contracts - included in other gains and losses	(3 180)	26 595
Operating foreign exchange gains / losses - included in Other gains and losses	(5 108)	(19 936)
Net foreign currency exchange gain/loss on financing activities	(7 701)	49 661
Currency translation differences - included in comprehensive income	225 938	(64 508)

Sensitivity on profit and loss from financial instruments: The sensitivity related to financial instruments on Elkem AS group's profit or loss, is based on a strengthening / weakening of all currencies by 10% against the Norwegian krone, which is the presentation currency for Elkem AS group. If the Norwegian krone is strengthened by 10% against all other currencies, the isolated effect on financial instruments would have been a reduced profit before tax of approximately NOK 205 million (NOK 273 million).

Sensitivity on statement of financial position from financial instruments: The sensitivity related to financial instruments on Elkem AS group's statement of financial position, is based on a weakening / strengthening of all currencies by 10% against the Norwegian krone, which is the presentation currency for Elkem AS group. If the Norwegian krone is strengthened by 10% against all other currencies, the isolated effect on financial instruments would have given an reduced equity of NOK 49 million (NOK 92 million).
This effect does not include the effects from the sensitivity on profit or loss as calculated above.

(ii) Price risk

Elkem AS group is exposed to fluctuations in market prices both in the investment portfolio and in the operating business related to individual contracts.
The main part of short term price risk is hedged.

The investment portfolio is limited, see note 14 Interest in other companies.

Commodity prices
The business is exposed to changes in market prices for raw materials and finished goods. The group seeks to minimise the exposure by entering into sales and purchase contracts with similar duration and volume.

Elkem AS group's main production capacity is focused towards specialised products. These products require special types of raw materials that have fixed customer specifications.
Elkem AS group has acquired several raw material sources and / or enters into medium to long-term contracts with raw material suppliers.

Power
Elkem AS group purchases power contracts to minimise the future exposure to changes in power prices. These contracts are either financial instruments, physical commodity contracts that both meet and do not meet the criteria for own use according to IFRS.

Changes in fair value of commodity contracts, defined as financial instruments, reflect unrealised gains or losses and are calculated as the difference between market price and contract price, discounted to present value. Valuation techniques are used for available market information as much as possible. Techniques that reflect how the market could be expected to price instruments, are used in non-observable markets.

Elkem AS group's portfolio of commodity contracts consists mostly of physical energy contracts. Electric power is a key input factor for Elkem AS group. Elkem AS group's estimated future power exposure is partly hedged by long-term power contracts in addition to several contracts in the medium-term. Optimisation of 24-hour-, seasonal- and capacity utilisation variations are solved through utilising financial and physical contracts that are traded bilaterally, or at Nasdaq OMX. The purpose of the hedging activities is to reduce volatility in the power cost and increase the predictability of the cost base. Fair value of commodity contracts is especially sensitive for future changes in energy prices.

Valuation of the power contracts
The valuation technique used for valuing the power contracts is described in note 26 Financial instruments.

Sensitivity analysis - power contracts
Sensitivity on the Statkraft and the "30-øringen" contracts is as follows (figures in NOK million):

"30-øringen" contract		**Fair value 31.12.2017**	**Adjusted NPV**
Discount rate (used 3.6%)	change to 0%	106,1	158,3
Discount rate (used 3.6%)	change to 5%	106,1	90,5
CPI (used 2%)	change to 1%	106,1	158,5
CPI (used 2%)	change to 3%	106,1	49,6
Power price	decrease -10%	106,1	18,3
Power price	increase + 10%	106,1	187,7

Statkraft contract (NSG)		**Fair value 31.12.2017**	**Adjusted NPV**
Power price	decrease -10%	(248,80)	(357,60)
Power price	increase + 10%	(248,80)	(140,00)
Discount rate (used 1.68%)	change to 0%	(248,80)	(255,20)
Discount rate (used 1.68%)	change to 5%	(248,80)	(237,00)

(iii) Interest rate risks

Elkem AS group's interest rate risk arises from interest bearing liabilities from external financial institutions. Elkem AS group's liabilities are mainly drawn in EUR.

Elkem AS group has a floating interest rate policy and is hence exposed to fluctuating interest rates. Industry conditions are cyclical and prices and sales volumes for Elkem AS group's products tend to correlate with general economic conditions. During an economic downturn sales prices and volumes are expected to go down, while prices and volumes tend to go up during an economic upturn. A floating interest rate policy is seen as appropriate from a financial risk perspective. Interest-rates have stayed low for a number of years due to a low-rate economic environment. However, many central banks have inflation targets and intend to adjust interest rates to control the general rise in the price level. With floating interest rates the group will normally be in a position to benefit from lower interest rates in an economic downturn, but a floating rate policy will also leave the group exposed to increased future interest rates.

As at 31 December 2017 Elkem AS group has the following interest-bearing assets and liabilities

	Floating	**Fixed**	**Total**
Interest-bearing liabilities	3 343 164	-	3 343 164
Interest-bearing assets	1 601 098	-	1 601 098
Net exposure	**1 742 066**	**-**	**1 742 066**

Sensitivity
The interest rate sensitivity is based on a parallel shift in the interest rates that Elkem AS group is exposed to. If interest rates had been 50 basis points higher for a full year, based on net debt as at 31 December 2017, with all other variables held constant, the profit after tax would have been NOK 6.3 million lower (NOK 6.3 million). An overview of Elkem's debt portfolio is presented in note 22 Interest-bearing assets / liabilities.

(b) Counterparty credit risk

Credit risk is the risk of financial losses to the group if a customer or counterparty fails to meet contractual obligations. For Elkem AS group this arises mainly to accounts receivable and financial trading counterparties.

Accounts receivable are generally secured by credit insurance from a reputable credit insurance company. Credit limits for each customer and overdue receivables are monitored at Elkem AS group level. For customers where credit insurance cannot be obtained, other methods are generally used to secure the sales proceeds, such as prepayment, letter of credit, documentary credit or guarantees. In particular, when sales are made in countries with a high political risk, or to remote customers, trade finance products are used to reduce the credit risk. Approximately 85 - 90% of Elkem AS group's revenue is covered by credit insurance, trade finance or prepayments. Elkem AS group realised credit losses of NOK 4.9 million in 2017 (NOK 7.3 million). The maximum exposure to credit risk for the group is NOK 2 273 million per 31 December 2017 (NOK 1 937 million).
Please also refer to note 18 accounts receivable.

Evaluation of financial counterparties is based on external credit ratings from Moody's and / or Standard and Poor's. The general policy is that financial counterparties should have a rating equal to, or higher than, A- (or the equivalent) from the rating agencies, but exceptions may be made on a case-by-case basis, mainly for local banks in emerging markets.
Elkem AS group has not had any losses in 2017 or 2016 related to financial counterparties.

(c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities. Elkem AS group is exposed to liquidity risk related to its operations and financing.

Elkem AS group's cash flow will fluctuate due to economic conditions and financial performance. In order to assess its future operational liquidity risk, short-term and long-term cash flow forecasts are provided. The short-term forecast is updated each week, and the long-term cash flow projection is updated each quarter.

In order to mitigate the operational liquidity risk, Elkem AS group has cash and revolving credit facilities with banks. As at 31 December 2017 Elkem AS group has unrestricted cash of NOK 1,493 million (NOK 1,231 million). In addition, revolving credit facilities amount to NOK 2,330 million (NOK 2,105 million), of which NOK 2,330 million is undrawn (NOK 2,105 million).

The external loan agreements contains two financial covenants. The ratio of gross operating profit (loss) to consolidated net Interest payable, as defined herein, for each measurement period, where the period is calculated as the 12 months ending on the last day of a financial quarter, must exceed 4. Additionally, the ratio of total equity to total assets must be more than 30% at all times. Elkem comply with these covenants as of 31 December 2017 and complied with the covenants as of 31 December 2016.

The policy is to have cash and available credit facilities to cover known capital needs and generally not less than 10% of annual revenue. In addition, the policy is to ensure that the main credit facilities have a remaining maturity of at least 12 months. The maturity profile of the credit facilities per 31 December 2017 for Elkem AS group is shown in the table below.

Year / maturity	2018	2020	Total
Total amount of credit facilities	361	1 969	2 330

The table below analyses the group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of reporting period to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows, and the amounts are without interest payments.

At 31 December 2017	Less than 6 months	6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Interest-bearing liabilities	331 919	328 091	616 299	1 958 167	115 529
Financial lease	589	589	401	-	-
Accounts payable	1 836 888	-	-	-	-

At 31 December 2016	Less than 6 months	6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Interest-bearing liabilities	138 571	135 067	556 820	2 192 589	97 065
Financial lease	2 167	2 167	1 452	45	-
Accounts payable	1 527 587	-	-	-	-

A total overview of Elkem AS group's debt portfolio and instalment profile is presented in note 22 Interest-bearing assets / liabilities.

CAPITAL MANAGEMENT

As of 31 December 2017, Elkem AS groups equity was NOK 8,332 million, including minority interests of NOK 102 million. The equity ratio was 51%.

Generally, the Elkem AS group aims to have a leverage ratio in the level of 1.5 - 2.0x. Leverage ration is defined as Net interest bearing debt as defined in note 22 Interest-bearing liabilities and assets divided by gross operating profit.

Elkem AS group will focus on having an effective capital allocation and intends to pay dividends reflecting the underlying earnings and cash flow. When deciding the dividend level, Elkem will take into consideration capital expenditure plans, financing requirement and maintaining the appropriate strategic flexibility. Elkem AS group is managing its financing and liquidity position to reduce liquidity risk and to ensure that the company can meet its financial obligations at all times. See note 33 Events after the reporting period for information about new loan agreements.

28. RELATED PARTY TRANSACTIONS

100% of the shares in Elkem AS group are held by Bluestar Elkem International Co. Ltd S.A., see note 20 Shareholder information.
Balances and transactions between Elkem AS and subsidiaries have been eliminated in the consolidated financial statements and are not disclosed in this note.
Details of transactions between the group and other related parties are disclosed below.

2017	Trade sales	Trade purchases	Sale of services	Purchase of services	Interest income	Interest expenses
Bluestar Elkem International Co. Ltd S.A.	-	-	11 547	-	305	-
Joint arrangements and associates	-	-	59 426	(144 146)	2 384	-
Other related parties within China National Bluestar group	166 456	(343 454)	85 374	(1 839)	-	-
Total	**166 456**	**(343 454)**	**156 347**	**(145 985)**	**2 689**	**-**

2016	Trade sales	Trade purchases	Sale of services	Purchase of services	Interest income	Interest expenses
Bluestar Elkem International Co. Ltd S.A.	-	-	324	-	-	-
Joint arrangements and associates	121 245	(41 917)	103 160	(177 850)	2 556	-
Other related parties within China National Bluestar group	32 875	(295 574)	21 980	(1 035)	-	-
Total	**154 120**	**(337 491)**	**125 464**	**(178 885)**	**2 556**	**-**

Loans from / to related parties	31.12.2017	31.12.2016
Loans to joint arrangements	8 920	52 682
Receivables to joint arrangements	-	14 269
Loans from other related parties within China National Bluestar group	(6 873)	(7 416)
Accrued interest on loans from other related parties within China National Bluestar group	-	-
Receivables from Bluestar Elkem International Co. Ltd S.A	-	324
Payables to joint arrangements and associates	(10 039)	(12 656)
Receivables from joint arrangements and associates	5 387	2 227
Payables to other related parties within China National Bluestar group	(79 474)	(24 918)
Receivables from other related parties within China National Bluestar group	59 421	32 980

Information about transactions between related parties outside Elkem AS group

The main transactions between Elkem AS group and parties outside Elkem AS group are:

- Sale of management and technology services to Elkem Solar AS
- Power supply and sale of raw materials to Elkem Solar AS
- Purchase of short and deep sea transport from North Sea Containerline AS and Elkem Chartering AS
- Purchase of warehousing from Combined Cargo Warehousing BV
- Sale of silicone to companies within China National Bluestar group
- Purchase of raw materials from companies within China National Bluestar group, mainly from Jiangxi Bluestar Xinghuo Silicones Co Ltd

Elkem AS group also has loans from other related parties within China National Bluestar group. The main loans are given from:

- Bluestar Silicones Investment Co. Ltd

The sale and purchase from related parties outside Elkem AS group are made on terms equivalent to those that prevail in arm's length transactions. Prices are set upon negotiations between the parties.

Outstanding balances at year-end are unsecured, and the short-term receivables and payables are interest free, with an exception of the short-term loans. The long-term loans are interest bearing, and the interest is calculated based on interbank rates (for example LIBOR and EURIBOR) plus a margin.

Transactions with key management personnel
Information on transactions with key management personnel is included in note 5 Employee benefit expenses.

Information about eliminated transactions between related parties within Elkem AS group
Elkem AS group follows internationally accepted principles for transactions between related parties within the group. In general, Elkem AS group seeks to use transaction based methods (comparable uncontrolled price, transactional net margin method, cost plus and resale price method) in order to set the price for the transaction. Elkem AS group's set-up for sales is based both on an agent structure and as a distribution network.

The related party transactions in Elkem AS group can be divided as follows:

1. Buy-sell of products
   a. Supply of raw materials to manufacturers (sales from sourcing companies)
   b. Sale/supply of finished goods from one Elkem manufacturer to another Elkem manufacturer(as in-bound to further production)
   c. Distribution of manufactured goods (directly from the plant or indirectly for resale by distributors)
   d. Flow-through (products are sold to and from Elkem AS due to treatment of indirect taxes)
2. Services
   a. Sales agent/commissionaire services
   b. Order handling services performed for a large part of the companies by one service company (EDC)
   c. General services (cost plus)
      i. Sourcing services
      ii. Technical support services (assistance from one company to another)
      iii. Management services / Divisional management services / Cash management services
   d. Toll manufacturing services (milling services)
3. Financial services
   a. Cash pool
   b. Group loans

29. GRANTS

Elkem AS group has received the following government grants	2017	2016
Funding from the Norwegian government R&D	33 407	25 813
Funding from the French government R&D	44 276	40 094
Funding from other R&D	3 317	-
CO2 Compensation from the Norwegian Environment Agency[1)]	76 955	86 333
Funding related to energy recovery	25 767	28 666
Other grants	25 895	23 701
Total government grants received	**209 617**	**204 607**

[1)]The current Co_2 compensation programme will end in 2020

Elkem AS group has received the following grants from other than government	2017	2016
Norwegian NOx fund for reduced emission of NOx[1)]	6 150	48 777
Norwegian emission fund for reduced emission of So2[1)]	12 165	32 222
Other grants received from other than government	-	250
Total other grants received	**18 315**	**81 249**

[1)]The industry in Norway pays a fee for their emission of NOx and So2 to two different foundations. The two foundations are self-financed by the fee and their purpose is to support projects that reduces So2 and NOx emission from the industry in Norway.

Grants received is included in the financial statement as follows:

Other operating income	186 350	175 777
Deduction of carrying amount of fixed assets	41 582	110 079
Total	227 932	285 856
Receivables related to grants	240 642	320 690
Deferred income related to grants	(3 007)	(6 252)

30. CHANGES IN THE COMPOSITION OF THE GROUP

Elkem AS group has in 2017 invested NOK 84,304 thousand related to increase its ownership in Igazú Alloys S.A from 50% to 100% and purchase of convertible shareholder loans.
In 2016 Elkem AS group invested NOK 471,012 thousand related to acquisition of subsidiaries and business (business combination). See note 31 Business combination for more information.

In December 2016 Elkem AS group has nvested NOK 31,224 thousand related to increase of the ownership in Nor-Kvarts from 66.7% to 100%.

Changes in ownership interests in subsidiaries are accounted for as equity transactions. The effect on the equity attributable to owners of the parent is presented in the table below.

Effect of changes in composition of the group	2016
Net consideration received (paid)	(31 224)
Adjustment to non-controlling interest	27 321
Adjustment to equity attributable to owners of the parent	(3 903)

31. BUSINESS COMBINATIONS

Business combinations 2017
In September 2017 Elkem AS group invested NOK 84,304 thousand related to increase its ownership in Igazú Alloys S.A from 50% to 100% and purchase of convertible shareholder loans. The amount comprises of loans from former shareholder reduced by cash and cash equivalents of the acquiree. The loan will be settled by annual payments over a seven years period. Iguazù Alloys owns a ferrosilicon plant in Paraguay that are under construction. The plant is expected to open in March 2018.

This transaction is considered a business combination according to IFRS 3. Acquisition method is applied by netting the fair value of consideration given to the transferee (the "acquisition cost"), excluding cost related to the acquisition, with the fair value of the acquired assets, liabilities and contingent liabilities assumed at the acquisition date. The acquisition cost of a purchase is equal to the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. The fair values of assets and liabilities under contingent consideration agreements are likewise included.

Elkem AS group's management was required to allocate values in excess/deficit of the carrying amount of equity to assets acquired and liabilities assumed.

Acquisition-related costs of NOK 2.1 million is recognised in profit or loss in the line item other gains and losses. The tables below summarises the consideration transferred and the amounts recognised for assets acquired and liabilities assumed after the business combination.

Consideration	Iguazú alloys
Loans from former shareholder	84 507
Contingent consideration	-
Consideration transferred	**84 507**
Fair value of previously held equity interest including convertible shareholder loans[1]	84 507
Total	**169 014**

1) The purchase price is equal to the book value of the equity interest at the acquisition-date, hence no gain or loss is recognised as a result of remeasuring of the previously held equity interest.

Amounts for assets and liabilities recognised	Iguazú alloys
Property, plant and equipment	283 742
Other intangible assets	336
Inventories	2 141
Other current assets	11 847
Cash and cash equivalents	203
Provisions and other non-current liabilities	(122 012)
Accounts payable	(6 336)
Provisions and other current liabilities	(907)
Total	**169 014**
Goodwill	-
Total	**169 014**

For the period from purchase to 31 December 2017 Iguazú Alloys has contributed NOK 0.0 million to operating revenue and contributed negatively NOK 4.2 million to profit (loss) for the year. If the acquisition date of business combination was of 1 January 2017, the operating revenue of Elkem AS group would have increased by NOK 0.0 million and profit would have decreased by NOK 6.2 million.

The net assets recognised are based on provisional assessment of their fair value, as the business combinations where performed close to year end and the valuation has not been completed.

Adjustments recognised related to business combinations in 2016:
In 2017 Elkem AS group has adjusted the initial amounts for assets and liabilities recognised related to the purchases of Fesil Rana and Minex, see more information below. The following items are affected and adjustments recognised during 2017.

Amounts for assets and liabilities recognised	Total fair value recognised in 2016	Adjustments	Adjusted fair value recognised
Goodwill	98 030	(19 900)	78 130
Other intangible assets	36 297	(2 038)	34 259
Other non-current assets (including deferred tax assets)	13 404	(5 709)	7 695
Inventories	223 938	25 339	249 277
Provisions and other non-current liabilities	(204 041)	(1 552)	(205 593)
Adjustment of purchase price (cash received)		(3 860)	

Business combinations 2016
Elkem AS group has in 2016 invested NOK 439,788 thousand related to acquisition of new subsidiaries and business (business combination). The amount comprises cash consideration transferred reduced by cash and cash equivalents of the acquiree.

1 December 2016 Elkem AS group acquired 100% of the shares in Fesil Rana Metall AS, a producer of standard and speciality ferrosilicon and microsilica from Fesil AS.

9 December 2016 Elkem AS group acquired, through purchase of assets, the iron foundry business of the Indian Company Minex Metallurgical Co.Ltd, a leading provider of speciality alloys.

These transactions is considered a business combination according to IFRS 3. Acquisition method is applied by netting the fair value of consideration given to the transferee (the "acquisition cost"), excluding cost related to the acquisition, with the fair value of the acquired assets, liabilities and contingent liabilities assumed at the acquisition date. The acquisition cost of a purchase is equal to the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. The fair values of assets and liabilities under contingent consideration agreements are likewise included.

Elkem AS group's management was required to allocate values in excess/deficit of the carrying amount of equity to assets acquired and liabilities assumed.

Acquisition-related costs of NOK 9.9 million is recognised in profit or loss in the line item other gains and losses. The tables below summarises the consideration transferred and the amounts recognised for assets acquired and liabilities assumed after the business combination.

Consideration	Fesil Rana	Minex	Total
Cash	349 844	109 594	459 438
Contingent consideration	-	-	-
Non-controlling ownership interest in subsidiary	-	-	-
Consideration transferred	**349 844**	**109 594**	**459 438**
Fair value of previously held equity interest	-	-	-
Total	**349 844**	**109 594**	**459 438**

Amounts for assets and liabilities recognised	Fesil Rana	Minex	Total
Property, plant and equipment	336 506	21 302	357 808
Other intangible assets	23 041	13 256	36 297
Investment in joint ventures	-	-	-
Interest in associated and other companies	75	-	75
Other non-current assets (including deferred tax assets)	13 404	-	13 404
Inventories	205 471	18 467	223 938
Accounts receivable	30 062	18 708	48 770
Derivatives, current asset	641	-	641
Other current assets	27 555	5 764	33 319
Cash and cash equivalents	19 650	-	19 650
Provisions and other non-current liabilities	(204 041)	-	(204 041)
Accounts payable	(85 950)	(2 273)	(88 223)
Income tax payables	-	-	-
Provisions and other current liabilities	(78 472)	(1 758)	(80 230)
Total	**287 942**	**73 466**	**361 408**
Non-controlling interests	-	-	-
Goodwill	61 902	36 128	98 030
Total	**349 844**	**109 594**	**459 438**

The goodwill of NOK 98 million recognised is attributable to the assembled workforce of the companies and synergies. The business combination is carried out as a part of Elkem AS group's growth strategy.

The fair value of acquired receivables NOK 49 million is equal to the gross contractual amount of receivables. At acquisition date and finalisation of purchase price allocation, management deems the contractual cash flows are expected to be collectible. The companies have credit insurance for the main part of its accounts receivables.

For the period from purchase to 31 December 2016 Fesil Rana have contributed NOK 76 million to operating revenue and contributed positively NOK 3 million to consolidated profit. If the acquisition date of business combination was of 1 January 2016, the operating revenue of Elkem group would have increased by NOK 740 million and profit would have decreased by NOK 31 million. The figures do not include business combinations completed through purchase of assets (Minex) for which no separate financial statements exists and intra group transactions.

32. SUPPLEMENTAL INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The liquidity effect of acquisitions consist of	2017	2016
Purchase price for new subsidiaries	-	459 438
Adjustments in purchase price prior periods	3 860	-
Cash and cash equivalents of the acquire	203	19 650
Acquisition of subsidiaries net of cash acquired	**(4 063)**	**439 788**

33. EVENTS AFTER REPORTING PERIOD

Elkem AS will be the issuer in the planned initial public offering (IPO) on the Oslo Stock exchange, and expect to be listed on or about March 2018. In connection with the IPO, there will be a restructuring where Elkem AS will acquire 100% of the shares in Jiangxi Bluestar Xinghuo Silicones Co. Ltd. (hereafter Xinghuo) and 100% of the shares in Bluestar Silicon Material Co. Ltd. (hereafter Yongdeng) from Bluestar Elkem Investment Co. Ltd., a subsidiary of China National Bluestar (group) Co. Ltd for a purchase price of CNY 3,274 million. Completion of the restructuring is conditional upon a completed IPO. The publicly listed entity will comprise Elkem AS and its controlled subsidiaries including the acquired entities Xinghuo and Yongdeng. Business combinations involving entities under common control, are accounted for according to the 'pooling of interest method' and comparable figures will be restated. Below an overview of the effects of the purchases. There is no acquisition related costs related to the transaction. Xinghuo has a receivable to their shareholder of NOK 1,222 million that will be settled in connection with the purchase.

Consideration	Xinghuo and Yongdeng
Cash	4 126 104
Contingent consideration	-
Non-controlling ownership interest in subsidiary	-
Consideration transferred	**4 126 104**
Fair value of previously held equity interest	-
Total	**4 126 104**

Amounts for assets and liabilities recognised	Xinghuo and Yongdeng
Property, plant and equipment	5 381 484
Other intangible assets	191 671
Other non-current assets	31 259
Inventories	543 430
Accounts receivable	322 446
Other current assets	1 489 127
Restricted deposits	1 016 018
Cash and cash equivalents	257 652
Non-current interest-bearing liabilities	(1 902 999)
Provisions	(36 356)
Accounts payable	(882 001)
Income tax payables	(248)
Interest-bearing current liabilities	(2 986 109)
Bills payable	(2 649 760)
Other current liabilities	(538 349)
Total	**237 265**
Non-controlling interests	-
Goodwill	-
Continuity differences recognised against equity	**(3 888 839)**

New loan agreements
In connection with the Listing, Elkem plans to enter into several loan facilities agreements in an aggregate principal amount of approximately EUR 1,150 million (collectively, the “New Loan Facilities Agreements”), to refinance the facilities under the Syndicated Loan Facilities Agreement as well as certain additional outstanding indebtedness, including indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials as well as to finance general corporate purposes and working capital needs. Any such refinancing of indebtedness in China will be subject to compliance with Chinese law and regulations relating to exchange controls.

The assumed debt obligations of Xinghuo and Yongdeng consist of short-term and long-term bank loans, including bank bills. Certain local loan facilities in China will be maintained in order to have RMB (Renminbi, Chinese currency) denominated debt and to facilitate the use of local cash flows to service local debt. Elkem has, however, ensured through the New Loan Facilities Agreements that it has capacity to complete a full refinancing of the Chinese debt if needed. The New Loan Facilities Agreements covers the Group's total anticipated debt financing needs

The New Loan Facilities Agreement will consist of three facilities: (i) a single currency loan facility in an aggregate amount of EUR 400 million (the “Facility A Loan”), (ii) a multicurrency revolving loan facility in an aggregate amount of 250 million (the “Facility B Loan”) and (iii) a multicurrency term loan facility in an aggregate amount of 500 million (the “Facility C Loan”).
The Facility A Loan, Facility B Loan and Facility C Loan, respectively, under the New Loan Facilities Agreements are unsecured. The interest rate for borrowings under the New Loan Facilities Agreements will be an interest rate per annum equal to EURIBOR, LIBOR or NIBOR (depending on currency drawn under the facility) plus a margin of 1.50%. for the Facility A Loan, 1.20% for the Facility B Loan and for the Facility C Loan the margin will be 0.90% per annum from the date of the New Loan Facilities Agreements and increase by 0.10% per annum on each date which falls at three-monthly intervals after the date of the New Loan Facilities Agreements.

The New Loan Facilities Agreement will contain two financial covenants. The ratio of Gross operating profit to Consolidated Net Interest Payable, as defined in note 22 interest bearing liabilities and assets, for each measurement period, which period is calculated as the 12 months ending on the last day of a financial quarter, must not be less than 4.0:1.0. Additionally, the ratio of total equity to total assets must be more than 30% at all times.

The New Loan Facilities Agreement will contain a mandatory prepayment clause upon change of control. Change of control is defined as China National Bluestar Co. Ltd. ceasing, directly or indirectly, to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, more than 50% of the maximum number of votes that might be cast at a general meeting of the Company, or hold beneficially more than 50% of the issued share capital and/or the economic interest of the Company, or after the Listing has occurred, the shares in the Company cease to be listed on the Oslo Stock Exchange or on the principle stock exchange in any of Copenhagen, Frankfurt, London, Paris or Stockholm.

FINANCIAL STATEMENTS

Elkem AS

2017

INCOME STATEMENT - ELKEM AS

Amounts in NOK thousand *1 January - 31 December*	Note	2017	2016
Revenues	4	7 067 818	6 900 847
Other operating income	4	108 731	110 132
Total operating income		**7 176 549**	**7 010 979**
Raw materials and energy for smelting		(3 852 686)	(3 962 601)
Employee benefit expenses	5,6	(969 322)	(912 939)
Amortisation and depreciation	12	(329 235)	(318 435)
Impairment losses	12	(14 573)	(8 052)
Other gains/losses related to operating activities	9	(53 020)	221 465
Other operating expenses	7,8	(1 624 430)	(1 480 646)
Total operating expenses		**(6 843 266)**	**(6 461 208)**
Operating profit (loss)		**333 283**	**549 771**
Income from subsidiaries	13	303 958	115 893
Income from joint ventures and associates	14	(500)	-
Write down on shares in subsidiaries	13	-	(2 857)
Net gain (loss) from investments		303 458	113 036
Finance income	10	46 534	55 782
Foreign exchange gains (losses)	10	(239 774)	103 227
Finance expenses	10	(86 964)	(89 961)
Profit (loss) before income tax		**356 537**	**731 855**
Tax (expenses) / income	11	(46 612)	(146 920)
Profit (loss) for the year		**309 925**	**584 935**

Notes 1 to 31 and the accounting policies are an integrated part of these financial statements.

BALANCE SHEET - ELKEM AS

Amounts in NOK thousand	Note	31.12.2017	31.12.2016
ASSETS			
Property, plant and equipment	12	1 934 399	1 902 936
Intangible assets	12	338 069	430 394
Deferred tax assets	11	-	-
Investments in subsidiaries	13	4 680 044	4 644 888
Investments in joint ventures	14	19 028	-
Investments in associates and other companies	15	13 968	12 669
Derivatives	27	25 325	36 028
Other non-current assets	16	911 782	760 233
Total non-current assets		**7 922 615**	**7 787 148**
Inventories	17	1 137 148	1 182 337
Accounts receivable	18	967 413	789 742
Derivatives	27	33 326	56 388
Other current assets	19	580 221	290 154
Cash and cash equivalents	20	846 796	292 468
Total current assets		**3 564 904**	**2 611 089**
TOTAL ASSETS		**11 487 519**	**10 398 237**
EQUITY AND LIABILITIES			
Paid-in capital	21	2 918 203	3 088 203
Retained earnings	21	1 502 574	1 284 671
Total equity		**4 420 777**	**4 372 874**
Non-current interest-bearing liabilities	23	2 633 985	2 895 032
Deferred tax liabilities	11	47 692	127 967
Pension liabilities	6	65 321	65 405
Derivatives	27	210 134	147 596
Provisions and other non-current liabilities	25	56 319	50 934
Total non-current liabilities		**3 013 451**	**3 286 934**
Accounts payable		751 543	584 277
Income tax payables	11	88 866	30 956
Current interest-bearing liabilities	23	2 631 340	1 728 799
Derivatives	27	146 449	62 843
Other current liabilities	26	435 093	331 554
Total current liabilities		**4 053 291**	**2 738 429**
TOTAL EQUITY AND LIABILITIES		**11 487 519**	**10 398 237**

Oslo, 21 February 2018

Michael Koenig
Chairman of the board

Einar Støfringshaug

Marianne Færøyvik

Yougen Ge

Olivier de Clermont-Tonnerre

Sverre S. Tysland

Helge Aasen
CEO

Zhigang Hao

Notes 1 to 31 and the accounting policies are an integrated part of these financial statements.

CASH FLOW STATEMENT - ELKEM AS

Amounts in NOK thousand *1 January - 31 December*	Note	2017	2016
Operating profit		333 283	549 771
Changes fair value financial instruments		4 179	(385 935)
Amortisation, depreciation and impairment changes	12	343 808	326 487
Changes in working capital[1)]		136 341	(6 418)
Changes in provisions, pension obligations and other		(108 625)	(136 792)
Interest payments received		43 426	5 441
Interest payments made		(78 491)	(59 723)
Income taxes paid		(35 541)	(14 461)
Cash flow from operating activities		**638 380**	**278 370**
Investments in property, plant and equipment and intangible assets	12	(290 723)	(208 210)
Sale of property, plant and equipment	12	10	2 425
Cash effect from merged companies		-	62 974
Acquisition of subsidiaries		(30 314)	(451 673)
Acquisition of joint ventures		(19 528)	150
Increase / decrease in loans to joint ventures		-	-
Increase / decrease in loans to subsidiaries		280 883	(245 864)
Dividend		181 010	169 093
Other investments /sales		(111)	150
Cash flow from investing activities		**121 227**	**(671 105)**
Dividend	21	(143 947)	0
New loans raised		50 302	59 560
Repayment of loans		(111 683)	(97 810)
Cash flow from financing activities		**(205 328)**	**(38 250)**
Change in cash and cash equivalents		**554 279**	**(430 985)**
Currency exchange differences		49	(116)
Net change in cash and cash equivalents		**554 328**	**(431 101)**
Cash and cash equivalents Opening balance	20	**292 468**	**723 569**
Cash and cash equivalents Closing balance	20	**846 796**	**292 468**

1) Working capital consists of accounts receivable, inventory, accounts payable, other current assets, other current liabilities. The definition of accounts receivable and inventory correspond with the definition for the group. Other current assets does not include short term receivables to related parties, tax receivables, Grants receivable, settled net against taxes payable and accrued interest, see note 19 Other current assets. Other current liabilities does not include short-term provision and Liabilities to other related parties within China National Bluestar group, see note 25 Provision and other current liabilities.

NOTES TO THE FINANCIAL STATEMENT - ELKEM AS
NOK thousand

1. GENERAL INFORMATION

Elkem AS is a company located in Norway, producing silicon, ferrosilicon and microsilica. The company is fully owned by Bluestar Elkem International Co. Ltd. S.A., Luxembourg.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Accounting estimates
In the event of uncertainty, the best estimate is applied, based on the information available when the annual accounts are prepared. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. See note 3 Accounting estimates.

Foreign currency translation
Elkem AS's functional currency is Norwegian Kroner (NOK).
Transactions in currencies other than the entity's functional currency are translated using the transaction date's currency rate.
If the currency exposure of a transaction is designated as a part of a hedging relationship,
realised effects from the associated hedging instrument is classified in the same line in the financial statements as the hedged transaction.
Monetary items in foreign currencies are presented at the exchange rate applicable on the balance sheet date.
Currency gains / losses related to operating activities, i.e. receivables, payables, bank accounts for operating purposes,
are classified as a part of Other gains/losses related to operating activities. As a result of this, currency effects included in Finance income and expenses are only related to loans and dividends.

Revenue recognition
Revenue is recognised when it is probable that transactions will generate future economic benefits for the company and the revenue can be measured reliably. Revenue is measured at the fair value of the considerations received or receivable, net of any taxes, rebates and discounts. Revenue and expenses that relate to the same transaction are recognised simultaneously. When products are sold with warranties, the expected warranty amounts are recognised as expenses at the time of the sale, and are subsequently adjusted for any changes in estimates or actual outcome.

Revenue from sale of goods is recognised when the significant risk and reward of the ownership of the goods have passed to the buyer, according to the agreed delivery term for each sale. Delivery terms are based on Incoterms 2010 issued by International Chamber of Commerce, and the main categories terms are
"F" terms, where the buyer arranges and pays for the main carriage. The risk and reward are passed to the buyer when the goods are handed over to the carrier engaged by the buyer.
"C" terms, where the group arranges and pays for the main carriage but without assuming the risk of the main carriage. The risk and reward are passed to the buyer when the goods are handed over to the carrier engaged by the seller.
"D" terms, where the group arranges and pays for the carriage and retain the risk and reward of the goods until delivery at agreed destination. The risk is transferred to the buyer upon arrival at agreed destination, usually the purchaser's warehouse.

Revenue from sale of services is recognised when the services has been provided.
External sales of electric power are recognised in income on the basis of the price agreed with the customer upon delivery.

Income from insurance settlements are recognised when it is virtually certain that the group will receive the compensation, and presented as other operating income. Interest income is recognised on accrual basis. Dividends are recognised when shareholders' right to receive dividends is determined by the shareholder's meeting. Sales revenues are presented net of VAT and discounts.

Investment in subsidiaries, associates and jointly controlled entities
Subsidiaries are companies in which Elkem AS has controlling interests, normally obtained when Elkem AS owns more than 50% of the shares.

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

Subsidiaries
Interests in subsidiaries are recognised at cost less any write-down for impairment. An impairment loss is recognised if the impairment is considered not to be temporary.

Associates

Investments in associates are valued at cost and impairment loss is recognised if the carrying amount exceeds the recoverable amount. The impairment is reversed if the basis for the write-down is no longer present.

Dividend received from associated companies are included in the income statement.

Joint ventures

Elkem AS's interests in jointly controlled entities, which operates within Elkem AS main business areas (silicon materials and foundry products), are accounted for by proportionate consolidation. Elkem AS combines its share of the Joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the financial statements.

Elkem AS's interests in joint controlled entities, which do not operate within Elkem AS business areas, are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition.

Intangible assets

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

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

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

Property, plant and equipment

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

Initial cost includes expenditures that are directly attributable to the acquisition of the asset, cost of materials, direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use and estimated dismantling or removing charges, and capitalised borrowing costs.

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

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

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

Impairment of tangible and intangible assets

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

Leasing

Leases are classified as financial leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets at the present value of the minimum lease payment. The corresponding liability to the lessor is included in the financial statements as a finance lease obligation. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the obligation.

Non-derivative financial assets and liabilities

Purchases and sales of financial assets are recognised at the date of transaction on which Elkem AS is committed to the purchase or sale of the asset.

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

Financial assets with a maturity exceeding one year are classified as non-current financial assets. Short term investments that do not meet the definitions of a cash equivalent and financial assets with a maturity of less than one year are classified as current financial assets. Non-current financial assets are recognised and subsequently measured at cost less any impairment loss, if the impairment is assessed not to be temporary.

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

Loans and Receivables

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

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

Trade and other receivables

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

Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short term fluctuations in liquidity, rather than for investment purposes. Cash and cash equivalents comprise cash fund and short term deposits. Bank overdrafts are shown within current interest bearing liabilities in the balance sheet. Elkem AS' deposits and drawings within the Group Bank Accounts are netted by offsetting deposits against withdrawals. The subsidiaries' deposits and drawings are classified as current assets / liabilities.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date the derivative contracts are entered into, and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in the income statement immediately, unless when the derivative is designated and is effective as a hedging instrument. If the derivative is designated as a hedging instrument, timing of recognition in the income statement depends on the nature of the hedging relationship.

Commodity contracts that do not qualify as hedging instruments are booked at the lower of cost and fair value.

Embedded derivatives are separated from the host contract and booked at fair value, as an independent derivative.

Contracts for the entity's own use are contracts which are entered into and continue to be held for the purpose of the receipt of a non-financial item according to the company's usage requirements. This applies to power purchase contracts intended for use in the plant's production processes. Such contracts are booked in the balance sheet at cost and in the income statement on realisation.

Hedge accounting

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

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

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, are recognised in the equity and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains / losses recognised in the equity are reclassified into Profit or Loss in the same period(s) as the hedged assets / liabilities.

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

Inventories

Inventories are recognised at the lowest of cost and net realisable value. The cost of inventory comprises of the costs incurred in bringing the goods to their current condition and location, such as raw materials, energy for smelting, direct labour, other direct costs and production overhead costs based on normal capacity. Net realisable value represents the estimated selling price for inventories less estimated costs of completion and variable selling expenses.

Cost of goods sold is included in different lines in the income statement based on nature; Raw materials and energy for smelting, Employee benefits and Other operating cost, for the remaining part.

Taxation

Income taxes
Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Current tax payable includes any adjustment to tax payable in respect of previous years. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity. Income tax relating to items recognised directly in equity is recognised in equity, not in the income statement.

Uncertain tax positions are included when it is probable that the tax position will be sustained in a tax review, and provisions are made relating to uncertain or disputed tax positions at the amount expected to be paid. The provision is reversed when the disputed tax position is settled in favour of the entity and can no longer be appealed.

Deferred tax
Deferred tax assets and liabilities are calculated using the liability method with full allocation for all temporary differences between the tax base and the carrying amount of assets and liabilities in the financial statements, including tax losses carried forward.
Deferred tax relating to items outside profit or loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other profit and loss or directly in equity.
If the temporary difference arises from the initial recognition of goodwill, the deferred tax assets and liabilities are not recognised.

Deferred tax assets are recognised in the balance sheet to the extent it is more likely than not that the tax assets will be utilised. The enacted tax rate at the end of the reporting period and undiscounted amounts are used. Deferred tax assets arising from tax losses are recognised when there is convincing evidence of recoverability. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

Employee benefits

Defined contribution plans
Defined contribution plans comprise arrangements whereby the company makes monthly contributions to the employees' pension plans, and where the future pensions are determined by the amount of the contributions and the return on the individual pension plan asset.
Payments related to the contribution plans are expensed as incurred, as a part of Employee benefit expenses.

Defined benefit plans
Defined benefit plans are recognised at present value of future liabilities considered retained at the end of the reporting period.
Plan assets are recorded at fair value. Changes in benefit liabilities due to changes in benefit plans, are distributed over average remaining contribution time. Actuarial gains / losses due to changes in financial and actuarial assumptions are recognised directly in the equity. Net pension benefit costs are classified as part of Employee benefit expenses.
Net interest on pension liabilities/assets are presented as a part of Finance expenses.

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

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

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

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

3 ACCOUNTING ESTIMATES

In the event of uncertainty, the best estimate is applied, based on the information available when the annual accounts are prepared.

Property plant and equipment
The estimated useful lives, residual values (if any) and depreciation method is reviewed, and if necessary adjusted, at least annually.

Deferred tax assets
Elkem AS performs annual tests for impairment of deferred tax assets. Part of the basis for recognising deferred tax assets is based on applying the loss carried forward against future taxable income in the group. This requires the use of estimates when calculating future taxable income.

Financial instruments
Elkem AS holds financial instruments such as forward exchange contracts and commodity contracts which are booked at fair value. For commodity contracts nominated in EUR, the embedded EUR derivative is separated from the host contract and booked at fair value. Hedge accounting is applied for these contracts. Commodity contracts that do not qualify as hedging instruments are booked at the lower of cost and fair value.
Fair value for the contracts are based on observable prices and assumptions derived from observable prices for comparable instruments.

Net booked value of contracts booked at fair value as at 31 December 2017 is in total negative NOK 298 million, see note 27 Financial instruments for more information.

4 OPERATING INCOME

By type	2017	2016
Revenue from sale of goods[1)]	5 557 908	5 384 881
Revenue from sale of goods - group	1 139 938	1 232 236
Other operating revenue	175 609	211 730
Other operating revenue - group	194 363	72 000
Total revenue	7 067 818	6 900 847
Other operating income	108 731	110 132
Total operating income	**7 176 549**	**7 010 979**

[1)] Included in Revenue from sale of goods is sale of power NOK 444,754 thousand in 2017 and 385,294 thousand in 2016.

Operating income by geographic market	2017	2016
Nordic countries	1 197 441	1 375 392
United Kingdom	470 116	354 075
Germany	1 342 774	1 343 490
France	539 555	610 055
Italy	358 847	334 463
Poland	179 855	158 394
Luxembourg	601 685	286 893
Switzerland	13 125	12 379
Netherlands	64 788	41 010
Other European countries	966 643	606 087
Europe	**5 734 828**	**5 122 238**
Africa	**17 394**	**16 988**
North America	225 965	541 691
South America	21 261	31 463
America	**247 226**	**573 154**
China	86 292	108 462
Japan	298 879	447 553
South Korea	300 367	437 838
Other Asian countries	478 745	291 179
Asia	**1 164 283**	**1 285 032**
The rest of the world	**12 819**	**13 567**
Total operating income	**7 176 549**	**7 010 979**

Details of other operating income:	2017	2016
Sale of fixed assets	10	2 364
Insurance settlement	14 890	249
Grants[1)]	93 831	107 520
Total other operating income	**108 731**	**110 132**

[1)] See note 29 Grants

5 EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries and other benefits	(803 187)	(764 226)
Employer's national insurance contribution	(96 958)	(96 613)
Employee retirement benefits[1)]	(55 742)	(44 008)
Other payments / benefits	(13 435)	(8 091)
Total employee benefit expenses	**(969 322)**	**(912 939)**

[1)] See note 6 Retirement benefits

Number of full time equivalents in Elkem AS	1044	1 038

Salary, wages and other compensations above include the following compensations

Compensation to members of the board	2017	2016
Payment to board members in total	(500)	(489)

Senior staff compensation
Helge Aasen is the CEO of Elkem AS.

Salary and other compensations to the CEO	2017	2016
Salary, including holiday pay	(5 417)	(5 111)
Bonus[1]	(4 932)	(3 148)
Free car	(130)	(130)
Other compensation	(31)	(28)
Pension cost	(693)	(640)

[1] In addition to the performance bonus, a strategic project bonus of NOK 3,542 thousand were paid in 2017. In 2016 an additional strategic bonus of NOK 407 and ChemChina award of NOK 604 thousand were paid.

Retirement age for the CEO is 65-70 years. Pension from the age of 70 and other pensions regarding spouse, children and disability are paid in accordance with the general pension policy of the company. In addition to the general pension policy of the company, CEO is entitled to an annual early retirement pension, from the age of 65, of 60% of pensionable salary.

The CEO is also entitled to a performance bonus equivalent to maximum 100 per cent of the base salary, based on the company performance.

The following applies for the CEO upon termination by the company:
Termination payment equal to 12 months' salary is to be paid on the last working day, severance payment equivalent to 18 months' salary.

Loans and guarantees to employees
There are no loans or guarantees to board members or the CEO.

6 RETIREMENT BENEFITS

Defined contribution plans
Pension for employees in Elkem AS are mainly covered by pension plans that are classified as contribution plans.

Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employee's pension plan, and where the employee's future pension is determined by the amount of the contributions and the return on the pension plan asset. In addition a multi-employer plan where sufficient information to calculate each participant's pension obligation is not available should be accounted for as it is a defined contribution plan.

Elkem AS' contributions to the employees individual pension plan assets constitutes 5% of base salary up to 7.1G and 15% between 7.1 and 12G. G refers to the national insurance scheme's basic amount in Norway, amounting to NOK 93 634 for 2017. A separate plan for pension on salary above 12 G is established, and accounted for under defined benefit plans.

Elkem AS participates in the early retirement scheme AFP. This is as a multi-employer plan accounted for as a defined contribution plan, in accordance with the Ministry of Finance's conclusion. The participants in the pension plan is jointly responsible for 2/3 of the plan's pension obligation, the government is responsible for the remaining part. The yearly pension premium paid by the participants in 2017 is 2,5% of the employees salary between 1 and 7.1 G, covering this years pension payments and contribution to a security fund for future pension obligations. The premium in per cent of salary for 2018 is equal to 2017.

Defined benefit plans
All defined benefit plans are unfunded and relate to closed retirement schemes, closed individual and retirement schemes and a separate plan for pension on salary above 12G.

Net interest is calculated based on pension liability at the start of the period multiplied by the discount rate and are presented as a part of financial expenses. Remeasurements of the defined benefit plans are recognized directly in equity.

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

Breakdown of net pension expenses	2017	2016
Current service expenses	(2 605)	(1 692)
Accrued employer's national insurance contribution	(254)	(203)
Net pension expenses, defined benefit plan	**(2 859)**	**(1 895)**
Defined contribution plan	(41 293)	(30 355)
Early retirement scheme (AFP)	(11 590)	(11 758)
Total pension cost	**(55 742)**	**(44 008)**

	2017	2016
Present value of pension obligation (PBO)	(65 321)	(65 405)
Fair value of plan assets	-	-
Net unfunded pension obligation	**(65 321)**	**(65 405)**
Active participants in pension scheme for salary above 12G	56	52
Retired participants	67	77

Summary of pension obligation and remeasurements	2017	2016
Pension obligations	(65 321)	(65 405)
Effects from remeasurement of pension liabilities recognised in Equity / Deferred tax	(339)	(1 765)
Total effects from remeasurement of pension liabilities recognised in Equity / Deferred tax as of 31.12	**(13 563)**	**(13 224)**

Economical assumptions	2017	2016
Discount rate[1]	2.2%	2.0%
Change in public pension rate (G)	2.25%	2.0%
Annual regulation of pensions paid	1,0 %	1.0%

[1] The discount rate is based on high quality corporate bonds reflecting the timing of the benefit payments.

The company's chosen assumptions are in line with "Guide to Pension Assumptions" published by The Norwegian Accounting Standard Board, September 2017.

7 OTHER OPERATING EXPENSES

	2017	2016
Travel expenses	(45 126)	(42 109)
Machinery, tools, fixtures and fittings	(270 512)	(250 210)
Repair, maintenance and other operating expenses	(132 689)	(117 246)
Other external expenses (fees, transport, IT services, etc.)	(261 737)	(228 845)
Loss on accounts receivables	(4 725)	(6 388)
Other energy and fuel expenses	(75 667)	(81 287)
Commission expenses	(82 390)	(83 918)
External distribution expenses	(459 308)	(415 343)
Rental/leasing expenses[1)]	(53 094)	(47 369)
Miscellaneous manufacturing, administration and selling expenses	(239 182)	(207 931)
Total other operating costs	**(1 624 430)**	**(1 480 646)**

[1)] See note 8 Operating lease

During 2017, Elkem AS expensed NOK 118,789 thousand (NOK 116,640 thousand) as research and development related to processes, products and business development, including technical customer support and improvement projects.

Grants received relating to research and development amount to NOK 30,444 thousand for 2017 (NOK 20,364 thousand) are included in other operating income.

Audit and other services	2017	2016
KPMG		
Audit fee	(3 703)	(1 939)
Other assurance services	(167)	(1 268)
Tax services	-	-
Other services	(152)	-
PwC and other audit firms		
Audit fee	(272)	(1 442)
Other assurance services	(407)	(258)
Tax services	-	(626)
Other services	(15)	(79)
Total audit fees	**(4 716)**	**(5 611)**

In addition to the above, services of NOK 21 969 thousand in other service from KPMG have been provided and invoiced through Elkem AS to Bluestar Elkem International Co., Ltd. S.A. with NOK 16 057 thousand in 2017 and NOK 5 912 thousand in 2016.

Fees to auditors are reported exclusive of VAT.

8 OPERATING LEASE

2017	Machinery and plant	Land, buildings and other properties	Equipment, furniture, systems and vehicles	Total
Lease expenses current year	(13 266)	(37 455)	(2 373)	**(53 094)**
Lease in accordance with contract due:				
Within one year	(183)	(14 182)	-	**(14 365)**
In the second to fifth year inclusive	-	(40 704)	-	**(40 704)**
Over five years	-	-	-	**0**

2016	Machinery and plant	Land, buildings and other properties	Equipment, furniture, systems and vehicles	Total
Lease expenses current year	(9 532)	(36 137)	(1 700)	**(47 369)**
Lease in accordance with contract due:				
Within one year	(474)	(15 427)	(758)	**(16 660)**
In the second to fifth year inclusive	(277)	(46 171)	(1 955)	**(48 403)**
Over five years	-	(28 821)	-	**(28 821)**

9 OTHER GAINS / LOSSES RELATED TO OPERATING ACTIVITIES

	2017	2016
Realised currency gains / (losses) from forward contracts	(40 001)	(149 081)
Unrealised currency gains / (losses) from forward contracts	(58 376)	412 099
Other currency gains / (losses) operational	58 584	(23 480)
Realised effects other financial instruments [1)]	(9 028)	(26 506)
Unrealised effects other financial instruments	(4 199)	8 091
Ineffectiveness on cash flow hedges power	-	342
Other gains / losses related to operating activities	**(53 020)**	**221 465**

[1)] Other financial instruments consist of power contracts and embedded derivatives EUR. See note 27 for more information.

10 FINANCE INCOME AND EXPENSES

	2017	2016
Interest income	1 643	3 371
Interest income - group	41 930	50 509
Dividend	1 290	1 550
Other financial income	1 671	352
Total finance income	46 534	55 782
Interest expenses	(65 472)	(63 941)
Interest expenses - group	(18 044)	(21 157)
Interest expenses net pension liabilities	(2 103)	(2 310)
Other financial expenses	(1 345)	(2 553)
Total finance expenses	(86 964)	(89 961)
Net foreign currency exchange gain / loss[1)]	(239 774)	103 227
Net Finance income / (expenses)	**(280 204)**	**69 048**

[1)] Foreign exchange gain / loss in 2017 and 2016 is mainly related to the bank loans in EUR.

11 TAXES

Income tax recognised in profit or loss	**2017**	**2016**
Current tax expenses	(90 959)	(34 019)
Previous year tax adjustment	(848)	(2 453)
Deferred tax	46 847	(114 786)
Other taxes	(1 652)	4 338
Total tax expenses recognised in profit	**(46 612)**	**(146 920)**

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

	2017	2016
Profit before tax	**356 537**	**731 855**
Applicable tax rate Norway	24 %	25 %
Tax expense at applicable tax rate	(85 569)	(182 964)
Permanent differences		
Tax effect of income from Norwegian controlled foreign companies (NOKUS)	(6 907)	(6 619)
Dividend within the Tax exemption method	14 502	16 886
Debt forgiveness[1)]	27 454	11 775
Tax effect merger	-	8 729
Impairment of shares / reversal of impairment	-	(981)
Tax effects other permanent differences	(1 017)	(1 390)
Other effects		
Previous year tax adjustment	(848)	(2 453)
Tax effect change in corporate tax rate[2)]	7 425	5 759
Other current tax paid	(1 652)	4 338
Income tax for the year	**(46 612)**	**(146 920)**
Effective tax rate	13 %	20 %

[1)] Elkem AS has four debt forgiveness agreements with Elkem Silicones France SAS. Nominal value of the agreements as of 31 December are NOK 1,343 million (EUR 136 million), book value NOK 0,-. Elkem Silicones France SAS has repaid NOK 115 million under this agreement in 2017, the gain is classified as income from subsidiaries. The effect of repayment is tax exempted.

[2)]The effect relates mainly to changes in tax rate from 24 per cent to 23 per cent in Norway from 2018. The changes in tax rates were approved by the governments before year end the respective years.

Deferred tax assets and deferred tax liabilities	**31.12.2017**	**31.12.2016**
Cash flow hedges charged to equity	13 395	(21 431)
Property, plant, equipment and intangible asset	(115 015)	(133 197)
Pension liabilities	15 024	15 492
Other differences	56 433	57 128
Accounts receivable	1 909	258
Inventory	(25 342)	(42 417)
Provisions	5 905	(3 800)
Deferred tax assets (liabilities)	**(47 692)**	**(127 967)**

Deferred tax	**31.12.2017**	**31.12.2016**
Opening balance - net deferred tax assets (liabilities)	(127 967)	33 452
Charged to Profit and Loss	46 847	(114 786)
Changes in deferred tax hedges charged to equity	34 826	(45 310)
Change in actuary gains/losses charged to equity	(54)	309
Other items charged to equity	-	(1 615)
Changes in group contributions to subsidiaries	(1 348)	-
Foreign currency exchange differences	4	(17)
Net deferred tax assets (liabilities)	**(47 692)**	**(127 967)**

12 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT

2017	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2017	**24 136**	**458 793**	**1 198 287**	**40 188**	**181 532**	**1 902 936**
Additions	-	-	882	27	277 388	278 297
Disposals	-	-	-	-	-	-
Transferred from CiP	25 533	12 868	186 239	6 276	(230 916)	-
Impairment losses	(255)	(780)	(13 491)	(47)	-	(14 573)
Depreciation expenses	(3 300)	(47 763)	(171 238)	(9 962)	-	(232 263)
Foreign currency exchange differences	-	-	-	2	-	2
Closing balance Net booked value 2017	**46 114**	**423 118**	**1 200 679**	**36 484**	**228 004**	**1 934 399**
Fixed assets under financial leasing included in Net booked value	-	-	-	719	-	719
Historical cost	90 386	1 213 772	3 630 462	122 966	228 004	5 285 590
Accumulated depreciation	(43 332)	(779 667)	(2 366 955)	(86 339)	-	(3 276 293)
Accumulated impairment losses	(940)	(10 987)	(62 828)	(143)	-	(74 898)
Closing balance Net booked value 2017	**46 114**	**423 118**	**1 200 679**	**36 484**	**228 004**	**1 934 399**
Estimated useful life	0-50 years	5-40 years	3-30 years	3-20 years		
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line		

Depreciations start when the asset is ready for it's intended use. Land is not depreciated.

2016	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2016	**23 120**	**444 587**	**1 079 677**	**43 344**	**277 056**	**1 867 784**
Additions	-	-	45	8	264 530	264 583
Disposals	-	(50)	0	(11)	-	(61)
Transferred from CiP	3 390	65 263	284 452	6 949	(360 054)	-
Impairment losses	-	(6 897)	(1 118)	(37)	-	(8 052)
Depreciation expenses	(2 374)	(44 111)	(164 759)	(10 064)	-	(221 307)
Foreign currency exchange differences	-	-	(10)	(1)	-	(11)
Closing balance Net booked value 2016	**24 136**	**458 793**	**1 198 287**	**40 188**	**181 532**	**1 902 936**
Fixed assets under financial leasing included in Net booked value	21 193	-	-	1 378	-	22 571
Historical cost	61 350	1 201 761	3 513 783	117 499	181 532	5 075 926
Accumulated depreciation	(36 071)	(732 474)	(2 255 437)	(77 177)	-	(3 101 159)
Accumulated impairment losses	(1 144)	(10 494)	(60 059)	(134)	-	(71 831)
Closing balance Net booked value 2016	**24 136**	**458 793**	**1 198 287**	**40 188**	**181 532**	**1 902 936**
Estimated useful life	0-50 years	5-40 years	3-30 years	3-20 years		
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line		

INTANGIBLE ASSETS

2017	Other intangible assets	IT systems and programmes	Intangible assets under construction	Total intangible assets
Opening balance Net booked value 2017	**321 778**	**97 943**	**10 673**	**430 394**
Additions	-	1 138	3 509	4 647
Reclassification / Transferred from CiP	(794)	4 619	(3 825)	-
Reversal of impairment losses	-	-	-	-
Amortisation	(80 171)	(16 801)	-	(96 972)
Closing balance Net booked value 2017	**240 813**	**86 899**	**10 357**	**338 069**
Historical cost	803 601	216 501	10 357	1 030 459
Accumulated amortisation	(562 788)	(129 602)	-	(692 390)
Closing balance Net booked value 2017	**240 813**	**86 899**	**10 357**	**338 069**
Estimated useful life	3-10 years	3-10 years		
Amortisation plan	Straight-line	Straight-line		

The book value of a power contract against Statkraft of 1.5 TWh. as of 31 December 2017 is NOK 240 million and included in other intangible assets. The notional amount of the underlying asset at the end of reporting period, volume * price, is NOK 1,373 million.

2016	Other intangible assets	IT systems and programmes	Intangible assets under construction	Total intangible assets
Opening balance Net booked value 2016	**402 224**	**110 650**	**10 824**	**523 698**
Additions	-	1 338	2 486	3 824
Reclassification / Transferred from CiP	-	2 637	(2 637)	-
Reversal of impairment losses	-	-	-	-
Amortisation	(80 447)	(16 682)	-	(97 128)
Closing balance Net booked value 2016	**321 778**	**97 943**	**10 673**	**430 394**
Historical cost	805 339	210 162	10 673	1 026 174
Accumulated amortisation	(483 561)	(112 219)	-	(595 780)
Closing balance Net booked value 2016	**321 778**	**97 943**	**10 673**	**430 394**
Estimated useful life	3-10 years	3-10 years		
Amortisation plan	Straight-line	Straight-line		

The book value of a power contract against Statkraft of 1.5 TWh. as of 31 December 2016 is NOK 320 million and included in other intangible assets. The notional amount of underlying asset at the end of reporting period, volume * price, is NOK 1,810 million.

13 INVESTMENTS IN SUBSIDIARIES

Investment in subsidiaries of Elkem AS as of 31 December 2017:

Owned by Elkem AS	Country	Owner share Vote rights (%)	Equity 31.12.17	Profit 31.12.17	Book value 31.12.17
Elkem Carbon AS	Norway	100 %	820 748	148 056	112 915
Elkem Chartering Holding AS	Norway	80 %	14 900	13 219	747
Elkem Distribution Center B.V.	Netherlands	100 %	20 910	1 168	186
Elkem Foundry (China) Ltd. Co	China	100 %	64 183	(2 705)	66 242
Elkem Foundry Invest AS	Norway	100 %	71 275	(1 224)	70 119
Elkem GmbH	Germany	100 %	15 781	1 681	1 309
Elkem Iberia SLU	Spain	100 %	7 580	1 853	476
Elkem Island EHF	Iceland	100 %	1 597 540	46 506	783 790
Elkem International AS	Norway	100 %	70 347	(54)	5 427
Elkem International Trade (Shanghai) Co. Ltd. [1]	China	11 %	149 214	7 867	558
Elkem Japan K.K	Japan	100 %	86 344	5 306	15
Elkem LTD.	England	100 %	5 025	438	18 983
Elkem Madencilik Metalurji Sanayi Ve Ticaret Ltd STI [1]	Turkey	1 %	5 365	730	77
Elkem Materials Processing (Tianjin) Co.,Ltd	China	100 %	2 653	(151)	793
Elkem Materials Processing Services BV	Netherlands	100 %	5 365	730	962
Elkem Metal Canada Inc	Canada	100 %	909 000	61 272	5 870
Elkem Milling Services GmbH	Germany	100 %	32 598	6 568	12 486
Elkem Nordic A.S.	Denmark	100 %	10 560	4 353	5 139
Elkem Oilfield Chemicals FZCO	Dubai	51 %	80 439	58 419	12 546
Elkem Rana AS	Norway	100 %	342 027	70 363	351 233
Elkem S.a.r.l.	France	100 %	14 226	610	0
Elkem S.r.l.	Italy	100 %	26 620	5 170	6 397
Elkem Siliconas España S.A.U	Spain	100 %	126 231	2 800	125 444
Elkem Silicones (UK) Ltd	United Kingdom	100 %	55 523	4 656	60 227
Elkem Silicones Brasil Ltda	Brasil	100 %	(22 341)	(42 514)	23 009
Elkem Silicones Canada Corp.	Canada	100 %	13 381	2 008	5 824
Elkem Silicones Czech Republic s.r.o	Czech Republic	100 %	5 295	2 606	2 226
Elkem Silicones Finland OY	Finland	100 %	6 932	1 379	5 438
Elkem Silicones France SAS	France	100 %	2 295 176	130 192	2 147 832
Elkem Silicones Germany GmbH	Germany	100 %	163 966	15 745	129 657
Elkem Silicones Hong Kong Co. Limited	Hong Kong	100 %	105 506	11 907	101 968
Elkem Silicones Poland p. z o.o	Poland	100 %	8 917	2 278	3 712
Elkem Silicones Scandinavia AS	Norway	100 %	20 646	3 123	15 188
Elkem Silicones Services S.à.r.l	France	100 %	(27 307)	(1 833)	0
Elkem Silicones Shanghai Co. Limited	China	100 %	118 647	9 348	107 382
Elkem Silicones USA Corp.	USA	100 %	273 019	31 468	260 294
Elkem Siliconi Italia S.r.l	Italy	100 %	39 122	3 678	23 998
Elkem Singapore Materials Pte. Ltd	Singapore	100 %	29 897	160	46
Elkem South Asia Private Limited	India	100 %	129 688	8 456	33 563
Explotacion de Rocas Industriales y Minerales S.A. [2]	Spain	100 %	103 991	11 853	80 460
NEH LLC	USA	100 %	297 957	6 831	97 506
Total subsidiaries					**4 680 044**

[1] Elkem AS and subsidiary owns 100% of Elkem Madencilik Metalurji Sanayi Ve Ticaret Ltd and Elkem International Trade (Shanghai) Co. Ltd.

[2] Elkem AS acquired 100% of the shares following the merger of Nor-Kvarts AS on 1st January 2017.

Income on investments in subsidiaries	2017	2016
Dividend from subsidiaries	60 424	67 543
Repayment of debt forgiveness[1]	114 534	47 100
Income on disposal[2]	-	1 250
Group contribution received	129 000	-
Total income	**303 958**	**115 893**

[1] See note 11 taxes for more information.

[1] In January 2016 Dehong Ltd was liquidated resulting in a gain of NOK 1,250 thousand.

Write-down / reversal of write-down on investments in subsidiaries	2017	2016
Write-down subsidiaries	-	(2 857)
Total write-down	**-**	**(2 857)**
Net gain/loss from investments in subsidiaries	**303 958**	**113 036**

14 INVESTEMENTS IN JOINT VENTURES

	Company address	Country	Owner share Voting rights 2017	Owner share Voting rights 2016	Accounting method
Elkania DA	Hauge i Dalane	Norway	50 %	50 %	Proportionate
Salten Energigjenvinning AS[1]	Oslo	Norway	50 %	0 %	Equity

[1] Shares in the company were acquired in June 2017.

Main figures for the investments accounted for by equity method. The figures are Elkem AS portion.

	2017	2016
Total interest in joint ventures 1 January	**-**	**-**
Acquired shares in Joint ventures/change of ownership	19 528	-
Share of profit / (loss)	(500)	-
Total interest in joint ventures 31 December	**19 028**	**-**

Main figures for the investments accounted for by proportionate consolidation. The figures are Elkem AS portion.

	Elkania DA	Total 2017
Current assets	15 451	15 451
Non-current assets	4 427	4 427
Current liabilities	17 101	17 101
Non-current liabilities	7 506	7 506
Net assets	(4 729)	(4 729)
Total revenue	2 825	2 825
Total expenses	(3 863)	(3 863)
Financial items	(148)	(148)
Tax	208	208
Total profit / (loss) for the year	(978)	(978)

	Elkania DA	Total 2016
Current assets	14 199	14 199
Non-current assets	5 028	5 028
Current liabilities	15 412	15 412
Non-current liabilities	7 566	7 566
Net assets	(3 751)	(3 751)
Total revenue	5 390	5 390
Total expenses	(5 172)	(5 172)
Financial items	(155)	(155)
Tax	(98)	(98)
Total profit for the year	(35)	(35)

15 INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES

	Owner share (%)	Book value 31.12.2017	Book value 31.12.2016
Elkem Chartering AS	25,0 %	8 529	8 529
Other companies		5 440	4 140
Total investments in associates and other companies		**13 968**	**12 669**

16 OTHER NON-CURRENT ASSETS

	31.12.2017	31.12.2016
Long-term deposit pension guarantee	18 775	17 905
Pension Contribution Fund, long-term	1 200	2 760
Loans to joint arrangements	7 246	7 098
Loan to subsidiaries[1)]	883 257	717 922
Other non-current assets	1 304	14 548
Total other non-current assets	**911 782**	**760 233**

[1)] See note 28 Related party transactions

17 INVENTORIES

	31.12.2017	31.12.2016
Finished goods	583 436	661 925
Work in progress	176 612	197 566
Raw materials	219 323	171 828
Operating materials and spare parts	157 776	151 018
Total inventories	**1 137 148**	**1 182 337**

As of 31 December 2017 inventories were written down by NOK 1,042 thousand.
As of 31 December 2016 inventories were written down by NOK 14,356 thousand.

18 ACCOUNTS RECEIVABLE

	31.12.2017	31.12.2016
Accounts receivables	668 805	551 309
Accounts receivables - related parties	306 948	244 800
Provision for doubtful accounts	(8 340)	(6 367)
Total accounts receivables	**967 413**	**789 742**

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

	31.12.2017	31.12.2016
Not due	514 417	463 752
1 - 30 days	117 235	60 573
31 - 60 days	20 975	3 524
61 - 90 days	4 770	7 308
More than 90 days	11 408	16 151
Total accounts receivables	**668 805**	**551 309**

Elkem applies for credit insurance for all customers when this can be obtained. In cases where credit insurance coverage is refused, other methods of securing the sales income are used. Other methods used for securing the sales are, among others, prepayment, letter of credit, documentary credit, guarantee etc.

Movement in allowance for doubtful debts	31.12.2017	31.12.2016
Opening balance	(6 367)	(700)
Impairment losses recognised on receivables	(5 108)	(5 680)
Reversed impairment losses	3 135	13
Balance as of 31 December	**(8 340)**	**(6 367)**

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

Overdue by	31.12.2017	31.12.2016
less than 90 days	(1 304)	(3 292)
61 - 90 days	(2 965)	(2 203)
more than 90 days	(4 071)	(872)
Total receivables written-down	**(8 340)**	**(6 367)**

19 OTHER CURRENT ASSETS

	31.12.2017	31.12.2016
Pension contribution fund, short term part[1)]	2 182	5 214
Grants receivable[2)]	66 756	113 677
Grants receivable, settled net against taxes payable[2)]	7 779	-
VAT receivables	125 336	79 543
Prepayments	14 940	14 875
Receivable group entities related to Group Bank Accounts	214 102	68 744
Receivable group contribution	129 000	-
Other current assets	20 127	8 100
Total other current assets	**580 221**	**290 154**

[1)] See note 6 Retirement benefits
[2)] See note 29 Grants

20 CASH AND CASH EQUIVALENTS

	31.12.2017	31.12.2016
Cash and bank balances	846 796	292 468
Cash and cash equivalents	**846 796**	**292 468**

21 EQUITY

Changes in equity

	Share capital	Other paid in capital	Total paid in capital	Retained earnings	Total equity
Equity 31.12.16	**2 010 000**	**1 078 203**	**3 088 203**	**1 284 671**	**4 372 874**
Hedging	-	-	-	(112 706)	**(112 706)**
Actuarial gain / loss	-	-	-	(394)	**(394)**
Currency translation	-	-	-	72	**72**
Merger[1)]	-	-	-	21 006	**21 006**
Dividend		(170 000)	(170 000)	-	**(170 000)**
Profit for the year	-	-	-	309 925	**309 925**
Equity 31.12.17	**2 010 000**	**908 203**	**2 918 203**	**1 502 574**	**4 420 777**

[1)]See note 30 Merger Elkem AS and subsidiaries

Shareholders

Elkem AS is the parent company of Elkem AS group. As of 31 December 2017 Elkem AS was 100% owned by Bluestar Elkem International Co. Ltd S.A. Elkem AS has its registered company address: Drammensveien 169 0277 Oslo, Norway.

Share capital

Share capital as of 31 December 2017 in Elkem AS is NOK 2,010,000 thousand, divided in 1 share.

Changes in equity

	Share capital	Other paid in capital	Total paid in capital	Fund	Other equity	Total retained earnings	Total equity
Equity 01.01.16	**2 010 000**	**1 078 203**	**3 088 203**	**2 311**	**552 324**	**554 635**	**3 642 838**
Hedging	-	-	-	-	144 347	**144 347**	**144 347**
Actuarial gain / loss	-	-	-	-	(1 458)	**(1 458)**	**(1 458)**
Currency translation Joint ventures	-	-	-	(2 311)	927	**(1 384)**	**(1 384)**
Merger[1)]	-	-	-	-	3 596	**3 596**	**3 596**
Profit for the year	-	-	-	-	584 935	**584 935**	**584 935**
Equity 31.12.16	**2 010 000**	**1 078 203**	**3 088 203**	-	**1 284 671**	**1 284 671**	**4 372 874**

[1)]See note 30 Merger Elkem AS and subsidiaries

Fund

Fund is valuation variances in conjunction with Dehong who is consolidated by proportionate consolidation. The company was liquidated in 2016.

22 FINANCE LEASE LIABILITIES

Elkem AS leases some of its manufacturing equipment under a finance lease. Interest rates range from 3.50% to 6.99%.
Elkem AS's obligations under a finance lease are secured by the lessor's title to the leased assets. Elkem AS has the right to prolong some leasing agreements, and the right to keep the leased equipment after the closed leasing period for some leasing agreements.

Overview of finance lease	31.12.2017	31.12.2016
Within one year	196	2 582
Between 1 and 5 years	17	258
Over 5 years	-	-
Total lease payments	213	2 840
Less future finance charges	120	(32)
Present value of lease obligations	**333**	**2 808**
Less amount due for settlement within 12 months	316	2 560
Total non-current finance lease obligations	**17**	**248**
Leasing cost current year	591	2 565

23 INTEREST-BEARING ASSETS / LIABILITIES

	31.12.2017	31.12.2016
Non-current interest-bearing liabilities		
Financing from subsidiaries	164 358	118 243
Financial leases[1)]	17	248
Bank financing and other liabilities	2 469 610	2 776 541
Total non-current interest-bearing liabilities	**2 633 985**	**2 895 032**
Current interest-bearing liabilities		
Financing from subsidiaries	2 030 323	1 616 239
Financial leases[1)]	316	2 560
Bank financing	544 830	48 532
Loans from external part, other than bank	52 652	58 433
Accrued interest	3 219	3 035
Total current interest-bearing liabilities	**2 631 340**	**1 728 799**
Total interest-bearing liabilities	**5 265 325**	**4 623 831**
Interest-bearing assets		
Cash and bank balances	846 796	292 468
Restricted deposits	18 847	17 905
Non-current loans to subsidiaries	883 258	717 922
Non-current loans to joint arrangements	7 246	7 098
Current loans to subsidiaries	185 586	40 258
Total interest-bearing assets	**1 941 733**	**1 075 651**
Net interest-bearing assets / (liabilities)	**(3 323 592)**	**(3 548 180)**

1) See note 22 Finance lease liabilities

Interest-bearing liabilities by currency	Currency amount	NOK 31.12.2017	Currency amount	NOK 31.12.2016
EUR	355 615	3 500 957	328 227	2 982 036
USD	71 418	585 914	24 742	213 243
NOK	585 943	585 943	755 392	755 392
Other currencies	-	592 511	-	673 160
Total interest-bearing liabilities		**5 265 325**		**4 623 831**

Maturity of interest-bearing liabilities at 31.12.2017	Group financing	Financial leases	Loans from external part, other than bank	Bank financing	Accrued interest	Total
2018	2 030 323	316	52 652	544 830	3 219	2 631 340
2019	-	17	-	544 830	-	544 847
2020	-	-	-	1 775 430	-	1 775 430
2021	-	-	-	52 590	-	52 590
2022	-	-	-	52 590	-	52 590
2023 and later	164 358	-	-	52 590	-	216 948
Total	**2 194 681**	**333**	**52 652**	**3 022 860**	**3 219**	**5 273 745**
Prepaid loan fees	-	-	-	(8 420)	-	(8 420)
Total interest bearing liabilities	**2 194 681**	**333**	**52 652**	**3 014 440**	**3 219**	**5 265 325**

Maturity of interest-bearing liabilities at 31.12.2016	Group financing	Financial leases	Loans from external part, other than bank	Bank financing	Accrued interest	Total
2017	1 616 239	2 560	-	106 965	3 035	1 728 799
2018	-	248	-	502 798	-	503 046
2019	-	-	-	502 798	-	502 798
2020	-	-	-	1 638 460	-	1 638 460
2021	-	-	-	48 533	-	48 533
2022 and later	118 243	-	-	97 065	-	215 308
Total	**1 734 482**	**2 808**	**-**	**2 896 619**	**3 035**	**4 636 944**
Prepaid loan fees	-	-	-	(13 113)	-	(13 113)
Total interest bearing liabilities	**1 734 482**	**2 808**	**-**	**2 883 506**	**3 035**	**4 623 831**

Elkem AS is granted credit facilities of EUR 200,000 thousand (NOK 1,968,960 thousand) and NOK 250,000 thousand, a total of NOK 2,218,930 thousand in granted credit facilities. Both facilities remained undrawn at 31 December 2017 and 31 December 2016.

The credit facilities and the term loans in Elkem AS contain financial covenants. The financial covenants and the calculations for the drawn loan of NOK 3,022,860 thousand (2,838,187 thousand) is described below:

Covenant Elkem AS group		31.12.2017	31.12.2016	Loan covenant
Total Equity	NOK	8 332 862	7 459 042	
Total Assets	NOK	16 347 935	14 813 342	
Equity ratio		**51 %**	**50 %**	**> 30%**
EBITDA	NOK	2 098 467	1 617 790	
Net finance charges	NOK	66 747	61 639	
Interest cover ratio		**31,44**	**26,25**	**> 4.00**

24 GUARANTEES

Guarantee commitments	31.12.2017	31.12.2016
Guarantees given on behalf of subsidiaries regarding environmental obligations	31 274	4 618
Guarantees given on behalf of subsidiaries regarding financing	133 953	70 359

25 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

	31.12.2017	31.12.2016
Warranties	2 570	-
Employee benefits	266	273
Site restoration	26 460	23 638
Obligation to finance subsidiary	27 023	27 023
Provisions	**56 319**	**50 934**

Warranties
Elkem AS has provisions related to warranties when selling parts used for building of furnaces.

Employee benefits
Employee benefits consist of provisions for long-service benefits.

Site restoration
Elkem AS has provisions for future remediation work related to the necessary site remediation work that it will have to undertake in respect of its quartz mines. In addition Elkem AS has provisions for future remediation work related to necessary site remediation work that will have to undertake on sites used for waste disposal.

Obligation to finance
Elkem AS purchased Elkem Silicones in 2015. The subsidiary Elkem Silicones Services S.à.r.l has a negative equity when Elkem AS purchased Elkem Silicones and Elkem AS has a obligation to fund the company's continued operations.

26 OTHER CURRENT LIABILITIES

	31.12.2017	31.12.2016
Social securities tax and withholding tax employees	59 213	55 734
Value added tax	82 420	18 738
Payroll payables	153 538	135 911
Payables to subsidiaries	24 246	19 711
Provisions	3 201	-
Group contribution	-	12 392
Other short-term liabilities	112 475	89 068
Total other current liabilities	**435 093**	**331 554**

27 FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered, and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedging.

Foreign exchange forward contracts
Elkem AS's Treasury department enters into to foreign forward contracts to meet Elkem Groups foreign currency exposure. Hedge accounting is not applied for these contracts, they are classified as held for trading and booked at fair value through profit and loss.

Elkem AS's Treasury department also offers internal currency hedging for major purchase/sale-contracts entered into by the subsidiaries. Such contracts (Fxt) can not be designated in a hedging relationship, changes in fair value are recognised through profit and loss. At 31 December 2017 there are no currency contracts against subsidiaries in the balance sheet.

Embedded EUR derivatives in power contracts are designated as a hedging instrument in a cash flow hedge to hedge currency fluctuations in highly probable future sales, from 1 January 2016. Unrealised effects from that time are booked against equity and later reclassified to revenues when realised. Realised effects from such derivatives in 2017 are NOK 8,109 thousand (zero in 2016).

See note 9 Other gains / losses related to operating activities for information of contracts classified as held for trading.

Details of foreign exchange contracts as of 31 December 2017

Purchase Currency	Purchase ccy 1000	Sale Currency	Sale ccy 1000	Type of instrument	Currency rate	Due	Fair value 1)	Notional value 2)
NOK	9 355	AUD	1 500	Fwd	6,2366	2018	0	9 618
CAD	28 035	EUR	18 800	Fwd	1,4912	2018	(3 341)	185 082
NOK	2 504 556	EUR	261 875	Fwd	9,5639	2018	(87 625)	2 578 107
CAD	1 869	NOK	12 075	Fwd	0,1548	2018	44	12 230
NOK	90 837	GBP	8 500	Fwd	10,6867	2018	(3 511)	94 294
NOK	115 004	JPY	1 406 000	Fwd	0,0818	2018	12 063	102 491
NOK	741 675	USD	91 200	Fwd	8,1324	2018	(2 181)	748 205
NOK	110 393	JPY	1 316 000	Fwd	0,0839	2019	12 603	95 930
NOK	107 766	JPY	1 268 000	Fwd	0,0850	2020	11 969	92 431
NOK	4 059 624	EUR	396 375	Embedded 3)	10,2419	2018-2034	(183 669)	3 902 236
Total fair value currency forward contracts							**(243 906)**	

1) The forward currency contracts are measured at fair value based on the observed forward exchange rate for contracts with a corresponding maturity term, on the balance sheet date.

2) Notional value of underlying asset, based on forward currency rates at 31.12.

3) Embedded EUR derivatives in power contracts (Stakraft swap).

Details of foreign exchange contracts as of 31 December 2016

Purchase Currency	Purchase ccy 1000	Sale Currency	Sale ccy 1000	Type of instrument	Currency rate	Due	Fair value 1)	Notional value 2)
CAD	7 517	EUR	5 200	Fwd	1,4455	2017	449	47 244
NOK	1 227 584	EUR	132 050	Fwd	9,2964	2017	17 788	1 199 713
CAD	1 499	GBP	800	Fwd	1,8743	2017	1 092	8 499
NOK	46 356	GBP	4 200	Fwd	11,0372	2017	1 592	44 618
NOK	146 124	JPY	1 980 000	Fwd	0,0738	2017	(740)	145 810
NOK	536 836	USD	65 800	Fwd	8,1586	2017	(29 286)	567 104
CAD	3 951	USD	3 000	Fwd	1,3171	2017	(463)	25 856
NOK	524 796	EUR	58 000	Fwd	9,0482	2018	(12 850)	526 947
NOK	88 663	JPY	1 036 000	Fwd	0,0856	2018	10 352	76 292
NOK	101 569	USD	13 000	Fwd	7,8130	2018	(9 884)	112 042
NOK	89 917	JPY	1 036 000	Fwd	0,0868	2019	10 128	76 292
NOK	87 003	JPY	988 000	Fwd	0,0881	2020	9 351	72 758
USD	20 000	CAD	26 680	Fxt	0,7496	2017	611	171 722
NOK	1 889 767	EUR	199 408	Embedded 3)	9,4769	2017-2027	(62 384)	1 811 685
Total fair value currency forward contracts							**(64 244)**	

1) The forward currency contracts are measured at fair value based on the observed forward exchange rate for contracts with a corresponding maturity term, on the balance sheet date.

2) Notional value of underlying asset, based on forward currency rates at 31.12.

3) Embedded EUR derivatives in power contracts (Stakraft swap).

Energy contracts booked at fair value

Elkem AS enters into forward power contracts to meet its need for power at the plants. Certain contracts are designated as hedging instruments in a cash flow hedge to mitigate price fluctuations in highly probable future need for power. In addition Elkem AS holds energy contracts booked at the lower of cost and fair value. The fair value of these contracts are based on observable nominal values for similar contracts, adjusted for interest effects.

The effective part of change in fair value of the contracts designated in hedging relationships is booked temporarily in equity. Realised effects are booked as a part of the energy cost under cost of raw materials and other input factors. The ineffective part is booked as a part of other gains / losses related to operating activities.

See note 9 Other gains / losses related to operating activities for information of contracts classified as held for trading.
In addition, realised effects in 2017 from hedging of future need for power is a loss of NOK 21,008 thousand (loss of NOK 44,599 thousand).

Details of energy contracts booked at fair value as of 31. December 2017

	Volume GWh	Due	Fair value	Notional amount 1)
Forward contracts financial institutions	299	2018	5 678	74 263
Commodity contracts "30-øringen" 2)	501	2018	-	146 653
Commodity contracts "30-øringen"	6 016	2019-2030	-	1 692 993
Commodity contract Statkraft, swap	201	2018	(15 521)	65 218
Commodity contract Statkraft, swap	605	2019-2034	(44 183)	195 834
Fair value energy contracts at fair value			**(54 026)**	

1) Notional value based on currency rates at 31.12.

2) The contract does not qualify as a hedging instrument, hence it is booked at the lower of cost and fair value.

Details of energy contracts booked at fair value as of 31. December 2016	Volume GWh	Due	Fair value	Notional amount [1)]
Forward contracts NASDAQ financial institutions	307	2017	16 142	71 858
Forward contracts NASDAQ financial institutions	140	2018	6 216	26 113
Commodity contract related party	(26)	2017	(1 165)	(5 611)
Commodity contracts "30-øringen"[2)]	501	2017	-	141 589
Commodity contracts "30-øringen"	6 517	2018 - 2030	-	1 688 680
Commodity contracts swap Statkraft	201	2017	(8 250)	60 187
Commodity contracts swap Statkraft	806	2018-2021	(66 721)	240 913
Fair value energy contracts at fair value			**(53 778)**	

1) Notional value based on currency rates at 31.12.

2) The contract does not qualify as a hedging instrument, hence it is booked at the lower of cost and fair value.

28 RELATED PARTY TRANSACTIONS

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

2017	Trade sales	Trade purchases	Services sales	Services purchases	Interest income	Interest expenses
Bluestar Elkem International Co., Ltd. S.A.	-	-	11 547	-	308	-
Other related parties within China National Bluestar group	-	-	325	-	-	-
Subsidiaries	1 137 788	(1 772 414)	252 513	(168 152)	41 177	(19 921)
Joint arrangements and associates	-	-	-	(133 862)	148	-
Total	**1 137 788**	**(1 772 414)**	**264 385**	**(302 015)**	**41 633**	**(19 921)**

2016	Trade sales	Trade purchases	Services sales	Services purchases	Interest income	Interest expenses
Bluestar Elkem International Co., Ltd. S.A.	-	-	718	-	-	-
Other related parties within China National Bluestar group	73 495	(10 695)	61 919	(12 332)	-	-
Subsidiaries	1 232 237	(1 474 347)	118 860	(156 470)	50 509	(21 158)
Joint arrangements and associates	-	-	-	(113 649)	155	-
Total	**1 305 731**	**(1 485 042)**	**181 498**	**(282 452)**	**50 664**	**(21 158)**

Loans from/to related parties	31.12.2017	31.12.2016
Non-current loans from Other related parties within China National Bluestar group	(6 869)	(6 339)
Non-current loans from subsidiaries	(157 489)	(111 904)
Current loans from subsidiaries	(2 030 323)	(1 616 239)
Non-current deposit subsidiaries	883 258	717 922
Other receivables from subsidiaries	214 102	68 744
Non-current loans to joint arrangements and associates	7 246	7 098
Current loans to joint arrangements and associates	-	-
Accounts receivables Bluestar Elkem International Co., Ltd. S.A.	621	354
Accounts receivables other related parties within China National Bluestar group	201	189
Accounts receivables subsidiaries	306 127	244 669
Accounts receivables joint arrangements and associates	-	-
Accounts payables from other related parties within China National Bluestar group	(1 077)	(1 077)
Accounts payables from subsidiaries	(365 963)	(176 007)
Accounts payables from joint arrangements and associates	(10 039)	(12 656)

Information about transactions between related parties

Elkem follows internationally accepted principles for transactions between related parties. In general, Elkem seeks to use transaction based methods (comparable uncontrolled price, cost plus and resale price method) in order to set the price for the transaction. The majority of the transactions between related parties, relate to products involving:

- Raw materials (quartz) from quarries to plants
- Electrode paste from Carbon plants to FeSi and Silicon plants
- Surplus raw materials between plants
- Ad-hoc supplies of finished goods to Elkem's internal distributors
- Purchase of short and deep sea transport
- Sale of management and technology services
- Sale of power supply
- Rent of plant facilities and related services

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

Elkem AS also have both long term receivables and long term payables to related parties.
The group loans are normally interest bearing and interest is calculated based on interbank rates (for example NIBOR) and a margin.

Commitments with related parties

Elkem AS have no commitments to related parties.

Transactions with key management personnel

Information on transactions with key management personnel is included in note 5 Employee benefit expenses.

29 GRANTS

Elkem has received the following government grants	2017	2016
Funding from the Norwegian government R&D	30 444	20 364
CO2 Compensation from the Norwegian Environment Agency	60 495	84 418
Funding related to energy recovery	14 188	27 741
Other government grants	393	86
Total government grants received	**105 520**	**132 609**

Elkem has received the following grants from other	2017	2016
Norwegian NOx fund for reduced emission of NOx[1)]	6 150	48 777
Other grants received other than government	2 500	250
Total other grants received	**8 650**	**49 027**

[1)]The industry in Norway pays a fee for their emission of NOx to the Norwegian NOx fund. The fund is self financed by the fee and their purpose is to support projects that reduces the NOx emission from the industry in Norway.

Grants received is included in the financial statement as follows:

Other operating income	93 831	107 520
Deduction of carrying amount of fixed assets	20 339	74 116
Total	114 170	181 636
Receivables related to grants	74 535	113 677
Deferred income related to grants	(3 007)	(6 252)

The current CO2 compensation programme will end in 2020.

30 MERGER ELKEM AS AND SUBSIDIARIES

In 2017, Elkem AS has merged with the subsidiary Nor-Kvarts AS. Nor-Kvarts AS owns 100% of the shares in Erimsa, a company which operates five quartz mines in Spain.

The merged subsidiary was 100% fully owned by Elkem AS and the merger was effective from 18 November 2017 with Elkem AS as the surviving entity. The merged entity are included in Elkem AS based on group book value and the continuity accounting method. For accounting and tax purposes the merged entity was included in Elkem AS retrospectively as of 1 January 2017.

Details on the merged balance is outlined below:

NET ASSETS	Note	TOTAL
Investments in subsidiaries	13	20 650
Other non-current assets	19	616
Other current assets	16	2
Total Assets		21 268
Current interest-bearing liabilities	23	87
Income tax payables	25	175
Total liabilities		262
Net assets / Equity contributed in the merger		**21 006**

31 EVENTS AFTER THE REPORTING PERIOD

Elkem AS will be the issuer in the planned initial public offering (IPO) on the Oslo Stock exchange, and expect to be listed on or about March 2018. In connection with the IPO, there will be a restructuring where Elkem AS will acquire 100% of the shares in Jiangxi Bluestar Xinghuo Silicones Co. Ltd. (hereafter Xinghuo) and 100% of the shares in Bluestar Silicon Material Co. Ltd. (hereafter Yongdeng) from Bluestar Elkem Investment Co. Ltd., a subsidiary of China National Bluestar (group) Co. Ltd for a purchase price of CNY 3,274 million. Completion of the restructuring is conditional upon a completed IPO. There is no acquisition related costs related to the transaction.

New loan agreements

In connection with the Listing, Elkem plans to enter into several loan facilities agreements in an aggregate principal amount of approximately EUR 1,150 million (collectively, the New Loan Facilities Agreements), to refinance the facilities under the Syndicated Loan Facilities Agreement as well as certain additional outstanding indebtedness, including indebtedness assumed in connection with the acquisitions of Xinghuo Silicones and Yongdeng Silicon Materials as well as to finance general corporate purposes and working capital needs. Any such refinancing of indebtedness in China will be subject to compliance with Chinese law and regulations relating to exchange controls.

The assumed debt obligations of Xinghuo and Yongdeng consist of short-term and long-term bank loans, including bank bills. Certain local loan facilities in China will be maintained in order to have RMB (Renminbi, Chinese currency) denominated debt and to facilitate the use of local cash flows to service local debt. Elkem has, however, ensured through the New Loan Facilities Agreements that it has capacity to complete a full refinancing of the Chinese debt if needed. The New Loan Facilities Agreements covers the Group's total anticipated debt financing needs

The New Loan Facilities Agreement will consist of three facilities: (i) a single currency loan facility in an aggregate amount of EUR 400 million (the Facility A Loan), (ii) a multicurrency revolving loan facility in an aggregate amount of 250 million (the Facility B Loan) and (iii) a multicurrency term loan facility in an aggregate amount of 500 million (the Facility C Loan).
The Facility A Loan, Facility B Loan and Facility C Loan, respectively, under the New Loan Facilities Agreements are unsecured. The interest rate for borrowings under the New Loan Facilities Agreements will be an interest rate per annum equal to EURIBOR, LIBOR or NIBOR (depending on currency drawn under the facility) plus a margin.

The New Loan Facilities Agreement will contain two financial covenants. The ratio of Gross operating profit to Consolidated Net Interest Payable, as defined in note 22 interest bearing liabilities and assets, for each measurement period, which period is calculated as the 12 months ending on the last day of a financial quarter, must not be less than 4.0:1.0. Additionally, the ratio of total equity to total assets must be more than 30% at all times.

The New Loan Facilities Agreement will contain a mandatory prepayment clause upon change of control. Change of control is defined as China National Bluestar Co. Ltd. ceasing, directly or indirectly, to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to cast, or control the casting of, more than 50% of the maximum number of votes that might be cast at a general meeting of the Company, or hold beneficially more than 50% of the issued share capital and/or the economic interest of the Company, or after the Listing has occurred, the shares in the Company cease to be listed on the Oslo Stock Exchange or on the principle stock exchange in any of Copenhagen, Frankfurt, London, Paris or Stockholm.

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To the Annual Shareholder's Meeting of Elkem AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Elkem AS. The financial statements comprise:

- The financial statements of the parent company Elkem AS (the "Company"), which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (the "parent company financial statements"), and

- The consolidated financial statements of Elkem AS and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2017 and the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (the "consolidated financial statements") (together the "financial statements").

In our opinion:

- The financial statements are prepared in accordance with the law and regulations in Norway.

- The accompanying parent company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations in Norway, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report and information in the annual report, but does not include the financial statements and our auditor's report thereon. We obtained the Board of Directors' report prior to the date of the auditors' report, but the other information in the annual report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of our Report on Other Legal and Regulatory Requirements below.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director ("management") are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 21 February 2018
KPMG AS

Øyvind Skorgevik

Øyvind Skorgevik
State Authorised Public Accountant

CONSOLIDATED
FINANCIAL STATEMENTS

Elkem AS group

2015

CONTENT

Notes 1 to 31 and the accounting policies are an integrated part of these financial statements.

CONSOLIDATED STATEMENT OF INCOME

Amounts in NOK 1000 *1 January - 31 December*	Note	2015	2014
Revenues	4	14 361 403	12 523 291
Other operating income	4	179 654	150 658
Total operating income		**14 541 057**	**12 673 949**
Raw materials and energy for smelting		(6 847 021)	(6 355 219)
Employee benefit expenses	5	(2 438 997)	(2 206 416)
Other operating expenses	7,8	(3 048 051)	(2 860 582)
Gross operating profit (loss)		**2 206 988**	**1 251 732**
Amortisations and depreciations	12	(674 383)	(628 584)
Impairment losses	12	(1 813)	(730)
Other gains and losses	9	(221 006)	(91 686)
Operating profit (loss)		**1 309 786**	**530 732**
Income from associates and joint ventures	13,14	21 327	41 690
Finance income	10	57 492	82 761
Foreign exchange gains (losses)	10	32 533	(86 502)
Finance expenses	10	(154 067)	(182 097)
Profit (loss) before income tax		**1 267 071**	**386 584**
Tax (expenses) / income	11	(424 663)	(219 829)
Profit (loss) for the year from continued operations		**842 408**	**166 755**
Profit (loss) for the year from discontinued operations	31	**(7 097)**	(223 554)
Profit (loss) for the year		**835 311**	**(56 799)**
Attributable to:			
Non-controlling interest's share of profit (loss)		33 373	35 017
Owners of the parent's share of profit (loss)		801 938	(91 816)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in NOK 1000 *1 January - 31 December*	Note	2015	2014
Profit (loss) for the year		**835 311**	**(56 799)**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of post employment benefit obligation	6	18 108	(55 594)
Tax effects on remeasurements of post employment benefit obligation	11	(4 617)	14 515
Share of other comprehensive income from associates and joint ventures	13, 14	47	-
		13 538	**(41 079)**
Items that may be reclassified to profit or loss in subsequent periods			
Currency translation differences		251 943	98 259
Cash flow hedges	26	(867 486)	(15 067)
Tax effects on cash flow hedges	11	203 982	4 972
Share of other comprehensive income from associates and joint ventures	13, 14	45	-
Change in value of available-for-sale financial assets		-	806
		(411 516)	**88 970**
Other comprehensive income for the year, net of tax		**(397 978)**	**47 891**
Discontinued operations		**3 422**	**(3 528)**
Total comprehensive income for the year		**440 755**	**(12 436)**
Attributable to:			
Non-controlling interest's share of comprehensive income		42 411	45 692
Owners of the parent's share of comprehensive income		398 344	(58 128)
Total comprehensive income for the year		**440 755**	**(12 436)**
Total comprehensive income attributable to equity shareholders arises from:			
- Continuing operations		402 019	168 954
- Discontinued operations		(3 675)	(227 082)
Total		**398 344**	**(58 128)**

Notes 1 to 31 and the accounting policies are an integrated part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Amounts in NOK 1000	Note	31.12.2015	31.12.2014
ASSETS			
Property, plant and equipment	12	5 602 208	5 183 162
Goodwill	12	244 088	229 470
Other intangible assets	12	643 493	574 083
Deferred tax assets	11	323 969	405 122
Investment in joint ventures	13	67 476	960 398
Interest in associates and other companies	14	96 046	117 987
Derivatives	26	40 480	69 743
Other non-current assets	16	217 226	1 623 905
Total non-current assets		**7 234 986**	**9 163 870**
Inventories	17	3 302 196	2 896 478
Accounts receivable	18	1 864 010	1 819 299
Derivatives	26	14 332	6 844
Other current assets	19	755 737	871 935
Cash and cash equivalents	22	1 305 592	694 993
Total current assets		**7 241 867**	**6 289 549**
TOTAL ASSETS		**14 476 853**	**15 453 419**
EQUITY AND LIABILITIES			
Paid-in capital	20	3 088 203	6 055 203
Retained earnings		2 955 626	(510 009)
Non-controlling interest		123 219	95 873
Total equity		**6 167 048**	**5 641 067**
Interest-bearing non-current liabilities	22	3 051 916	1 502 887
Deferred tax liabilities	11	124 475	199 244
Pension liabilities	6	393 735	390 776
Derivatives	26	925 852	299 460
Provisions and other non-current liabilities	24	262 184	230 792
Total non-current liabilities		**4 758 162**	**2 623 159**
Accounts payable		1 448 578	1 334 169
Income tax payables	11	128 496	71 054
Interest-bearing current liabilities	22	327 981	4 544 808
Derivatives	26	615 208	246 300
Provisions and other current liabilities	25	1 031 380	992 862
Total current liabilities		**3 551 643**	**7 189 193**
TOTAL EQUITY AND LIABILITIES		**14 476 853**	**15 453 419**

Notes 1 to 31 and the accounting policies are an integrated part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in NOK 1000	Share capital	Other paid-in capital	Total paid-in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2014	2 000 000	3 503 413	**5 503 413**	109 660	(460 374)	(101 155)	**(451 869)**	**5 051 544**	**92 365**	**5 143 909**
Profit (loss) for the year	-	-	-	-	-	(91 816)	**(91 816)**	**(91 816)**	35 017	**(56 799)**
Other comprehensive income for the year	-	-	-	88 199	(10 093)	(44 418)	**33 688**	**33 688**	10 675	**44 363**
Total comprehensive income for the year	-	-	-	88 199	(10 093)	(136 234)	**(58 128)**	**(58 128)**	**45 692**	**(12 436)**
Capital increase	10 000	541 790	**551 790**	-	-	-	-	**551 790**	-	**551 790**
Dividends to equity holders	-	-	-	-	-	-	-	-	(41 472)	**(41 472)**
Changes in the composition of the group	-	-	-	-	-	(12)	**(12)**	**(12)**	(712)	**(724)**
Balance 31 December 2014	**2 010 000**	**4 045 203**	**6 055 203**	**197 859**	**(470 467)**	**(237 401)**	**(510 009)**	**5 545 194**	**95 873**	**5 641 067**

Amounts in NOK 1000	Share capital	Other paid-in capital	Total paid-in capital	Foreign currency translation reserve	Cash flow hedge reserve	Other retained earnings	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2015	2 010 000	4 045 203	**6 055 203**	197 859	(470 467)	(237 401)	**(510 009)**	**5 545 194**	**95 873**	**5 641 067**
Profit (loss) for the year	-	-	-	-	-	801 938	**801 938**	**801 938**	33 373	**835 311**
Other comprehensive income for the year	-	-	-	242 875	(663 504)	17 005	**(403 624)**	**(403 624)**	9 068	**(394 556)**
Total comprehensive income for the year	-	-	-	242 875	(663 504)	818 943	**398 314**	**398 314**	**42 441**	**440 755**
Conversion of liabilities[1)]	-	-	-	-	-	3 082 335	**3 082 335**	**3 082 335**	-	**3 082 335**
Dividends to equity holders	-	(2 967 000)	**(2 967 000)**	-	-	-	-	**(2 967 000)**	(15 095)	**(2 982 095)**
Changes in the composition of the group[2)]	-	-	-	-	-	(15 015)	**(15 015)**	**(15 015)**	-	**(15 015)**
Balance 31 December 2015	**2 010 000**	**1 078 203**	**3 088 203**	**440 734**	**(1 133 971)**	**3 648 862**	**2 955 625**	**6 043 828**	**123 219**	**6 167 047**

[1)] 15 June 2015, a shareholder loan in BSI of EUR 352 million was converted to equity.

[2)] 19 June 2015 Elkem AS group acquired all the shares in Bluestar Silicones International S.a.r.l. (BSI group) for a purchase price of EUR 1.7 million. Elkem AS group and BSI group are under common control by China National Bluestar (group) and historical figures are restated. See note 1 General information and basis for preparation.

CONSOLIDATED STATEMENT OF CASH FLOWS

Amounts in NOK 1000 *1 January - 31 December*	Note	**2015**	**2014**
Operating profit (loss) - continued operations		1 309 786	530 732
Operating profit (loss) - discontinued operations		-	(94 675)
Changes fair value commodity contracts		96 908	73 503
Amortisation, depreciation and impairment changes	12	676 196	675 531
Changes in net working capital		(171 001)	(312 793)
Changes in other working capital		98 693	41 589
Interest payments received		48 986	85 102
Interest payments made		(63 333)	(199 235)
Other financial items		(2 007)	(1 883)
Income taxes paid		(174 056)	(123 585)
Cash flow from operating activities		**1 820 172**	**674 286**
Investments in property, plant and equipment and intangible assets	12	(1 067 383)	(851 592)
Sale of property, plant and equipment	12	4 789	24 183
Dividend received		32 097	12 263
Acquisition of subsidiaries, net of cash acquired		(15 015)	-
Disposal of subsidiaries and other shares		-	(311 375)
Payment received on loan to associate and joint venture		1 604	66 768
Loan to associate and joint venture	28	(20 570)	(48 839)
Other investments / sales		911	0
Cash flow from investing activities		**(1 063 567)**	**(1 108 592)**
Dividends paid to non-controlling interests		(15 095)	(41 472)
Dividends paid to owner of the parent		(1 900 000)	-
Capital increase		-	551 790
New interest-bearing loans and borrowings		3 510 249	612 091
Repayment of interest-bearing loans and borrowings		(1 787 126)	(812 946)
Cash flow from financing activities		**(191 972)**	**309 463**
Change in cash and cash equivalents		564 633	(124 843)
Currency exchange differences		45 966	96 134
Cash and cash equivalents opening balance		**694 993**	**723 702**
Cash and cash equivalents closing balance	22	**1 305 592**	**694 993**

Notes 1 to 31 and the accounting policies are an integrated part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

Amounts in NOK 1000

1. GENERAL INFORMATION AND BASIS FOR PRESENTATION

Background

Elkem AS will be the issuer in a planned initial public offering (IPO) on the Oslo Stock exchange, and expects to be listed on or about 22 March 2018. In the prospectus for the IPO, Elkem AS will present three years comparable figures.

In 2016, Elkem AS changed its accounting policy for long-term power contracts settled in other currencies than the entity's or the counterparty's functional currency. In the previously issued 2015 consolidated financial statements, these contracts were recognised as delivery occurred according to the own use exemption in IAS 39. In June 2016, the Financial Supervisory Authority of Norway ruled, in a letter to another listed company, that the non-functional currency element of own use power contracts is an embedded derivative to be separated from the host contract and accounted for separately.

In connection with the current IPO, Elkem AS has amended its previously issued 2015 consolidated financial statements to reflect the new policy also for 2015 with comparatives, in order that the current policy is consistently applied for all periods presented.

When the accounting policy change took place in 2016, it was discovered that from its inception one own use contract did not qualify for the own use exemption. This contract should have been treated as a derivative within the scope of IAS 39. In these amended financial statements, this correction is incorporated in line with the 2016 accounts.

The amendment is made without using hindsight for new information after the original issuance date of 14 April 2016.

General information

Elkem AS is a limited liability company located in Norway. Elkem AS is fully owned by Bluestar Elkem International Co. Ltd S.A., Luxembourg, which is under the control of Bluestar Elkem Investment Co. Ltd. Bluestar Elkem Investment Co. Ltd is a limited company registered and domiciled in Hong Kong, owned by China National Bluestar (group) Co. Ltd (Bluestar).

Elkem AS group is one of the world's leading companies in the environmentally friendly manufacture of metals and materials. The main activities are related to production and sale of silicon materials, silicones, ferrosilicon, speciality alloys for the foundry industry, carbon products and microsilica. Elkem AS group serves several global industries, such as construction, transport, engineering, packaging, aluminium, chemicals, release coatings, healthcare products and electronic markets, and has organised its business to handle market presence and customer focus. Elkem AS group has multiple production facilities located in Europe, North America, South America, Africa and Asia, and an extensive network of sales offices and agents covering most important markets. Core production processes are focused on converting high quality raw material to specialised metals and materials through high temperature melting processes and further processing. Thus, the business has a high consumption of electrical power, and is also capital intensive, due to the requirement for large and complex processing plants.

The presentation currency of Elkem AS group is NOK (Norwegian Krone). All financial information is presented in NOK thousand, unless otherwise stated. As a result of rounding adjustments, the figures in one or more columns included in the consolidated financial statements, may not add up to the total.

Basis for preparation

The consolidated financial statements include the financial statements of Elkem AS and entities controlled direct and indirect by Elkem AS. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The consolidated financial statements are prepared and based on International Financial Reporting Standards as adopted by the EU (IFRS). All subsidiaries are using accounting policies consistent within the group, and all intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

New entities included in Elkem AS group

19 June 2015 Elkem AS group purchased all the shares in Bluestar Silicones International S.a.r.l (BSI group), from Bluestar Silicones Investment Co. Ltd (BSI HK). Both Elkem AS group and BSI group are under common control by China National Bluestar (group) Co. Ltd. Business combinations involving entities under common control, are accounted for according to the "pooling of interest method" and comparable figures are restated, see note 30 Business combination under common control.

Sold companies

In February 2014 Elkem AS group reduced the group's ownership in Elkem Solar Holding S.a.r.l. from 100 per cent to 50 per cent after a share issue. 19 June 2015 Elkem AS group sold its remaining 50 per cent of the shares to Bluestar Elkem Investment Co. Ltd. Elkem AS group share of profit (loss) of Elkem Solar Holding, including gain on disposal, is included in Profit (loss) for the year from discontinued operations in the statement of income, see note 31 Discontinued operations.

The consolidated financial statements have been prepared on the basis of the going concern assumption.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Changes in accounting policies, changes in accounting estimates and errors

Change in accounting policies and errors are recognised retrospectively by restating the comparative amounts for the prior period presented, including the opening balance of the prior year. Change in accounting estimate is recognised prospectively by including it in profit or loss in the period of the change and future periods, if the change affects both.

Business combinations

Business combinations are generally accounted for using the acquisition method in accordance with IFRS 3. The consideration transferred in a business combination, is measured at fair value, and goodwill is measured as the excess of the sum of consideration transferred, and net identifiable value of transferred assets and liabilities. Acquisition-related costs are expensed as incurred.

Business combinations involving entities under common control, are accounted for according to the "pooling of interest method", also called "the merger method". This method involves the following:

- Assets and liabilities of the combining entities are reflected at their carrying amounts
- No new goodwill is recognised as a result of the combination
- The income statement reflects the result of the combining entities for the full year, irrespective of when the combination took place. Comparable figures are restated.

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

Investment in associates

Associates are those entities in which the group has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of another entity. Investment in associates are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

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

Joint arrangements

The group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor.

Joint ventures are accounted for using the equity method. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss, and other comprehensive income of the investee after the date of acquisition.

The group's interest in joint operations is recognised in relation to its interest in the joint operation:

- Assets, including its share of any assets held jointly
- Liabilities, including its share of any liabilities incurred jointly
- Revenue from the sale of its share of the output arising from the joint operation
- Share of the revenue from the sale of the output by the joint operation
- Expenses, including its share of any expenses incurred jointly

Foreign currencies

Separate financial statements

Each entity in the group determines its functional currency based on the economic environment in which it operates, and items included in the financial statements of each entity are measured using that functional currency. When preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognised in the functional currency, using the transaction date's currency rate.

Monetary items denominated in foreign currencies are translated using the closing rate at the end of the reporting period, and any gains / losses are reported in the statement of income. Currency gains / losses related to operating activities, i.e. receivables, payables, bank accounts for operating purposes including short term intragroup balances, are classified as a part of other gains and losses. Currency effects included in Finance income and expenses are only related to financing activities like loans, long term placements and dividends.

Foreign currency differences are recognised in Other comprehensive income for the following items:
- loans to subsidiaries treated as a part of the net investment
- a financial asset or liability designated as a hedging instrument in a cash flow hedge, to the extent that the hedge is effective
- loans and currency in foreign currencies, designated as hedging instruments in a hedge of a net investment in a foreign operation

Financial statements

In consolidation of the statement of income and the statement of financial position for the separate group entities with other functional currency than the group's presentation currency, it is translated directly into the presentation currency as follows:
- Assets and liabilities are translated using the exchange rate on the balance sheet date
- Income and expenses are translated using an average exchange rate per month
- Equity transactions, except net profit or loss for the period, are translated using the transaction date rates

All resulting exchange differences are booked as a separate component in Other comprehensive income (OCI)

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

Goodwill

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

Intangible assets

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

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

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

Property, plant and equipment

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

Initial cost includes expenditures that are directly attributable to the acquisition of the asset, cost of materials, direct labour, any other costs directly attributable to bringing the assets to working condition for their intended use and estimated dismantling or removing charges.

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

Depreciations are calculated based on estimated useful life and expected residual value for each recognised item of PPE, and are recognised in profit or loss using the straight-line method. The estimated useful lives, residual values (if any) and depreciation method is reviewed, and if necessary adjusted, at least annually. Depreciation commences when the assets are ready for their intended use.

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

Impairment of tangible and intangible assets

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

The group's cash generating units are reflecting the company's business areas, which are the basis for the management review and monthly reports.
The capitalised value of tangible and intangible assets within the cash generating units is measured against the value in use of tangible assets, intangible assets and working capital within these units.

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

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

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

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

Financial assets at fair value through profit or loss
These are financial assets classified as held for trading as the group has acquired the assets for the purpose of selling it in the near term. The assets are carried at fair value in the statement of financial position, with gains or losses recognised in the statement of income.

Financial assets available for sale
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. These assets are included in non-current assets in the statement of financial position, unless the management intends to sell the investment within twelve months after the reporting period.

Included in this group are investments in equity instruments that do not have a quoted market price in an active market, which therefore are measured at cost. Such investments are subject to regularly review for impairment.

Loans and receivables
This category includes accounts receivable, bills receivable, loans, restricted / guarantee deposits, and cash and cash equivalents.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in a regulated market. After initial recognition, they are recognised at amortised cost using the effective interest method. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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

Cash and cash equivalents are held for the purpose of meeting short term fluctuations in liquidity, rather than for investment purposes. Bank overdrafts are shown within interest bearing current liabilities on the statement of financial position. Restricted deposits are presented separately in the statement of financial position, and are not included the cash and cash equivalents presented in the statement of cash flows.

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

Non derivative financial liabilities
Non-derivative financial liabilities include interest bearing liabilities, bills payable and accounts payable. The liabilities are initially recognised at fair value of the amount required to settle the associated obligation, net of prepaid costs directly attributable to the liability. Subsequently and insofar, as they are not designated as liabilities at fair value through profit or loss, such liabilities are recognised at amortised cost using the effective interest rate method, and the difference between the cost and the amount of repayment being recognised in the statement of income over the term of the interest bearing liabilities.

Derivative financial instruments including derivative hedging instruments and non-financial contracts with net settlements that are to be treated as financial derivatives
Derivatives are initially recognised at fair value at the date when the derivative contracts are entered into. Transaction costs that are directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss, are recognised immediately in the statement of income. Subsequently the derivatives are remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the statement of income immediately, unless the derivative is designated and is effective as a hedging instrument, in which case the change in fair value is recognised in profit or loss in the same period(s) as the hedged objects affects the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished.

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

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

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

iii) Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and included in foreign currency translation reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other gains and losses. Gains and losses accumulated in equity are reclassified to profit or loss when the foreign operation is partially disposed of or sold.

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

Commodity contract within the scope of IAS 39
Non-financial commodity contracts where the relevant commodity is readily convertible to cash, and where the contracts are not for own use, fall within the scope of IAS 39 Financial instruments - recognition and measurement. Such contracts are treated as derivatives in accordance with IAS 39. The group currently has energy contracts in Norway that do not meet the own use criteria according to IAS 39.5, since the power under the contracts are delivered in another grid area than the plants are located. Transfer between different grid areas is assessed to be net settlement according to IFRS as this is considered to be two different transactions. The contracts must therefore be treated as derivatives and are booked at fair value through profit or loss. Commodity contracts within the scope of IAS 39 are classified as current assets or liabilities, unless they are expected to be realised more than 12 months after the reporting period. In that case, they are classified as non-current assets. See notes 9 Other gains and losses, 26 Financial instruments and 27 Financial risk and capital management.

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

Cost of goods sold is included in different lines in the statement of income based on nature; Raw materials and energy for smelting, Employee benefits and Other operating cost, for the remaining part.

Entities within the group sell goods to other group entities, consequently finished goods from one entity become raw materials or semi finished goods for an other group entity. The classification of goods in Elkem AS group's financial statements is based on the separate entity's classification.

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

Interest and penalties related to income taxes are classified as tax expense in the statement of income, and accrued interest and penalties are included in income tax payables in statement of financial position.

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

Employee retirement benefits
Defined contribution plans
Defined contribution plans comprise of arrangements whereby the company makes monthly contributions to the employees' pension plans, and where the future pensions are determined by the amount of the contributions and the return on the individual pension plan asset. The contributions are expensed as incurred, there are no further obligation related to the contribution plans. Prepaid contributions are recognised as an asset.

Long term employee benefits are presented as a part of Provisions.

Defined benefit plans
Defined benefit plans are recognised at present value of future liabilities considered retained at the end of the reporting period, calculated separately for each plan. Plan assets are recorded at fair value, and deducted in calculating the net pension liability. Past service cost arising due to amendments in the benefit plans are expensed as incurred. Accumulated effects of changes in estimates and financial and actuarial assumptions are recognised as Other comprehensive income. Service costs are classified as part of Employee benefit expenses and other employee remuneration and net interest on pension liabilities / assets are presented as a part of Finance expenses.

Multi-employer defined benefit plans where available information is insufficient to be able to calculate each participant's obligation, are accounted for as contribution plans.

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

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

Contingent assets
Contingent assets are not recognised, but disclosed in the notes if probable.

Revenue recognition and other income
Revenue is recognised when it is probable that a transaction will generate future economic benefits for the group and the revenue can be measured reliably. Revenue is measured at the fair value of the considerations received or receivable, net of any taxes, rebates and discounts. Revenue and expenses that relate to the same transaction are recognised simultaneously.

Revenue from sale of goods is recognised when the significant risk and reward of ownership of the goods are transferred to the buyer, according to the agreed delivery term for each sale. Delivery terms are based on Incoterms 2010 issued by International Chamber of Commerce, and the main terms are
"F" terms, where the buyer arranges and pays for the main carriage. The risk and reward are transferred to buyer when the goods are handed to the carrier engaged by the buyer.
"C" terms, where the group arranges and pays for the main carriage but without assuming the risk of the main carriage. The risk and reward are transferred buyer when the goods are handed over to the carrier engaged by the seller.
"D" terms, where the group arranges and pays for the carriage and retain the risk and reward of the goods until delivery at agreed destination. The ownership is transferred to byer upon arrival at agreed destination, usually the purchaser's warehouse.

Revenue from sale of services is recognised when the services has been provided, and are presented as other operating revenue.
External sales of electric power are recognised in income on the basis of the price agreed with the customer upon delivery.

Income from insurance settlements are recognised when it is virtually certain that the group will receive the compensation, and presented as other operating income.
Interest income is recognised on accrual basis. Dividends are recognised when shareholders' right to receive dividends is determined by the shareholder's meeting.

Grants
Grants are recognised when it is reasonable assured that the group will comply with the conditions attached to them, and the grants will be received. Grants relating to property, plant and equipment are deducted from the carrying amount of the asset. The grant is recognised as income over the lifetime of a depreciable asset by reducing the depreciation charge. Grants related to expenses are classified as Other operating income.

CO2 emission quotas
CO2 emission quotas allocated from the government are classified as grants, measured at nominal value (zero). The CO2 quotas are meant to cover CO2 emissions from the group's plants in Norway. If actual emissions exceed the allocated emission quotas, additional quotas are purchased. Purchased CO2 quotas are recognised at cost as Other operating expenses, and any sale of CO2 quotas are recognised as Revenue, according to transaction price.

CO2 compensation
The Norwegian government has, from 2013, established a CO2 compensation scheme to compensate for CO2 costs included in the power prices. The extent of the scheme may vary considerably from year to year depending on the future carbon price. This compensation scheme applies for the Norwegian plants, and is recognised as Other operating income when there is reasonable assurance that the entity will comply with the conditions attached and the grants will be received.

Statement of cash flows
The statement of cash flows is prepared under the indirect method. Cash inflows and outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash effect items. Interest received and paid and other financial expenses, such as bank guarantee expenses, are reported as a part of operating activities. Net currency gains or losses related to financing activities are reported as part of financing activities. Dividend received from joint ventures and associates are included in investing activities.

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

New interpretations and changes to existing standards not yet adopted
IASB has published a number of new standards and amendments to standards and interpretations that are not effective for the annual period ending 31 December 2015. Some of these will affect Elkem AS group's financial statements when approved by EU.

The standards that could entail material changes are the new IFRS 16 Leases and IFRS 15 Recognition of Income. The new standards will not come into force until 2018/2019.

Estimated effect of implementing the new IFRS 16 Leases is presented in note 8 Operating lease.

For IFRS 15 Recognition of Income the core principle is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expect to be entitled in exchange for those goods or services. The change will affect revenue recognition of combined deliveries. Combined deliveries means tied sales where it is difficult to distinguish between the purchased product and additional deliveries. The change is estimated to have limited effect on Elkem AS group periodisation of revenue.

3. ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements according to IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Estimates and judgements are evaluated on a continually basis, and are based on historical experiences and other factors that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual outcome. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year, are addressed below.

Estimated value of goodwill:
The group performs annual tests to assess the value of goodwill. The recoverable amount from cash generating units is determined on the basis of present-value calculations of expected annual cash flows. These calculations require the use of estimates for cash flows and the choice of discount rate before tax for discounting the cash flows. Additional information is disclosed in note 12 Property, plant and equipment and intangible assets.

Deferred tax assets:
The group performs annual tests for impairment of deferred tax assets. Part of the basis for recognising deferred tax assets is based on applying the loss carried forward against future taxable income in the group. This requires the use of estimates when calculating future taxable income.

Power contracts:
Fair value for power contracts is based on assumptions derived from observable prices for comparable instruments.
Net booked value as of 31 December 2015 is in total negative NOK 864 million (see note 26 Financial instruments for further details, and note 27 Financial risk and capital management for sensitivity).

Estimated useful life of tangible assets:
The estimated useful lives, residual values (if any) and depreciation method is reviewed, and if necessary adjusted, at least annually.

4. OPERATING INCOME

By type	2015	2014
Revenue from sale of goods - external[1)]	13 965 620	12 208 023
Revenue from sale of goods - China National Bluestar Group[2)]	4 956	8 517
Other operating revenue - external	359 944	303 288
Other operating revenue - China National Bluestar Group[2)]	30 882	3 463
Total revenue	14 361 403	12 523 291
Other operating income	179 654	150 658
Total operating income	**14 541 057**	**12 673 949**

[1)] Included in Revenue from sale of goods is sale of power NOK 305,246 thousand in 2015 (NOK 379,511 thousand in 2014).
[2)] See note 28 Related party transactions.

Total operating income by geographic market (customer location)	2015	2014
Nordic countries	1 625 423	1 459 411
United Kingdom	641 712	605 814
Germany	2 407 475	2 089 594
France	693 503	549 711
Italy	643 274	553 792
Poland	362 395	273 469
Luxembourg	336 461	343 614
Other European countries	1 524 828	1 515 589
Europe	**8 235 073**	**7 390 995**
Africa	**149 103**	**158 960**
North America	2 134 002	2 385 360
South America	632 801	156 419
America	**2 766 803**	**2 541 779**
China	973 926	769 740
Japan	632 016	466 229
South Korea	527 829	354 946
Other Asian countries	1 182 072	880 688
Asia	**3 315 843**	**2 471 603**
Rest of the world	**74 236**	**110 612**
Total	**14 541 057**	**12 673 949**

Elkem AS group has several smaller and larger external customers, no single customer amount to 10 per cent or more of the revenues.

Details of other operating income:	2015	2014
Sale of fixed assets	1 164	20 428
Insurance settlement	1 817	20 199
Government grants[1)]	176 231	100 798
Proceeds from cancellation of supply contract	-	9 233
Other	443	-
Total other operating income	**179 654**	**150 658**

[1)] See note 29 Government grants.

5. EMPLOYEE BENEFIT EXPENSES

	2015	2014
Salaries and other benefits	(1 918 408)	(1 717 644)
Employer's national insurance contribution	(396 097)	(383 305)
Employee retirement benefits[1)]	(86 371)	(74 079)
Other payments / benefits	(38 121)	(31 388)
Total employee benefit expenses	**(2 438 997)**	**(2 206 416)**

[1)] See note 6 Employee retirement benefits.

Full time employees in Elkem AS group	3 628	3 459

Salary, wages and other compensations above include the following compensations:

Compensation to members of the board	**2015**	**2014**
Payment to board members in total	(489)	(465)

Senior staff compensation
Helge Aasen is the CEO of Elkem AS.

Salary and other compensations to the CEO	**2015**	**2014**
Salary, including holiday pay	(4 676)	(3 591)
Bonus, including retention fee [1)]	(3 095)	(10 288)
Free car	(130)	(129)
Other compensation	(35)	(11)
Pension cost	(475)	(436)

1) In 2015 bonus payment included a 25 years anniversary payment of NOK 228 thousand and a ChemChina award of NOK 681 thousand. In 2014 a retention fee of NOK 8,024 thousand, equivalent to 36 months of base salary, was paid.

Retirement age for the CEO is 65-67 years. Pension from the age of 67 and other pensions regarding spouse, children and disability are paid in accordance with the general pension policy of the company. For salaries up to 12G, the pension provided by the company, is according to a defined contribution plan will be paid according to the company's current current guidelines through operations.

The CEO is also entitled to :
A performance bonus equivalent to maximum 100 per cent of the base salary, based on the company performance.

The following applies for the CEO upon termination by the company:
- Termination payment equal to 12 months' salary is to be paid on the last working day.
- Severance payment equivalent to 18 months' salary.

Loans and guarantees to employees
There are no loans or guarantees to board members or the CEO.

6. EMPLOYEE RETIREMENT BENEFITS

Elkem AS group has both defined contribution- and defined benefit plans. For defined contribution plans the expenses is equal to the group's contribution to the employee's pension savings during the period. For defined benefit plans the expenses is calculated based on actuarial valuation methods, taking assumptions related to the employee's salary, turnover, mortality, discount rate, etc. into consideration.

Defined contribution plans
Defined contribution plans comprise arrangements whereby the company makes annual contributions to the employee's pension plan, and where the employee's future pension is determined by the amount of the contributions and the return on the pension plan asset. Contribution plans also comprise pension plans that are common to several companies, and where the pension premium is determined independently by the demographic profile in the individual companies (multi-employer plans). Employees in the group's Norwegian entities are primarily covered by pension plans that are classified as contribution plans.

The new early retirement scheme, effective from 2011 in Norway, is defined as a multi-employer plan and the expensess are accounted for based on received invoices from "Fellesordningen for AFP". The plan is accounted for as a defined contribution plan, as the plan's administrators have not been able to calculate the pension obligation for each entity participating in the plan.

Defined benefit plans
Defined benefit plans are pension plans where the group is responsible for paying pensions at a certain level, based on employees' salaries when retiring. The group has funded and unfunded benefit plans in Norway, France, Germany, UK, Canada, Japan and South Africa, distributed as follows: Norway 18 per cent, France 47 per cent, other Europe 22 per cent, Canada 10 per cent, other countries 3 per cent, based on net pension obligation per 31 December 2015. In Norway all defined benefit plans are unfunded. The pension plans comprise pension on salaries above a certain level (12G), the closed early retirement scheme (AFP, final settled in 2015) and closed individual retirement schemes. In Canada provisions are made for medical insurance as well as pension benefit plans.

Net interest is calculated based on net pension liability at the start of the period, multiplied by the discount rate. Any difference between actual return on pension assets and the interest income calculated as a part of the net interest, will be recognised directly in OCI. Interest on net pension liabilities are presented as a part of Financial expenses.

Breakdown of net pension expenses:	**2015**	**2014**
Current service expenses	(29 152)	(22 086)
Accrued employer's national insurance contribution	(453)	(786)
General administration expenses	(587)	(397)
Net pension expenses, defined benefit plans	(30 192)	(23 269)
Defined contribution plans	(42 970)	(41 841)
Early retirement scheme AFP (Norway)	(13 209)	(8 970)
Pension contribution expenses	(56 179)	(50 811)
Net pension expenses total	**(86 371)**	**(74 080)**

In addition, interest expenses on net pension liabilities is recognised as a part of finance expenses.	(9 804)	(10 380)

Net liabilities arising from defined benefit obligations	**2015**	**2014**
Present value of funded pension obligation	(391 500)	(369 734)
Fair value of plan assets	363 632	340 166
Net funded pension obligation	(27 868)	(29 568)
Present value of unfunded pension obligation	(365 868)	(361 208)
Net value of funded and unfunded obligations	(393 735)	(390 776)
Net pension liabilities	**(393 735)**	**(390 776)**
Booked net pension assets	-	-
Booked net pension liabilities	(393 735)	(390 776)
Net pension liabilities	**(393 735)**	**(390 776)**

Movement in the defined benefit obligation and plan assets:

Movement in defined benefit obligation	**2015**	**2014**
Opening balance	(730 942)	(606 206)
Current service expenses and social contribution tax	(29 605)	(22 872)
Interest expenses	(23 114)	(24 851)
Actuarial gains / (losses)	9 672	(74 975)
Benefits paid	44 229	47 718
Business combinations and disposals	-	13 790
Other changes	(935)	
Currency translation	(26 672)	(63 547)
Present value of pension obligation as at 31 December	(757 368)	(730 942)

Movement in fair value of plan assets	**2015**	**2014**
Opening balance	340 166	280 286
Interest income	13 268	14 471
Administration cost	(587)	(397)
Actuarial gains / (losses)	8 437	19 382
Contributions from employer and plan participants	9 901	15 124
Benefits paid	(16 009)	(13 097)
Other changes	234	-
Business combinations and disposals	-	(12 073)
Currency translation	8 223	36 470
Fair value of plan assets as at 31 December	363 632	340 166

Breakdown of pension plan assets (fair value) as at 31 December:	**Distribution % 2015**	**Fair value of plan assets 2015**	**Distribution % 2014**	**Fair value of plan assets 2014**
Cash, cash equivalent and money market investments	2 %	6 848	0 %	360
Bonds	41 %	150 286	45 %	153 481
Shares	55 %	198 803	53 %	180 247
Property	2 %	7 696	2 %	6 078
Total pension fund	100 %	**363 632**	100 %	**340 166**

	2015		**2014**	
Actual return on plan assets	3,3 %	**12 064**	12,3 %	**33 100**

In addition, some Norwegian entities have pension contribution funds, mainly based on excess pension assets from settlement of the defined benefit plans in 2010.
The pension contribution funds are classified as long-term pension funds, except next year's expected contributions which are classified as short-term (see note 16 Other non-current assets and 19 Other current assets).

Pension contribution funds	**2015**	**2014**
Current part of contribution fund	10 912	11 492
Long-term part of contribution fund	6 160	8 860
	17 072	**20 352**

Summary of pension liabilities and change in actuarial gains / losses:

Net pension liabilities	2015	2014
Pension obligations	(757 368)	(730 942)
Pension plan assets	363 632	340 166
	(393 736)	**(390 776)**

Total actuarial gains / (losses) recognised in other comprehensive income this period	2015	2014
Changes in actuarial gain / (loss) in pension obligation	9 672	(74 976)
Changes in actuarial gain / (loss) in pension assets	8 437	19 382
	18 108	**(55 594)**

The principal assumptions used for the actuarial valuations in 2015 and 2014 were as follows:

	Norway	Canada	Germany	UK	France
Discount rate	2.5% (2.3%)	2.0% (2.0%)	4.0% (4.75%)	2.1% (2.4%)	3.7% (3.5%)
Expected rate of salary increase	2.25% (3.0%)	2.75% (3.0%)	3.5% (3.5%)	3.0% (3.0%)	3.0% (3.0%)
Annual regulation of pensions paid	1.0% (0.5%)	-	-	2.0% (2.0%)	-
Change in public pension base rate (G)	2.25% (3.0%)	-	-	-	-

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country.

Sensitivity on pension liabilities based on change in main actuarial assumptions:
The defined benefit pension schemes exposes the group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk.
A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities.

The sensitivity analysis below shows estimated effects in the defined pension liabilities based on reasonable changes in the main assumptions.
The calculations are based on a change in one assumption while holding all other assumptions constant.

Assumption	Discount rate		Life expectancy		Salary growth	
	0.5% increase	0.5% decrease	1 year increase	1 year decrease	0.5% increase	0.5% decrease
2015: Effect on the pension liability in NOK millions	(45)	50	21	(22)	23	(21)
2014: Effect on the pension liability in NOK millions	(46)	50	20	(20)	22	(20)

As the group's main pension plans are defined contribution plans, there are no group policies for funding of the defined benefit plans. This is managed locally, based on the terms and and status for the individual plan. The defined benefit plans in Norway and Germany are unfunded.

Expected contribution for the pension plans next year and average duration for the main defined benefit plans:

	Norway	Canada	Germany	UK	France
Contribution to be paid to defined pension plans next year	5 302	35 234	5 692	1 546	4 508
Weighted average duration of the defined benefit obligation	10 years	10 years	19 years	15 years	16 years

7. OTHER OPERATING EXPENSES

	2015	2014
Loss on disposal of fixed assets	(1 573)	(2 518)
Freight and commission expenses	(837 303)	(801 914)
Leasing expenses	(125 338)	(113 718)
External services	(1 127 936)	(1 067 641)
Insurance expenses	(65 084)	(60 464)
Impairment losses receivables	(6 018)	(6 089)
Other operating expenses	(884 799)	(808 239)
Total other operating expenses	**(3 048 051)**	**(2 860 582)**

In 2015 Elkem AS group expensed NOK 140,303 thousand (in 2014 NOK 175,276 thousand) related to research and development, which are included in the figures above.
Grants received relating to research and development amount to NOK 70,058 thousand for 2015 (for 2014 NOK 63,098 thousand) and is included in Other operating income.

AUDIT AND OTHER SERVICES	2015	2014
Audit fee	(15 897)	(12 581)
Other assurance services	(868)	(1 417)
Tax services	(2 442)	(1 636)
Other services	(2 813)	(317)
Total audit fees	**(22 019)**	**(15 952)**

Fees to auditors are reported exclusive of VAT.

8. OPERATING LEASE

	Machinery and plant	Land, buildings and other properties	Equipment, furniture, systems and vehicles	Total
Lease expenses 2015	(10 025)	(73 084)	(42 229)	**(125 338)**
Lease in accordance to contract due:				
Within one year	(2 431)	(43 148)	(34 235)	**(79 814)**
In the second to fifth year inclusive	(4 257)	(95 998)	(93 405)	**(193 660)**
Over five years	-	(54 607)	(13 157)	**(67 764)**

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

	Machinery and plant	Land, buildings and other properties	Equipment, furniture, systems and vehicles	Total
Lease expenses 2014	(18 242)	(56 916)	(38 560)	**(113 718)**
Lease in accordance to contract due:				
Within one year	(3 718)	(35 399)	(34 272)	**(73 390)**
In the second to fifth year inclusive	(5 043)	(85 098)	(98 619)	**(188 760)**
Over five years	-	(44 987)	(28 709)	**(73 696)**

New IFRS 16 Leases

The new standard, expected to be applicable in 2019, requires lessees to initially recognize a right-of-use asset and the associated lease liability for the lease term for all lease contracts (with an option to exclude leases with a lease term of 12 months or less and leases for which the underlying asset is of low value). The lease liability is measured at the present value of the lease payments over the lease term. Based on reported leases the effect of implementing the new standard is estimated to a capitalisation of more than NOK 0.3 billion. The effect would reduce the group's equity ratio in 2015 from 43.6 per cent to approximately 42.7 per cent. Under the current IFRS, leases classified as operational leases are presented as operating expenses. Under the new IFRS 16 the capitalised leases will be depreciated over the lease term and presented as depreciation, and the interest effect from the discounted liability will be presented as a financial item in the statement of income. Profit (loss) before income tax will not be affected by the changes, but gross operating profit (loss) and operating profit (loss) will be affected positively by the change.

9. OTHER GAINS AND LOSSES

	2015	2014
Dividend income from available for sale financial assets	830	309
Change in fair value commodity contracts	(270 429)	(37 431)
Net foreign exchange gains / losses - foreign exchange forward contracts	41 587	(8 700)
Operating foreign exchange gains / losses	9 954	28 235
Ineffectiveness on fair value hedges	-	2 198
Ineffectiveness on cash flow hedges, power	27 593	(67 601)
Gains / losses disposal of subsidiaries	3 107	(193)
Other gains / losses [1)]	(33 648)	(8 503)
Total other gains and losses	**(221 006)**	**(91 686)**

[1)] Of this, NOK 30,440 thousand relates to write down of shares in Bluestar Silicones Tianjin Co. Ltd.

See note 26 Financial instruments for details related to valuation and recognition of financial assets and liabilities.

10. FINANCE INCOME AND EXPENSES

	2015	2014
Interest income[1)]	56 979	81 502
Other financial income	513	1 259
Total finance income	**57 492**	**82 761**
Interest expenses borrowings[2)]	(124 396)	(149 010)
Unwinding of discounted liabilities	(17 347)	(14 503)
Interest on net pension liabilities	(9 804)	(10 380)
Other financial expenses	(2 520)	(8 205)
Total finance expenses	**(154 067)**	**(182 097)**
Net foreign currency translation expenses	32 533	(86 502)
Finance income (expenses), net	**(64 042)**	**(185 838)**

[1)] The decrease in interest income from 2014 to 2015 is mainly related to loans to Elkem Solar AS. The loans was sold to Bluestar Elkem Investment Co. Ltd. 19 June 2015.

[2)] The decrease in interest expenses borrowings from 2014 to 2015 is mainly related to repayment and debt conversion of loans to parent companies.

11. TAXES

Income tax recognised in profit or loss	2015	2014
Profit (loss) before income tax	1 267 071	386 584
Current taxes	(222 613)	(147 079)
Deferred taxes	(202 050)	(72 750)
Total tax (expense) / income	**(424 663)**	**(219 829)**
Income taxes recognised in other comprehensive income (OCI)		
Remeasurements of post employment benefit obligation	(4 617)	14 515
Cash flow hedges	203 982	4 972
Total tax charged to OCI	**199 365**	**19 487**

Reconciliation of tax (expense) / income	2015	2014
Profit (loss) before income tax	**1 267 071**	**386 584**
Expected income taxes, 27 per cent of profit before tax	(342 109)	(104 378)
Tax effects of:		
Difference in tax rates for each individual jurisdiction	23 101	26 371
Permanent differences		
Tax effect of income from Norwegian controlled foreign companies (NOKUS)	(6 741)	(6 830)
Tax effect share of profit (loss) associates and joint ventures	4 658	11 109
Tax effect finance expenses holding companies[1]	(48 354)	-
Tax effects other permanent differences	(779)	(45 899)
Other effects		
Tax effect of not capitalised deferred tax assets this year	(2 420)	(75 869)
Tax credits utilised	1 422	-
Tax effect change in tax rate[2]	17 492	(564)
Other current tax paid	(15 657)	(23 488)
Previous year tax adjustment[3]	(55 276)	(281)
Tax (expense) / income for the year	**(424 663)**	**(219 829)**
Effective tax rate	34 %	57 %

[1] Elkem AS group has a company in Luxembourg were the only purpose is to own shares in group entities. Elkem AS group does not have taxable income from other activities that can be utilised against taxable loss from finance and operating expenses in this entity. Accumulated tax losses from this activity is NOK 2,191 million as of 31 December 2015.

[2] The effect relates mainly to changes in tax rate from 27 per cent to 25 per cent in Norway from 2016 and from 28 per cent to 25 per cent in Spain from 2016. The changes in tax rates were approved by the governments before year end 2015.

[3] For pending tax issues, see note 24 Provision and other non-current liabilities

Deferred tax assets and deferred tax liabilities	31.12.2015	31.12.2014
Hedging instruments	384 382	174 009
Property, Plant, Equipment and Intangible assets	(333 725)	(279 976)
Pension fund	109 964	105 374
Other differences	(26 286)	28 524
Accounts receivable	(742)	(1 077)
Inventories	(45 975)	(23 818)
Provisions	38 388	(15 749)
Tax losses to carry forward	403 998	464 512
Deferred tax assets (liabilities)	**530 004**	**451 799**
Not recognised deferred tax asset to tax losses to carry forward	(330 510)	(245 921)
Net deferred tax assets (liabilities) recognised	**199 494**	**205 878**

Change in net deferred tax assets and deferred tax liabilities	2015	2014
1 January	205 878	262 385
Recognised in profit or loss for the year	(202 050)	(72 750)
Recognised in other comprehensive income	199 365	19 487
Foreign currency exchange differences	(3 699)	(3 244)
31 December	**199 494**	**205 878**

Deferred taxes	31.12.2015	31.12.2014
Deferred tax assets	323 969	405 122
Deferred tax liabilities	(124 475)	(199 244)
Net deferred tax assets (liabilities)	**199 494**	**205 878**

31.12.2015 Tax losses to carryforward	Gross tax losses to carryforward	Deferred tax assets	Not recognised deferred tax assets	Recognised deferred tax asset
France	977 019	336 077	(263 437)	72 640
Brazil	196 150	66 691	(66 535)	156
UK	2 691	538	(538)	-
Hong Kong	2 994	494	-	494
Shanghai	1 318	198	-	198
Total related to loss carryforward	**1 180 172**	**403 998**	**(330 510)**	**73 488**

31.12.2014 Tax losses to carryforward	Gross tax losses to carryforward	Deferred tax assets	Not recognised deferred tax assets	Recognised deferred tax asset
Norway	584 704	157 870	(103)	157 767
France	888 695	305 838	(245 244)	60 594
Brazil	677	230	-	230
UK	883	185	(185)	-
Turkey	1 937	389	(389)	-
Total related to loss carryforward	**1 476 896**	**464 512**	**(245 921)**	**218 591**

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

Deferred tax assets not recognised current year

When an entity has a history of recent losses, the deferred tax assets arising from unused tax losses is recognised only to the extent that there is convincing evidence that sufficient future taxable profit will be generated.

Pending tax issues with the tax authorities

See note 24 Provisions and other non-current liabilities.

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

PROPERTY, PLANT AND EQUIPMENT

2015	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2015	**105 008**	**1 351 826**	**3 268 149**	**112 997**	**345 181**	**5 183 162**
Additions	2 616	24 444	95 524	15 803	787 455	**925 842**
Disposals	-	(567)	(4 454)	(1 693)	-	**(6 714)**
Reclassification	(1 666)	1 550	919	(246)	-	**558**
Transferred from CiP	4 340	27 791	435 582	68 721	(536 434)	**0**
Impairment losses	-	(122)	(1 593)	(99)	-	**(1 813)**
Depreciation expenses	(2 649)	(85 902)	(469 769)	(34 198)	-	**(592 518)**
Foreign currency exchange differences	2 400	12 899	79 599	(143)	(1 063)	**93 692**
Closing balance Net booked value 2015	**110 050**	**1 331 921**	**3 403 958**	**161 142**	**595 138**	**5 602 208**
Fixed assets under financial leasing						
Included in Net booked value	22 786	-	10 817	467	-	**34 070**
Historical cost	160 419	2 823 459	9 137 519	492 468	595 138	**13 209 004**
Accumulated depreciation	(39 123)	(1 486 005)	(5 633 049)	(330 707)	-	**(7 488 884)**
Accumulated impairment losses	(11 246)	(5 534)	(100 512)	(620)	-	**(117 911)**
Closing balance Net booked value 2015	**110 050**	**1 331 921**	**3 403 958**	**161 142**	**595 138**	**5 602 208**
Estimated useful life	0 50 years	5 50 years	3 50 years	3 20 years		
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line		

Depreciations start when the asset is ready for use. Land is not depreciated.

2014	Land and other property	Buildings	Machinery and plants	Equipment, furniture and transport-vehicles	Construction in progress	Total
Opening balance Net booked value 2014	**181 184**	**1 211 875**	**2 851 142**	**103 190**	**419 610**	**4 767 000**
Additions	0	7 471	220 197	9 292	498 927	**735 886**
Disposals	(913)	(396)	(2 996)	(2 281)	(1 151)	**(7 736)**
Reclassification	(98 270)	98 270	-	-	-	**-**
Transferred from CiP	10 897	67 665	497 554	25 179	(601 294)	**(0)**
Impairment losses	-	-	(701)	(29)	-	**(730)**
Depreciation expenses	(2 832)	(90 066)	(443 475)	(26 664)	-	**(563 037)**
Disposal of discontinued operations	-	-	-	(113)	-	**(113)**
Foreign currency exchange differences	14 941	57 008	146 429	4 423	29 089	**251 891**
Closing balance Net booked value 2014	**105 008**	**1 351 826**	**3 268 149**	**112 997**	**345 181**	**5 183 162**
Fixed assets under financial leasing						
Included in Net booked value	24 313	-	3 843	963	-	**29 119**
Historical cost	207 666	2 790 092	8 946 970	417 807	356 199	**12 718 734**
Accumulated depreciation	(102 017)	(1 423 558)	(5 576 768)	(303 707)	-	**(7 406 050)**
Accumulated impairment losses	(641)	(14 708)	(102 052)	(1 103)	(11 018)	**(129 522)**
Closing balance Net booked value 2014	**105 008**	**1 351 826**	**3 268 149**	**112 997**	**345 181**	**5 183 162**
Estimated useful life	0 50 years	5 50 years	3 50 years	3 20 years		
Depreciation plan	Straight-line	Straight-line	Straight-line	Straight-line		

In 2014 Elkem AS group entity Elkem Milling Services purchased assets and operations from MSC Europe GmbH. Elkem Milling Services micronises and processes silicon, primarily destined for the application in the automotive industry. The purchase price of the assets and operations is NOK 37.2 million and is allocated to machinery and plants.

INTANGIBLE ASSETS

2015	Goodwill	Other intangible assets	Technology and licences	Development	IT systems and programmes	Intangible assets under construction	Total other intangible assets
Opening balance Net booked value 2015	**229 470**	**32 887**	**163 737**	**133 869**	**130 765**	**112 825**	**574 083**
Additions	**-**	31 986	17 560	15 511	9 164	66 589	**140 810**
Reclassification	**-**	-	28	-	(586)	-	**(558)**
Transferred from CiP	**-**	-	-	78 173	2 214	(80 387)	**-**
Amortisation	**-**	(2 272)	(15 987)	(42 584)	(21 022)	-	**(81 865)**
Foreign currency exchange differences	**14 618**	1 080	3 195	4 106	271	2 371	**11 023**
Closing balance Net booked value 2015	**244 088**	**63 681**	**168 533**	**189 076**	**120 805**	**101 398**	**643 493**
Historical cost	**244 093**	121 418	451 539	419 717	302 384	101 398	**1 396 456**
Accumulated amortisation	**-**	(56 902)	(283 005)	(230 642)	(181 579)	-	**(752 128)**
Accumulated write-downs	**(5)**	(835)	-	-	-	-	**(835)**
Closing balance Net booked value 2015	**244 088**	**63 681**	**168 533**	**189 076**	**120 805**	**101 398**	**643 493**
Estimated useful life	Indefinite	3 10 years	3 15 years	3 16 years	3 10 years		
Amortisation plan		Straight-line	Straight-line	Straight-line	Straight-line		

The investments related to intangible assets mainly consist of development costs of NOK 52,926 thousand.

During 2015, Elkem AS group expensed NOK 140,303 thousand as research and development related to improvement of processes and products, and partially for long-term technology and business development.

2014	Goodwill	Other intangible assets	Technology and licences	Development	IT systems and programmes	Intangible assets under construction	Total other intangible assets
Opening balance Net booked value 2014	**199 694**	**26 916**	**154 257**	**103 639**	**19 452**	**183 233**	**487 497**
Additions	-	4 211	6 952	54 670	7 336	43 254	**116 423**
Disposals	**-**	-	-	(33)	-	-	**(33)**
Transferred from CiP	-	1 156	4 077	(5 873)	115 451	(113 663)	**1 148**
Amortisation	**-**	(2 038)	(13 472)	(37 444)	(12 593)	-	**(65 547)**
Foreign currency exchange differences	**29 776**	2 643	11 923	18 910	1 119	-	**34 595**
Closing balance Net booked value 2014	**229 470**	**32 887**	**163 737**	**133 869**	**130 765**	**112 825**	**574 083**
Historical cost	**479 694**	84 898	360 524	296 686	254 960	124 750	**1 121 818**
Accumulated amortisation	**-**	(51 223)	(196 787)	(162 817)	(124 195)	(11 925)	**(546 947)**
Accumulated write-downs	**(250 225)**	(787)	-	-	-	-	**(787)**
Closing balance Net booked value 2014	**229 470**	**32 887**	**163 737**	**133 869**	**130 765**	**112 825**	**574 083**
Estimated useful life	Indefinite	3 10 years	3 15 years	3 16 years	3 10 years		
Amortisation plan		Straight-line	Straight-line	Straight-line	Straight-line		

The investments related to intangible assets mainly consist of ERP system M3 of NOK 36,081 thousand and development costs of NOK 51,831 thousand.

During 2014, Elkem AS group expensed NOK 175,276 thousand as research and development related to improvement of processes and products, and partially for long-term technology and business development.

Valuation of fixed assets, intangible assets and goodwill

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

Goodwill

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

Impairment test goodwill and intangible assets

Goodwill per entity/CGU 2015	Silicones	Foundry products	Silicon materials	Carbon	Total
Elkem Oilfield Chemical FZCO	-	-	20 562	-	**20 562**
Elkem Materials Process Services BV/Dehong JV	-	-	165	-	**165**
Elkem Participacòes Indústria e Comércio Limitada	-	-	-	9 369	**9 369**
Ferroveld JV	-	-	-	41 951	**41 951**
Elkem Carbon China Comp Ltd	-	-	-	1 000	**1 000**
NEH Inc.	-	59 792	23 072	15 316	**98 180**
Silicones	72 861	-	-	-	**72 861**
Total Goodwill	**72 861**	**59 792**	**43 799**	**67 636**	**244 088**

Goodwill per entity/CGU 2014	Silicones	Foundry products	Silicon materials	Carbon	Total
Elkem Oilfield Chemical FZCO	-	-	17 398	-	**17 398**
Elkem Materials Process Services BV/Dehong JV	-	-	165	-	**165**
Elkem Participacòes Indústria e Comércio Limitada	-	-	-	11 380	**11 380**
Ferroveld JV	-	-	-	47 716	**47 716**
Elkem Carbon China Comp Ltd	-	-	-	1 000	**1 000**
NEH Inc.	-	50 593	19 523	12 960	**83 075**
Silicones	68 736	-	-	-	**68 736**
Total Goodwill	**68 736**	**50 593**	**37 086**	**73 055**	**229 470**

Discounted cash flow models are applied to determine the value in use for the cash-generating units. Management in each CGU has projected cash flows based on forecast and strategy plans covering a four-year period. Currency rates and power prices are based on external official sources such as Reuters and Nasdaq. Beyond the explicit forecast period of four years, the cash flows are extrapolated using constant nominal growth rates.

Key assumptions

Key assumptions used in the calculation of value in use are growth rate, EBITDA levels, capital expenditure and discount rates.

Growth rates: The expected growth rates for a cash-generating unit converge from its current level experienced over the last few years, to the long-term growth level in the market in which the entity operates. The growth rates used to extrapolate cash flow projections beyond the explicit forecast period, are based on management's past experience, assumptions in terms of market share and expectations for the market development in which the entity operates.

EBITDA levels: The EBITDA level represents the operating margin before depreciation and amortisation, and it is estimated based on the current level and expected future market development, which also takes into consideration committed operational efficiency programs. Changes to the outcome of these initiatives may affect future estimated EBITDA levels.

Capital expenditure ("Capex"): A normalised capex is assumed in the long run. Estimated capital expenditures do not include capital expenditures that significantly enhance the current performance, as such effects generally are not included in the cash flow projections.

Discount rates: The required rate of return was calculated by the WACC method. The cost of a company's equity and liabilities, weighted to reflect its capital structure of 50:50 respectively, derive from its weighted average cost of capital. The WACC rates used in discounting the future cash flows, are based on a Norwegian 10 year risk-free interest rate, adjusted for inflation differential and country risk premium. The discount rates take into account the debt premium, market risk premium, corporate tax rate and asset beta.

The following pre-tax discount rate (WACC) and sustained growth rate year 5 and forward have been used for the impairment test:

	WACC	Growth
Foundry products	8.4%	2.5%
Silicon materials	8.5%	2.5%
Carbon	8.8%	2.5%
Silicones	8.5%	2.8%

Sensitivity of estimated cash flows

A normal change in WACC and other key assumptions will not affect the conclusion as Elkem AS group excluding Silicones, has a large headroom regarding the test of the recoverable amount. BSI group (Silicones) was purchased to estimated fair value as at 19 June 2015. BSI group has performed better than the budget and the impairment analyses showed a headroom in WACC of 1.6 percentage point, and in sustained growth year 5 and forward of 2.1 percentage point.

Impairment – test results and conclusion

Impairment tests of goodwill, included in each CGU shown above, are done annually. The tests indicated no need for write-down as of December 2015.

13. JOINT ARRANGEMENTS

In 2014 and 2015 Elkem AS group has interests in the following jointly controlled arrangements:

Name of entity	Business office	Country	Principal activities
Elkem Ferroveld JV (ZA)	Ferrobank Emalahleni	South Africa	Electrode paste production
Dehong Elkem Materials Co. Ltd	Dehong, Yunnan	China	Microsilica production
Elkania DA	Hauge i Dalane	Norway	Microfine weighting material
Igazú Alloys S.A.	Montevideo	Uruguay	Production of foundry products
North Sea Container Line AS	Haugesund	Norway	Shipping services
Klafi EHF	Grundartangi, Akranes	Iceland	Transportation / harbour services
Elkem Solar Holding S.a.r.l	Luxembourg	Luxembourg	Solar technology

Name of entity	% equity interest 2015	% equity interest 2014	2015 Classification	2014 Classification
Elkem Ferroveld JV (ZA)	50 %	50 %	JO	JO
Dehong Elkem Materials Co. Ltd	50 %	50 %	JO	JO
Elkania DA	50 %	50 %	JO	JO
Igazú Alloys S.A.	50 %	50 %	JV	JV
North Sea Container Line AS	50 %	50 %	JV	JV
Klafi EHF	50 %	50 %	JV	JV
Elkem Solar Holding S.a.r.l	-	50 %	-	JV

In the column for classification JO is equal to joint operations and JV is equal to joint ventures.

Elkem Solar Holding S.à.r.l was sold on 19 June 2015 to Bluestar Elkem Investment Co. Ltd. Elkem AS group share of the loss in Elkem Solar S.à.r.l is (NOK 111,935 thousand) for the period 1 January to 18 June 2015. The sales resulted in a gain for Elkem AS group of NOK 104,838 thousand. The net profit of NOK 7,097 thousand is presented as discontinued profit (loss). In 2014 Elkem AS group's share of Elkem Solar S.à.r.l went from 100 per cent owned to 50 per cent owned on the 7 March. The share of profit in 2014, related to Elkem Solar, is for the period 1 March to 31 December.

There is no quoted market price for the investments.

There are limited business transactions between the consolidated joint operations and the consolidated entities within Elkem AS group. The transactions between the joint ventures is described in note 28 Related party transactions.

The joint ventures had no other contingent liabilities or commitments as at 31 December 2015 and 2014.

For the joint venture in Paraguay, Igazú Alloys S.A., Elkem AS group has, together with the other investor, obligations to finance the development of the foundry plant, that is under construction. Elkem AS group have given a long-term loan of NOK 87.6 million as at 31 December 2015 (in 2014 NOK 58.0 million). Of this USD 7,000 thousand is committed to be converted to equity.

	2015			2014		
	Elkem Solar Holding S.á.r.l	Other	Total	Elkem Solar Holding S.á.r.l	Other	Total
Total interest in joint ventures 1 January	**886 737**	**69 656**	**956 393**	**-**	**52 905**	**52 905**
Acquired shares in joint ventures	-	-	**-**	1 194 000	4	**1 194 004**
Sale of shares in joint ventures	(883 062)	-	**(883 062)**	-	-	**-**
Dividend received	-	(25 000)	**(25 000)**	-	(10 000)	**(10 000)**
Share of profit continued operations	-	9 539	**9 539**	-	27 278	**27 278**
Share of profit discontinued operations	(111 935)	-	**(111 935)**	(303 735)	-	**(303 735)**
Share of other comprehensive income discontinued operations	(2 536)	-	**(2 536)**	(3 528)	-	**(3 528)**
Other comprehensive income transferred to income on disposal, discontinued	5 958	-	**5 958**	-	-	**-**
Gain on sale of shares in joint ventures, discontinued	104 838	-	**104 838**	-	-	**-**
Currency effects	-	(1 260)	**(1 260)**	-	(531)	**(531)**
Total interest in joint ventures 31 December	-	**52 935**	**52 935**	**886 737**	**69 656**	**956 393**
Included in investment in joint ventures	-	67 476	**67 476**	-	73 661	**960 398**
Presented as write-down on receivable/Included in other liabilities[1)]	-	**(14 541)**	**(14 541)**	-	**(4 005)**	**(4 005)**

[1)] The amounts NOK 14,541 thousand and NOK 4,005 thousand relates to provision for investment commitments in Igazú Alloys S.A.

Elkem AS group proportionate share of revenues, expenses, assets, liabilities and cash flows in the joint ventures are included in the consolidated financial statement as follows:

	Elkem Solar Holding S.á.r.l	Other	Total
Current assets, including cash and cash equivalents NOK 643,625 thousand	-	167 562	167 562
Non-current assets	-	154 919	154 919
Current liabilities, including current financial liabilities NOK 3,503 thousand	-	36 186	36 186
Non-current liabilities, including non-current financial liabilities NOK 2,882,745 thousand	-	180 424	180 424
Net assets/Equity	-	105 870	105 870
Group's carrying amount	-	52 935	**52 935**
Total revenue	338 824	424 932	763 756
Total expenses, including depreciation and amortisation NOK 284,982 thousand	(459 121)	(407 987)	(867 108)
Financial income, including interest income NOK 9,255 thousand	4 463	1 022	5 485
Financial expenses, including interest expenses NOK 112,292 thousand	(108 037)	2 448	(105 589)
Tax expense	-	(1 337)	(1 337)
Total profit for the year continuing operations	(223 871)	19 078	(204 792)
Other comprehensive income	(5 072)	-	(5 072)
Total comprehensive income	(228 943)	19 078	(209 864)
Group's share of profit for the year	(111 935)	9 539	**(102 396)**
Group's share of other comprehensive income	(2 536)	-	**(2 536)**

Elkem AS group proportionate share of revenues, expenses, assets, liabilities and cash flows in the joint ventures are included in the consolidated financial statement as follows:

	Elkem Solar Holding S.a.r.l	Other	Total
Current assets, including cash and cash equivalents NOK 685,664 thousand	980 396	182 791	1 163 187
Non-current assets	3 534 949	7 877	3 542 826
Current liabilities, including current financial liabilities NOK 242,697 thousand	404 534	45 964	450 498
Non-current liabilities, including non-current financial liabilities NOK 2,509,513 thousand	2 507 374	5 392	2 512 765
Net assets/Equity	1 603 438	139 311	1 742 749
Group's Carrying amount (including goodwill of NOK 85,018 thousand)	886 737	69 656	**956 393**
Total revenue	437 681	421 717	859 398
Total expenses, including depreciation and amortisation NOK 234,323 thousand	(748 858)	(372 775)	(1 121 633)
Financial income, including interest income NOK 11,324 thousand	10 155	5 293	15 448
Financial expenses, including interest expenses NOK 94,395 thousand	(306 370)	3 016	(303 354)
Tax expense	(78)	(2 696)	(2 774)
Total profit for the year continuing operations	(607 470)	54 555	(552 915)
Other comprehensive income	(7 055)	-	(7 055)
Total comprehensive income	(7 055)	-	(7 055)
Group's share of profit for the year	(303 735)	27 278	**(276 457)**
Group's share of other comprehensive income	(3 528)	-	**(3 528)**

14. INTEREST IN ASSOCIATES AND OTHER COMPANIES

	31.12.2015	31.12.2014
Interest in associates	47 788	41 157
Interest in other companies	48 257	76 829
Total interest in associates and other companies	**96 046**	**117 987**

	2015	2014
Total interest in associates at opening balance	41 157	17 752
Share of profit	11 788	14 412
Dividend received	(7 155)	(2 263)
Acquired shares in associates[1]	67	8 836
Other changes	1 931	2 419
Total interest in associates	**47 788**	**41 157**

[1] The acquired shares relates to increased investment in Combined Cargo Warehousing BV and Euro Nordic Agencies Belgium NV.

As at 31 December 2015 Elkem AS group has interest in following associates:

Name of entity	Principal activities	Country	Proportion of shares/votes (%)	Net assets	Total operating income	Group's share of profit of associates	Carrying amount
Elkem Chartering AS	Deep sea charter services	Oslo, NO	25 %	41 880	28 510	1 897	10 470
Euro Nordic Agencies Belgium NV	Ship agencies services	Antwerp, BE	50 %	979	3 262	186	489
Euro Partnership BV	Ship management services	Moerdijk, NL	50 %	64 449	233	7 561	32 224
Combined Cargo Warehousing BV	Warehousing	Moerdijk, NL	33 %	13 954	9 690	2 144	4 605
Total interest in associates						**11 788**	**47 788**

As at 31 December 2014 Elkem AS group has interest in following associates:

Name of entity	Principal activities	Country	Proportion of shares/votes (%)	Net assets	Total operating income	Group's share of profit of associates	Carrying amount
Elkem Chartering AS	Deep sea charter services	Oslo, NO	25 %	33 919	3 530	(49)	8 480
Euro Nordic Agencies Belgium NV	Ship agencies services	Antwerp, BE	50 %	489	-	-	244
Euro Partnership BV	Ship management services	Moerdijk, NL	50 %	57 862	226	13 100	28 931
Combined Cargo Warehousing BV	Warehousing	Moerdijk, NL	33 %	10 613	7 466	1 361	3 502
Total interest in associates						**14 412**	**41 157**

15. GROUP ENTITIES

The following subsidiaries are included in the consolidated financial statements:

Company		Country of incorporation	2015 Equity interest	2014 Equity interest	Owner
Elkem AS		Norway	100 %	100 %	Bluestar Elkem International Co., Ltd. S.A.
Elkem Carbon AS		Norway	100 %	100 %	Elkem AS
Elkem Chartering Holding AS		Norway	80 %	80 %	Elkem AS
Elkem Distribution Center B.V.		Netherlands	100 %	100 %	Elkem AS
Elkem Finanz AG	3)	Switzerland	-	100 %	Elkem AS
Elkem Foundry Invest AS		Norway	100 %	100 %	Elkem AS
Elkem GmbH		Germany	100 %	100 %	Elkem AS
Elkem Iberia SL		Spain	100 %	100 %	Elkem AS
Elkem Iceland Ltd		Iceland	100 %	100 %	Elkem AS
Elkem International AS		Norway	100 %	100 %	Elkem AS
Elkem International Trade (Shanghai) Co. Ltd		China	100 %	100 %	Elkem AS
Elkem Japan K.K		Japan	100 %	100 %	Elkem AS
Elkem Ltd		England	100 %	100 %	Elkem AS
Elkem Materials Processing (Tianjin) Co. Ltd		China	100 %	100 %	Elkem AS
Elkem Materials Processing Services BV		Netherlands	100 %	100 %	Elkem AS
Elkem Metal Canada Inc.		Canada	100 %	100 %	Elkem AS
Elkem Milling Services GmbH		Germany	100 %	100 %	Elkem AS
Elkem Nordic A.S.		Denmark	100 %	100 %	Elkem AS
Elkem Oilfield Chemicals FZCO		Dubai	51 %	51 %	Elkem AS
Elkem S.a.r.l.		France	100 %	100 %	Elkem AS
Elkem S.r.l.		Italy	100 %	100 %	Elkem AS
Elkem Singapore Materials Pte Ltd		Singapore	100 %	100 %	Elkem AS
Elkem South Asia Private Limited		India	100 %	100 %	Elkem AS
NEH LLC		USA	100 %	100 %	Elkem AS
Bluestar Silicones International S.à.r.l		Luxembourg	100 %	100 %	Elkem AS
Nor-Kvarts AS		Norway	67 %	67 %	Elkem AS
Dehong Elkem Materials Co. Ltd		China	50 %	50 %	Elkem AS
Elkania DA		Norway	50 %	50 %	Elkem AS
Hoffsveien 65B Invest AS	3)	Norway	-	100 %	Elkem AS
Elkem Power AS	1)	Norway	0 %	-	Elkem AS
Elkem Tana AS	1)	Norway	0 %	-	Elkem AS
Elkem Carbon Malaysia Sdn. Bhd.		Malaysia	100 %	100 %	Elkem Carbon AS
Elkem Carbon Singapore Pte. Ltd		Singapore	100 %	100 %	Elkem Carbon AS
Elkem Participacòes Indústria e Comércio Limitada		Brazil	100 %	100 %	Elkem Carbon AS
Elkem Ferroveld JV		South Africa	50 %	50 %	Elkem Carbon AS
Elkem Carbon (China) Comp Ltd		China	100 %	100 %	Elkem Carbon Singapore Pte Ltd
Elkem Egypt for Industry, Contracting & Trading S.A.E		Egypt	99.99%	99.99%	Elkem International AS
Elkem Madencilik Metalurji Sanayi Ve Ticaret Ltd STI		Turkey	100 %	100 %	Elkem International AS
Gimtrade Ltd		England	100 %	100 %	Elkem Ltd
Mill Street Ltd		England	100 %	100 %	Elkem Ltd
Elkem Materials Inc.		USA	100 %	100 %	NEH LLC
Elkem Materials Delaware Inc.		USA	100 %	100 %	Elkem Materials Inc.
Elkem Materials South America Ltda		Brazil	100 %	100 %	Elkem Materials Inc.
Euro Nordic Logistics BV		Netherlands	80 %	80 %	Elkem Chartering Holding AS
Elkem Chartering AS	2)	Norway	25 %	25 %	Elkem Chartering Holding AS
Elkem Chartering Singapore	2)	Singapore	25 %	25 %	Elkem Chartering Holding AS
Elkem Chartering Rederi	2) 5)	Norway	-	-	Elkem Chartering Holding AS
Euro Nordic Belgium BVBa		Belgium	80 %	80 %	Euro Nordic Logistics BV
Euro Nordic Netherlands B.V.		Netherlands	80 %	80 %	Euro Nordic Logistics BV
Explotacion de Rocas Industriale sy Minerales S.A. (ERIMSA)		Spain	67 %	67 %	Nor-Kvarts AS
Hoffsv 65B AS		Norway	-	100 %	Hoffsveien 65B Invest AS
Hoffsveien 65B SLB ANS	3)	Norway	-	100 %	Hoffsv 65B AS
Bluestar Silicones France SAS	4)	France	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Services S.à.r.l	4)	France	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Siliconas España S.A.U	4)	Spain	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Siliconi Italia S.r.l	4)	Italy	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Germany GmbH	4)	Germany	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones (UK) Ltd	4)	United Kingdom	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones USA Corp.	4)	USA	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Canada Corp.	4)	Canada	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Brasil Ltda	4)	Brasil	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Finland OY	4)	Finland	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Scandinavia AS	4)	Norway	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Poland p. z o.o	4)	Poland	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Czech Republic s.r.o	4)	Czech Republic	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Shanghaï Co. Limited	4)	China	100 %	100 %	Bluestar Silicones International S.à.r.l
Bluestar Silicones Hong Kong Trading Co. Limited	4)	Hong Kong	100 %	100 %	Bluestar Silicones International S.à.r.l

The equity interest stated is the indirect ownership for Elkem AS.

1) Elkem Power AS and Elkem Tana AS merged with Elkem AS in 2014.

2) In October 2014 Elkem AS group sold 75 per cent of the shares in Elkem Chartering AS, including its subsidiaries Elkem Chartering Rederi AS and Elkem Chartering Singapore Ltd. Net gain on the sale NOK 5,749 thousand is recognised in other gains and losses. The sub group is, after the transaction, treated as an associate, and Elkem AS group share of profit for the period November to December 2014 is included in income from associates and joint ventures.

3) The companies were liquidated in 2015.

4) In June 2015 Elkem AS group purchased all the shares in Bluestar Silicones International S.à.r.l and its subsidiaries. With the purchase silicones was added as a segment in Elkem AS group. The shares in Bluestar Silicones International S.à.r.l was previously owned by Bluestar Elkem Investment Co. Ltd's sister company and the purchase is treated according to the principle of group continuity hence the equity interests are stated for both 2015 and 2014. For more information regarding the accounting treatement of the purchase please se note 30 Business combination under common control.

5) In October 2015 Elkem Chartering Rederi AS merged with Elkem Chartering AS.

16. OTHER NON-CURRENT ASSETS

	31.12.2015	31.12.2014
Long-term pension contribution fund[1]	6 160	8 860
Defined benefit pension asset[1]	-	-
Long-term deposit pension guarantee[2]	16 780	14 820
Restricted deposits[3]	58 627	77 593
Other deposits	13 786	-
Loans to joint arrangements	6 943	6 773
Loans to joint ventures[4]	74 499	1 471 356
External loans/receivables	32 068	-
Other long-term receivables	8 363	44 503
Total other non-current assets	**217 226**	**1 623 905**

1) See note 6 Employee retirement benefits.

2) Long-term deposit pension guarantee is related to unfunded pension liabilities for salaries above 12G.

3) Off the deposits NOK 67,537 thousand relates to tax litigation in Elkem AS group's business in Brazil, see note 24 Provisions and other long term liabilities.

4) See note 28 Related party transactions.

17. INVENTORIES

	31.12.2015	31.12.2014
Finished goods	2 097 641	1 824 529
Work in progress	256 485	223 487
Raw materials	640 590	621 935
Operating materials and spare parts	307 480	226 528
Total inventories	**3 302 196**	**2 896 478**
Provisions for write down of inventories as at 31 December	59 578	46 526

18. ACCOUNTS RECEIVABLES

	31.12.2015	31.12.2014
Accounts receivable	1 785 029	1 700 034
Accounts receivable, related parties	32 619	107 875
Provision for doubtful accounts	(27 466)	(28 488)
Bills receivables[1]	73 828	39 877
Total accounts receivable	**1 864 010**	**1 819 299**

1) A bills receivable is a document that the customer formally agrees to pay at maturity date. The bills receivable document effectively replaces, for the related amount, the open debt exchanged for the bill. Bills receivables are used at Elkem AS group's business in China.

Analysis of gross accounts receivable by age, presented based on the due date:

	31.12.2015	31.12.2014
Not due	1 557 932	1 505 280
1–30 days	159 742	164 420
31–60 days	40 083	32 960
61–90 days	21 414	39 302
More than 90 days	38 478	65 949
Total accounts receivable	**1 817 649**	**1 807 910**

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

Movement in allowance for doubtful debts	31.12.2015	31.12.2014
Opening balance	(28 488)	(21 898)
Provisions / losses on doubtful accounts during the year	(9 835)	(10 871)
Reversed provisions	9 437	4 281
FX effect	1 420	-
Closing balance	**(27 466)**	**(28 488)**

Analysis of current receivables that are past due date and impaired, by age:

Overdue by:	31.12.2015	31.12.2014
0-3 months	(830)	(1 896)
3-6 months	(56)	(1 007)
6-12 months	(3 261)	(15 920)
Over a year	(23 320)	(9 664)
Total impaired overdue receivables	**(27 466)**	**(28 488)**

19. OTHER CURRENT ASSETS

	31.12.2015	31.12.2014
Pension contribution fund, short-term part[1)]	10 912	11 492
Deposits, restricted	-	2 728
Prepayments	59 791	61 425
CO2 Compensation from the Norwegian Environment Agency[2)]	65 004	32 592
Government grants	261 620	176 959
VAT receivables	271 489	266 378
Corporate income tax receivables	36 564	23 960
Loans to joint ventures	-	240 000
Other receivables	50 357	56 400
Total other current assets	**755 737**	**871 935**

[1)] See note 6 Employee retirement benefits.

[2)] See note 29 Government grants.

20. SHAREHOLDER INFORMATION

Elkem AS is the parent company of Elkem AS group.
As of 31 December 2015 Elkem AS is 100 per cent owned by Bluestar Elkem International Co. Ltd S.A.
Elkem AS has its registered company address: Drammensveien 169, 0277 Oslo, Norway.

Share Capital
Share capital as at 31 December 2015 in Elkem AS is NOK 2,010 million, divided in 1 share.

21. FINANCE LEASE LIABILITIES

Elkem AS group leases some of its manufacturing equipment under finance lease. Interest rates range from 3.06 per cent to 6.99 per cent.
The group has options to purchase the equipment for a nominal amount at the end of the lease term. The obligations under finance lease are secured by the lessors title to the leased assets.

Overview of finance lease	31.12.2015	31.12.2014
Within one year	40 149	38 631
Between 1 and 5 years	3 358	40 274
Over 5 years	-	-
Total lease payments	43 507	78 905
Less future finance charges	(2 041)	(5 376)
Present value of lease obligations	**41 466**	**73 529**
Less amount due for settlement within 12 months	38 254	35 141
Total non-current finance lease obligations	**3 212**	**38 387**
Leasing cost current year	40 542	42 903

See also note 22 Interest-bearing asset / liabilities.

22. INTEREST-BEARING ASSETS / LIABILITIES

	31.12.2015	31.12.2014
Non-current interest-bearing liabilities		
Loans from other related parties within China National Bluestar group	6 700	1 381 888
Financial leases[1)]	3 212	38 387
Loans from external part, other than bank	13 966	10 313
Bank financing	3 028 038	72 300
Total non-current interest-bearing liabilities	**3 051 916**	**1 502 887**
Current interest-bearing liabilities		
Loans from other related parties within China National Bluestar group	-	2 445 853
Financial leases[1)]	38 254	35 141
Loans from external part, other than bank	-	3 078
Bank financing	285 975	1 228 516
Accrued interest	3 752	832 220
Total current interest-bearing liabilities	**327 981**	**4 544 808**
Total interest-bearing liabilities	**3 379 897**	**6 047 696**
Interest-bearing assets		
Cash and bank balances	1 305 592	694 993
Restricted deposits	75 407	95 141
Interest-bearing financial assets	70 057	1 727 682
Accrued interest income	377	575
Total interest-bearing assets	**1 451 434**	**2 518 390**
Net interest-bearing assets / (liabilities)	**(1 928 463)**	**(3 529 305)**

[1)] See note 21 Finance lease liabilities

Interest-bearing liabilities by currency	Currency amount	NOK 31.12.2015	Currency amount	NOK 31.12.2014
EUR	335 646	3 219 952	571 528	5 172 454
USD	6 165	54 332	126 268	941 542
NOK[1)]	105 588	105 588	(175 883)	(175 883)
Other currencies		25		109 583
Total interest-bearing liabilities		**3 379 897**		**6 047 696**

[1)] The NOK currency has a negative amount in 2014 due to a net presentation of the bank accounts included in the group cash pooling arrangement. The drawn amount in USD and EUR are greater than the deposits of the other currencies.

Maturity of interest-bearing liabilities as at 31 December 2015	Loans from other related parties	Financial leases	Loans from external part, other than bank	Bank financing	Accrued interest	Total
2016	-	38 254	-	285 975	3 752	327 981
2017	-	2 734	5 164	54 134	-	62 033
2018	6 700	426	1 748	532 925	-	541 798
2019	-	52	1 473	574 972	-	576 497
2020	-	-	1 473	1 730 072	-	1 731 545
2021 and later	-	-	4 108	153 739	-	157 847
Total	**6 700**	**41 466**	**13 966**	**3 331 818**	**3 752**	**3 397 702**
Prepaid loan fees	**-**	**-**	**-**	**(17 805)**	**-**	**(17 805)**
Total interest bearing liabilities	**6 700**	**41 466**	**13 966**	**3 314 013**	**3 752**	**3 379 897**

Maturity of interest-bearing liabilities as at 31 December 2014	Loans from other related parties	Financial leases	Loans from external part, other than bank	Bank financing	Accrued interest	Total
2015	2 445 853	35 141	3 078	1 228 516	832 220	4 544 808
2016	412 690	35 912	924	27 619	-	477 146
2017	279 199	2 148	2 296	14 629	-	298 272
2018	689 998	279	1 414	3 439	-	695 131
2019	-	49	1 414	26 612	-	28 075
2020 and later	-	-	4 263	-	-	4 263
Total	**3 827 740**	**73 529**	**13 390**	**1 300 815**	**832 220**	**6 047 696**

Credit facilities

Of total granted-overdrafts and revolving credit facilities of NOK 2,343 million, the group has drawn NOK 78.4 million as of 31 December 2015.
The group had drawn NOK 58 million of total granted overdrafts and revolving credit facilities of NOK 1,746 million by 31 December 2014.
The drawn amounts are classified as short term bank financing.

The main revolving-credit facilities are granted to Elkem AS but the facilities can be utilized by Elkem AS and its subsidiaries. The main facilities amount is EUR 200 million (NOK 1,919 million) and NOK 250 million respectively.

Loan covenant

Elkem AS group has covenants related to it's two main external interest bearing loan facilities. In addition to the covenants on these two loan facilities there are loan covenants related to the credit facilities in Elkem Metal Canada Inc of CAD 10 million. Elkem Metal Canada Inc. is not in breach with its covenants at the end of 2015 and 2014.

For the two main credit facilities and term loans in Elkem AS group, the loan covenants relates to the financial performance of Elkem AS group as specified in the table below.

For the covenants in Elkem AS group please se the tables below. As the facilities are re-negotiated and/or new in 2015 the table shows exclusively the calculations for 2015.

Covenant Elkem AS group related to drawn loan of NOK 3,023 million in Elkem AS		31.12.2015	Loan covenant
Total Equity	NOK	6 318 758	
Total Assets	NOK	14 476 852	
Equity ratio		**44 %**	**> 30%**
EBITDA	NOK	2 206 988	
Net finance charges	NOK	103 979	
Interest cover ratio		**21,23**	**> 4.00**

23. PLEDGE OF ASSETS AND GUARANTEES

Pledges

The main part of Elkem AS group's interest-bearing liabilities are neither pledged nor guaranteed. Liabilities that have pledged assets related to them details are stated below:

Mortgaged liabilities	31.12.2015
Mortgaged liabilities	187 904
Mortaged provisions	119 700

Book value mortgaged assets	31.12.2015
Building	111 961
Machinery and plant	843
Receivables	95 992
Other assets	144 859

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

Guarantee commitments	31.12.2015	31.12.2014
Guarantee commitment KLIF (Climate and Pollution Agency)	4 618	4 618
Environmental guarantee	6 386	-
Other guarantees	113	-

As a part of the share purchase agreement signed between Bluestar Silicones International S.à.r.l and Rhodia for the acquisition of the silicone business, Bluestar benefits from a right to claim for compensation, especially on tax environmental matters. The aggregate amount of the warranty is limited to a maximum of € 73 million and is applicable until 2016.

24. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Total provisions and other non-current liabilities	31.12.2015	31.12.2014
Total provisions	221 893	230 792
Deferred Income	40 291	0
Total provisions and other non-current liabilities	**262 184**	**230 792**

Provisions include the following:	Contingencies due to litigations	Site restoration	Currency effects bond loan	Employee benefits	Other provisions	Total provisions
Balance 1 January 2015	**350 787**	**75 867**	**5 633**	**72 755**	**4 159**	**509 200**
Additional provisions recognised	55 668	2 695	-	7 573	1 860	67 796
Used during the year	(134 176)	(11 746)	(2 939)	(11 108)	-	(159 968)
Foreign currency exchange differences	(9 881)	1 410	-	4 432	389	(3 650)
Balance 31 December 2015	**262 398**	**68 227**	**2 694**	**73 652**	**6 407**	**413 378**
Hereof classified as provisions and other non-current liabilities	90 918	53 194	2 694	69 068	6 020	221 893
Hereof classified as provisions and other current liabilities	171 480	15 033	-	4 584	388	191 485
	262 398	**68 227**	**2 694**	**73 652**	**6 407**	**413 378**

Provisions include the following:	Contingencies due to litigations	Site restoration	Currency effects bond loan	Employee benefits	Other provisions	Total provisions
Balance 1 January 2014	**319 132**	**54 755**	**8 572**	**57 680**	**2 972**	**443 110**
Additional provisions recognised	19 620	16 511	-	13 903	1 139	51 174
Used during the year	(14 151)	(306)	(2 939)	(4 320)	(461)	(22 176)
Foreign currency exchange differences	26 186	4 907	-	5 491	509	37 093
Balance 31 December 2014	**350 787**	**75 867**	**5 633**	**72 755**	**4 159**	**509 200**
Hereof classified as provisions and other non-current liabilities	110 734	42 606	5 633	67 659	4 159	230 792
Hereof classified as provisions and other current liabilities	240 053	33 261	-	5 095	-	278 409
	350 787	**75 867**	**5 633**	**72 755**	**4 159**	**509 200**

Litigations

One of the entities organised under the Silicones division, Bluestar Silicones France (BSF), is currently subject to tax reassessment proceedings in France regarding VAT due for the period 2008–2011. The disputed VAT amount relates to the VAT stated on invoices from BSF's platinum supplier which was deducted by BSI. BSF received a VAT reassessment claim with a principal amount of EUR 14.1 million, interest and a 40 per cent penalty of EUR 5.6 million and a tax fine of EUR 0.3 million, totalling EUR 20.1 million. The tax reassessment proceedings have been challenged by BSF based on legal and factual arguments, but the arguments were denied by the French tax authorities. On such basis, BSF initiated civil legal proceedings, which were dismissed by the French Administrative Court of Montreuil. BSF has, however, lodged an appeal against these judgements and the proceedings are ongoing.

BSF has also launched a civil action against its former platinum supplier, which was denied on the basis of an absence of direct prejudice. The court did, however, decide to launch additional investigations in order to check whether BSF could be deemed to be party to the fraudulent scheme set up by the former supplier.

BSF lodged an appeal against the judgement dismissing its civil action before the Court of Appeal of Paris, and in a judgement dated 7 May 2015, the Court of Appeal of Paris admitted BSF's civil action, stating that notwithstanding the fact that the platinum was bought with a significant rebate by BSF, the criminal proceedings do not indicate that BSF could have deliberately and knowingly taken part in the fraudulent scheme. And secondly, that BSF may actually be deemed a victim of the supplier's fraudulent scheme.
The group is of the opinion that the judgement strengthens BSF arguments in the pending tax reassessment proceedings and creates grounds for reinitiating a negotiation process with the French tax authorities. The aim of such negotiations would be that the penalty amount, approximately EUR 5 million, is relinquished.

The group has a provision of EUR 12.5 million (NOK 119.3 million) as at 31 December 2015 to cover the potential fine including accrued interest. In 2015 the group has made an advance payment of EUR 7.6 to French authorities related to the claim.

In December 2015, an entity organized under the Silicones division, Bluestar Siliconi Italia, received tax assessments and penalties notices pertaining to an audit of its 2010 payments of dividend and interests to its parent company were the entity did not apply any withholding tax. The tax authorities claim that withholding tax should have been paid.
The group has a provision of EUR 3 million (NOK 28.4 million) as at 31 December 2015 to cover the potential fine including accrued interest.

In December 2015, Bluestar Silicones France (BSF) in the Silicones division lost a tax court case, instructing the entity to pay EUR 1.9 million. The case relates to intercompany business transactions in 2007-2009. The group disputes the claim. Based on internal and external assessment, a provision of EUR 3.2 million is recorded. The accrued amount includes other minor tax cases in France.

Elkem AS group is involved in various tax cases related to various types of taxes. The majority of disputed cases relates to taxes in Brazil. These cases can take substantial time for resolution. Elkem AS group has provided information for tax cases where the risk of loss is considered above 50 per cent. One case in Brasil concerns employee and tax litigations, were Elkem AS group has recorded a provision of NOK 90.8 million. The time of settlement is uncertain. In accordance with Brazilian regulations, an amount have been transferred to a restricted bank account and are adjusted for interest rates on an annual basis. The restricted cash is included in other non-current assets, see note 16 Other non-current assets.

Site restoration

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

Currency effects bond loan

Elkem AS group has participated in the Central Bank of Iceland's Investment Programme and purchased a bond loan in ISK, with payment in EUR. The gain from the purchase in EUR is dependent on retaining the ownership of the securities in 5 years, the currency gain is recognised as deferred income and will be amortised over the required ownership period.

Employee benefits

Employee benefits consist of provisions related to jubilee / long-service benefits, mainly in the Silicones segment.

25. PROVISIONS AND OTHER CURRENT LIABILITIES

	31.12.2015	31.12.2014
Employee withholding taxes, social security, vacation pay, etc.	575 525	483 962
VAT payable	84 177	64 339
Deferred income	34 029	25 394
Liability joint arrangements (Yguazu)	-	4 005
Liability acquisition land use rights	29 020	-
Provisions, short term part [1)]	191 485	278 409
Accrued expenses	111 217	86 150
Other current liabilities	5 928	50 603
Provisions and other current liabilities	**1 031 380**	**992 862**

[1)] See note 24 Provisions and other non-current liabilities

26. FINANCIAL INSTRUMENTS

Financial assets and liabilities by category 31 December 2015

	Note	Assets at fair value through profit or loss	Derivatives used for hedging	Financial assets available for sale	Loans and receivables	Non-financial assets	Total
Interest in associated and other companies	14	-	-	48 257	-	47 789	**96 046**
Derivatives, non-current		38 860	1 620	-	-	-	**40 480**
Other non-current assets	16	-	-	-	202 703	14 523	**217 226**
Accounts receivable	18	-	-	-	1 864 010	-	**1 864 010**
Derivatives, current		14 332	-	-	-	-	**14 332**
Other current assets	19	-	-	-	326 624	429 113	**755 737**
Cash and cash equivalents	22	-	-	-	1 305 592	-	**1 305 592**
Total		**53 192**	**1 620**	**48 257**	**3 698 929**	**491 425**	

	Note	Liabilities at fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing liabilities, non-current	22	-	-	3 051 916	-	**3 051 916**
Derivatives, non-current		(23 968)	949 821	-	-	**925 853**
Provisions and other non-current liabilities	24	-	-	-	262 184	**262 184**
Accounts payable		-	-	1 448 578	-	**1 448 578**
Interest-bearing liabilities, current	22	-	-	327 981	-	**327 981**
Derivatives, current		7 121	608 088	-	-	**615 208**
Other current liabilities	25	-	-	29 019	1 002 361	**1 031 380**
Total		**(16 847)**	**1 557 909**	**4 857 493**	**1 264 545**	

Financial assets and liabilities by category 31 December 2014

	Note	Assets at fair value through profit or loss	Derivatives used for hedging	Financial assets available for sale	Loans and receivables	Non-financial assets	Total
Interest in associated and other companies	14	-	-	76 829	-	41 158	**117 987**
Derivatives, non-current		41 083	28 660	-	-	-	**69 743**
Other non-current assets	16	-	-	-	1 613 831	10 074	**1 623 905**
Accounts receivable	18	-	-	-	1 819 299	-	**1 819 299**
Derivatives, current		6 844	-	-	-	-	**6 844**
Other current assets	19	-	-	-	438 988	432 947	**871 935**
Cash and cash equivalents	22	-	-	-	694 993	-	**694 993**
Total		**47 927**	**28 660**	**76 829**	**4 567 111**	**484 179**	

	Note	Liabilities at fair value through profit or loss	Derivatives used for hedging	Financial liabilities at amortised cost	Non-financial liabilities	Total
Interest-bearing liabilities, non-current	22	-	-	1 502 887	-	**1 502 887**
Derivatives, non-current		(207 733)	507 193	-	-	**299 460**
Provisions and other non-current liabilities	24	-	-	-	230 792	**230 792**
Accounts payable		-	-	1 334 169	-	**1 334 169**
Interest-bearing liabilities, current	22	-	-	4 544 808	-	**4 544 808**
Derivatives, current		8 478	237 823	-	-	**246 300**
Other current liabilities	25	-	-	-	992 862	**992 862**
Total		**(199 255)**	**745 016**	**7 381 864**	**1 223 653**	

Fair value measurement
Financial instruments at fair value through profit or loss and financial assets available for sale are measured using different levels of input.
There are no material differences between fair value and amortised cost for financial liabilities at amortised cost.

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

Elkem AS group's assets and liabilities measured at fair value as at 31 December 2015:	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	14 332	38 860	**53 192**
Derivatives designated in a hedging relationship	-	1 620	-	**1 620**
Financial assets available for sale	2 900	-	45 357	**48 257**
Total assets	**2 900**	**15 952**	**84 217**	**103 069**
Financial liabilities at fair value through profit or loss	-	197 200	(214 047)	**(16 847)**
Derivatives designated in a hedging relationship	-	543 025	1 014 884	**1 557 909**
Total liabilities	**-**	**740 225**	**800 837**	**1 541 062**

Elkem AS group's assets and liabilities measured at fair value as at 31 December 2014:	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	2 923	45 004	**47 927**
Derivatives designated in a hedging relationship	-	28 660	-	**28 660**
Financial assets available for sale	3 895	-	72 933	**76 828**
Total assets	**3 895**	**31 583**	**117 937**	**153 416**
Financial liabilities at fair value through profit or loss	-	64 826	(264 081)	**(199 255)**
Derivatives designated in a hedging relationship	-	215 634	529 382	**745 016**
Total liabilities	**-**	**280 460**	**265 301**	**545 761**

Level 1:
Financial assets measured at level 1 apply to external noted shares. The noted shares are measured based on the listed price.
Dividends from the external shares are classified as other gains and losses.

Level 2:
Financial assets and liabilities measured at level 2 applies to forward foreign exchange contracts, power and platinum commodity contracts, measured at fair value by estimating the future cash flows.

The foreign exchange forward contracts are designated in a cash flow hedge to hedge highly probable future sales, realised effects are booked as an adjustment of the sales revenues. The power commodity contracts are designated as hedging instruments in a cash flow hedge of highly probable future purchases. Hence, the effective part of change in fair value is booked against OCI, and then booked as an adjustment of the power cost (part of COGS) when realised. Any ineffectiveness is booked as other gains / losses.
The platinum contracts are recognised at fair value through profit or loss, classified as change in fair value commodity contracts under other gains and losses.

Level 3:
The financial assets and liabilities at fair value through profit or loss measured at level 3, consist of two power contracts; a contract with Statkraft bought from Norske Skog in 2010, and a contract called "30-øringen" based on how the power price in the contract is determined. The usage of power from the contract with Statkraft is restricted to industrial purposes, and the power from the "30-øringen" contract is restricted to be used at Elkem AS group plants. The contracts are assessed to be settled net in cash and are within the scope of IAS 39 and recognised as financial instruments. In addition, shares in unlisted companies are included in this category.

Valuation of the power contracts is based on observable data, such as power price, currency, CPI and CfD, when available. The power prices for long-term electricity contracts in Norway are not directly observable in the market during the entire length of the contracts. Power prices are observable until 2023, CfD to 2016 and the currency rates are observable until 2020. Valuation for the remaining periods is based on the latest observable data adjusted for CPI, if relevant.

See note 27 Financial risk and capital management for sensitivity analysis.

Assessment of fair value of contract with Statkraft:
Elkem AS group pays a fixed power price to Statkraft, specified for each year in the contract lasting until 31 December 2020.

Assumptions for valuation of the contract:
- Discount rate: 1.68 per cent (1.85 per cent) This is estimated based on our contract counterparty's assumed cost of capital
- Power prices: Market prices per 31 December 2015 for the duration of the contract
- CfD's: Four year average historic CfD prices based on Nord Pool Spot prices
- Currency rate EUR: Market prices tradable for the group as of 31 December 2015 for the duration of the contract

Assessment of fair value of the "30-øringen" contract:

The "30-øringen" power contract lasts until 31 December 2030.

For the years 2014–2020 the price under the contract is fixed except if the spot price at the relevant grid points exceeds a certain threshold, in which case the price equals the spot price. For the last 10 years of the contract the price is fixed based on the average spot price the preceding four years, adjusted for inflation. The fixed price and the threshold price are based on a start date and adjusted for inflation annually thereafter.

Assumptions for valuation of the contracts:

- Discount rate: 3.6 per cent. This is estimated based on our contract counterparty's assumed cost of capital, adjusted for risk related to the estimated cash flows under the contracts
- Inflation: 2.0 per cent (2.5 per cent)
- Power prices: Market prices per 31 December 2015 until 2025, thereafter prices are based on 2025, adjusted with inflation rate
- CfD's: Four year average historic CfD prices based on Nord Pool Spot prices
- Currency rate EUR: Market prices tradable for the group as of 31 December 2015 until 2020, thereafter prices equal to 2020 rates

Changes in fair value for the "30-øringen" contract are presented as a part of Other gains and losses.

In addition, level 3 includes shares in external companies, unlisted. These shares are booked at cost and written down if the value of the company is assessed to be lower than cost.

Specification of movements in measurement on level 3	**2015**	**2014**
Opening balance 01.01	(147 362)	26 029
Transfer to / from other levels	-	-
Change in fair value recognised in OCI	(679 510)	(189 759)
Settlement	200 131	92 395
Disposal	(765)	(26 257)
Acquisition	235	-
Other changes in fair value through profit or loss	(92 743)	(53 047)
Translation effects	3 393	3 277
Closing balance 31.12	**(716 621)**	**(147 362)**

Details of financial instruments

Details of foreign exchange contracts as at 31 December 2015

Purchase currency	**Purchase ccy 1000**	**Sale currency**	**Sale ccy 1000**	**Type of instrument**	**Currency deal rate**	**Due**	**Fair value in NOK**	**Notional amount in NOK[1)]**
USD	616	JPY	75 087	Fwd	0,0082	2016	(60)	5 429
NOK	1 209	AUD	200	Fwd	6,0465	2016	(78)	1 289
CAD	6 688	EUR	4 800	Fwd	1,3932	2016	(3 712)	46 048
NOK	2 710 039	EUR	300 300	Fwd	9,0244	2016	(187 922)	2 880 864
CAD	4 392	GBP	2 160	Fwd	2,0333	2016	(345)	28 221
NOK	46 114	GBP	3 780	Fwd	12,1995	2016	(3 313)	49 387
NOK	73 236	JPY	1 118 000	Fwd	0,0655	2016	(9 244)	81 861
NOK	510 653	USD	65 950	Fwd	7,7430	2016	(70 544)	581 184
NOK	929 152	EUR	100 400	Fwd	9,2545	2017	(51 528)	963 166
NOK	54 332	JPY	848 000	Fwd	0,0641	2017	(9 101)	62 091
NOK	167 423	USD	22 050	Fwd	7,5929	2017	(25 849)	194 316
NOK	524 796	EUR	58 000	Fwd	9,0482	2018	(46 910)	556 411
NOK	101 569	USD	13 000	Fwd	7,8130	2018	(11 809)	114 563
NOK	1 401 610	EUR	146 904	Embedded[2)]	9,5410	2017-2027	(202 281)	1 409 295
Total fair value currency forward contracts							**(622 697)**	

1) Notional value of underlying asset.

2) Embedded derivatives EUR in power contracts

Details of foreign exchange contracts as at 31 December 2014

Purchase currency	**Purchase ccy 1000**	**Sale currency**	**Sale ccy 1000**	**Type of instrument**	**Currency deal rate**	**Due**	**Fair value in NOK**	**Notional amount in NOK[1)]**
NOK	807	AUD	150	Fwd	5,3793	2015	(105)	916
CAD	27 760	EUR	18 780	Fwd	1,4782	2015	7 715	169 963
NOK	2 419 941	EUR	276 520	Fwd	8,7514	2015	(97 205)	2 502 566
NOK	86 110	GBP	8 220	Fwd	10,4757	2015	(9 642)	95 521
NOK	59 763	JPY	990 000	Fwd	0,0604	2015	(2 309)	61 734
NOK	321 690	USD	46 000	Fwd	6,9933	2015	(22 707)	343 008
SEK	2 514	AUD	400	Fwd	6,2857	2015	(8)	2 442
EUR	13 277	USD	10 800	Fwd	0,8134	2015	(882)	79 506
NOK	883 384	EUR	94 000	Fwd	9,3977	2016	18 615	850 720
NOK	28 742	JPY	468 000	Fwd	0,0614	2016	(1 044)	29 183
NOK	126 335	USD	17 000	Fwd	7,4315	2016	(662)	126 764
NOK	552 219	EUR	58 400	Fwd	9,4558	2017	9 069	528 533
NOK	29 420	JPY	468 000	Fwd	0,0629	2017	(786)	29 183
NOK	79 704	USD	10 800	Fwd	7,3800	2017	(454)	80 532
NOK	410 534	EUR	46 120	Embedded[2)]	8,9014	2016-2023	(47 055)	417 386
Total fair value currency forward contracts							**(147 459)**	

1) Notional value of underlying asset.

2) Embedded derivatives EUR in power contracts

Details of contracts within the scope of IAS 39 as at 31 December 2015

	Volume GWh/ Oz	Due	Fair value in NOK	Notional amount in NOK[1]
Forward commodity contracts power, NASDAQ Commodity	422	2016	(76 111)	199 013
Forward commodity contracts power, other financial institutions	479	2016	(35 701)	77 118
Forward commodity contracts power, other financial institutions	166	2017	1 077	32 951
Commodity contracts "30-øringen"	501	2016	(46 971)	138 462
Commodity contracts "30-øringen"	7014	2017-2030	38 860	1 374 436
Commodity contract Statkraft	1500	2016	(175 492)	427 440
Commodity contract Statkraft	6000	2017-2020	(578 374)	1 810 380
Commodity contracts related party	220	2016	14 332	53 893
Commodity contracts related party	26	2017	543	5 925
Commodity contracts Platinum	5331	2016	(5 715)	47 650
Fair value contracts within scope of IAS 39			**(863 552)**	

[1] Notional value of underlying asset.

Details of contracts within the scope of IAS 39 as at 31 December 2014

	Volume GWh/ Oz	Due	Fair value in NOK	Notional amount in NOK[1]
Forward commodity contracts power, NASDAQ Commodity	806	2015	(66 313)	284 358
Forward commodity contracts power, NASDAQ Commodity	422	2016	(31 043)	143 654
Forward commodity contracts power, other financial institutions	138	2015	(7 081)	44 119
Forward commodity contracts power, other financial institutions	202	2016	439	53 134
Commodity contract "30-øringen"	501	2015	(6 612)	137 081
Commodity contract "30-øringen"	501	2016	(7 986)	70 254
Commodity contract "30-øringen"	501	2017	(9 066)	144 020
Commodity contract "30-øringen"	6513	2018-2030	62 055	1 553 889
Commodity contract Solar	(219)	2015	6 844	68 448
Commodity contract Statkraft	1498	2015	(36 888)	417 825
Commodity contract Statkraft	7498	2016-2020	(221 801)	2 237 820
Commodity contracts Platinum	12 692	2015	(4 264)	118 757
Fair value contracts within scope of IAS 39			**(321 714)**	

[1] Notional value of underlying asset.

Hedge Accounting

Elkem AS group is applying hedge accounting for parts of the foreign exchange forward contracts and for some power contracts. The currency exchange contracts are designated in a cash flow hedge to hedge currency fluctuations in highly probable future sales, mainly in USD and EUR. Realised effects from these contracts, a loss of NOK 150.9 million (negative NOK 127.4 million), is booked as an adjustment of the sales revenue. Effects from other currency forward contracts, both unrealised and realised, are booked directly to Other gains/losses.

The commodity power contracts are designated in a cash flow hedge to hedge power price fluctuations in highly probable future power purchases. Hence, the effective part of change in fair value is booked against OCI, and booked as a adjustment of the power cost (part of COGS) when realised. The realised effects for these contracts was in 2015 a loss of 314.0 million (loss of 180.8 million). An ineffectiveness of NOK 27.6 million (negative 67.6 million) is booked as Other gains and losses.

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

Derivative financial instruments	**2015 Assets fair value**	**2015 Liabilities fair value**	**2014 Assets fair value**	**2014 Liabilities fair value**
Forward foreign exchange contracts - cash flow hedges	-	445 545	28 660	118 480
Forward power contract Statkraft - cash flow hedges	-	1 014 884	-	529 382
Forward power contracts - cash flow hedges[1]	1 620	97 480	-	97 154
Total derivative instruments	**1 620**	**1 557 909**	**28 660**	**745 016**
Less non-current portion:				
Forward foreign exchange contracts - cash flow hedges	-	145 198	28 660	-
Forward power contract Statkraft - cash flow hedges	-	804 623	-	476 589
Forward power contracts - cash flow hedges[1]	1 620	-	-	30 604
Current portion of derivative instruments	**-**	**608 087**	**-**	**237 823**

[1] Contracts with NASDAQ and other financial institutions

The table below shows the movements in OCI related to hedging instruments:

Derivative financial instruments recognised against OCI	Opening balance 2015	Net change in fair value	Reclassified to P&L	Closing balance 2015
Change in FV derivatives designated as a hedge of future need for power [1]	(94 548)	(146 255)	145 286	(95 518)
Change in FV derivatives designated as a hedge of future need for power [2]	(460 112)	(679 510)	168 723	(970 899)
Change in FV derivatives designated as a hedge of future purchase of RM	-	-	-	-
Change in FV derivatives designated as a hedge of future sales	(89 821)	(506 608)	150 878	(445 551)
Total gains / losses (before tax) in OCI 31.12.	**(644 481)**	**(1 332 373)**	**464 887**	**(1 511 967)**

[1] Contracts with Nasdaq and other financial institutions

[2] Contract with Statkraft. As of 1 January 2013, the Statkraft contract has been designated as a hedging instrument in a cash flow hedge of highly probable future purchases. Changes in fair value for the power contract are from the same date booked against OCI. Changes in fair value up to 31 December 2012 were booked through profit or loss, classified as Other gains / losses. Reversal of these unrealised effects contract will be offset by realised effects, only the interest element will affect the profit or loss.

Accumulated gains / losses from cash flow hedges recognised in OCI are expected to be recycled to profit or loss in the period of 2016-2020, see further details in the tables above specifying financial instruments by due date.

Derivative financial instruments recognised against OCI	Opening balance 2014	Net change in fair value	Reclassified to P&L	Closing balance 2014
Change in FV derivatives designated as a hedge of future need for power [1]	(150 583)	(41 095)	97 130	(94 548)
Change in FV derivatives designated as a hedge of future need for power [2]	(353 983)	(189 759)	83 631	(460 112)
Change in FV derivatives designated as a hedge of future purchase of RM	44 701	(44 701)	-	-
Change in FV derivatives designated as a hedge of future sales	(169 549)	(47 667)	127 395	(89 821)
Total gains / losses (before tax) in OCI 31.12.	**(629 413)**	**(323 223)**	**308 156**	**(644 481)**

[1] Contracts with Nasdaq and other financial institutions

[2] Contract with Statkraft

Offsetting

Elkem AS group recognises derivatives net if they are to be settled net against the same counterparty and there is a legally enforced right to set off the recognised amount. Contracts that's are due within twelve months are classified as short term.

27. FINANCIAL RISK AND CAPITAL MANAGEMENT

Introduction

Elkem AS group is exposed to a variety of financial risks such as currency risk, liquidity risk, interest rate risk, credit risk and risks relating to prices of finished goods and raw materials. The market risks affect the group's income or the value of financial instruments held. Elkem AS group operates in an international and cyclical industry, and all financial risks related to its operations are monitored and handled at Elkem AS group centrally. Elkem AS group has financial risk policies in place, approved by its Board of directors.

FINANCIAL RISK FACTORS

(a) Market risk

(i) Currency risk

Transaction risk - cash flow hedge

Elkem AS group has sales revenue and operating costs in various currencies. The prices of finished goods are to a large extent determined in international markets, primarily in US Dollar and Euro. This is partly offset by purchase of raw materials denominated in the same currencies. Elkem AS group has net positive cash flows in most currencies, but has a net cost position, mainly Norwegian Krone.

Elkem AS group's policy is to hedge foreign exchange risk against functional currency to even out fluctuations in result and cash flow. The target is to hedge net cash flow for 0-3 months on a 90 per cent hedging ratio. Net cash flow for 4-12 months should be hedged on a rolling basis based on a 45 per cent hedging ratio target. The hedging ratio for 4-12 months may vary between 25 per cent and 75 per cent. In 2015, Elkem AS group realised a loss of NOK 151 million from this hedging program (in 2014 a loss of NOK 127 million). In Q2 2015 a mandate was given from the board to increase the hedging horizon for EUR and USD up to 36 months. For 2016 the hedging ratio was set to 75 per cent, for 2017 to 25 per cent and for 2018 to 15 per cent. Elkem AS group uses hedge accounting for all cash flow hedges over 3 months.

Foreign exchange - sensitivity analysis on financial instruments

Elkem AS group is presenting its accounts in Norwegian Krone, but it has underlying assets and liabilities in various currencies. These effects are monitored and managed centrally.

In 2015 Elkem AS group had a gain of NOK 32.5 million (in 2014 a loss of NOK 86.5 million) on foreign exchange recognised in profit and loss in financial items.

Sensitivity on profit and loss from financial instruments: The sensitivity related to financial instruments on Elkem AS group's profit or loss, is based on a strengthening / weakening of all currencies by 10 per cent against the Norwegian Krone, which is the presentation currency for Elkem AS group. If the Norwegian krone is strengthened by 10 per cent against all other currencies, the isolated effect on financial instruments would have been an reduced profit before tax of approximately NOK 582 million (NOK 521 million in 2014).

Sensitivity on balance sheet from financial instruments: The sensitivity related to financial instruments on Elkem AS group's balance sheet, is based on a weakening / strengthening of all currencies by 10 per cent against the Norwegian Krone, which is the presentation currency for Elkem AS group. If the Norwegian krone is strengthened by 10 per cent against all other currencies, the isolated effect on financial instruments would have given an increased equity of NOK 64 million (NOK 40 million in 2014).
This effect does not include the effects from the sensitivity on profit or loss as calculated above.

(ii) Price risk

Elkem AS group is exposed to fluctuations in market prices both in the investment portfolio and in the operating business related to individual contracts.

The investment portfolio is limited, see note 13 Joint arrangements (joint ventures) and note 14 Interest in associates and other companies.

Raw materials

The business is exposed to changes in market price for raw materials and finished goods. The group seeks to minimise the exposure by entering into sales and purchase contracts with similar duration and volume.

Elkem AS group's main production capacity is focused towards specialised products. These products require special types of raw materials that have fixed customer specifications. Elkem AS group has acquired several raw material sources and / or enters into medium to long-term contracts with raw material suppliers.

Power

Some of Elkem AS group's purchase contracts are within the scope of IAS 39, and thus for financial reporting purposes treated as financial instruments. These financial instruments are measured in the balance sheet at fair value with value changes recognised through profit or loss. These contracts are either financial contracts for the purpose of hedging, or physical commodity contracts that does not meet the criteria for own use according to IFRS.

Changes in fair value of commodity contracts reflect unrealised gains or losses and are calculated as the difference between market price and contract price, discounted to present value. Valuation techniques are used for available market information as much as possible. Techniques that reflect how the market could be expected to price instruments, are used in non-observable markets.

Elkem AS group's portfolio of commodity contracts consists mostly of physical energy contracts. Electric power is a key input factor for Elkem AS group. Elkem AS group's estimated future power exposure is partly hedged by long-term power contracts in addition to several contracts in the medium-term. Optimisation of 24-hour-, seasonal- and capacity utilisation variations are solved through utilising financial and physical contracts that are traded bilaterally, or at Nasdaq. The purpose of the hedging activities is to reduce volatility in the power cost and increase the predictability of the cost base. Fair value of commodity contracts is especially sensitive for future changes in energy prices.

The Statkraft power contract:

Elkem AS group has a power contract (1.5 TWh/year) with Statkraft, which is physically delivered in NO2. The deliveries under the contract started 1 January 2011 and ends 31 December 2020. Elkem AS group pays a fixed power price specified for every year in the contract to Statkraft.

Restrictions: The power delivered under the contract must be used in industrial processes.

Estimated fair value of the contract as at 31 December 2015 was negative of NOK 754 million based on market prices (negative of NOK 259 million in 2014).

The "30-øringen" power contract:

Elkem AS group has a power contract (501 GWh/year) which is delivered in NO2, but the power is physically delivered in NO5. The contract last until 31 December 2030. For the last 10 years of the contract, the price is fixed based on the average spot price for the preceding 5 years, adjusted for inflation.

For the years before 31 December 2020, the price under the contract is fixed except if the spot price at the relevant grid point exceed a certain threshold, in which case the price equals to the spot price. The fixed price and the threshold price are based on one start date and adjusted for inflation annually thereafter.

Restrictions: The contract can only be used by plants owned by Elkem AS group.

Estimated fair value of the contract as at 31 December 2015 was negative NOK 8 million (in 2014 the contract was valued at NOK 39 million).

Valuation of the power contracts

The valuation technique used for valuing the power contracts is described in note 26 Financial instruments.

Sensitivity analysis - power contracts

Sensitivity on the Statkraft and the "30-øringen" contracts is as follows (figures in NOK million):

30-Øre contract		**Fair value 31.12.2015**	**Adjusted NPV**
WACC (used 3.6%)	change to 0%	(8)	50
WACC (used 3.6%)	change to 5%	(8)	(24)
KPI (used 2%)	change to 1%	(8)	46
KPI (used 2%)	change to 3%	(8)	(67)
Power price	decrease -10%	(8)	(67)
Power price	increase + 10%	(8)	48

Statkraft contract		**Fair value 31.12.2015**	**Adjusted NPV**
Power price	decrease -10%	(754)	(904)
Power price	increase + 10%	(754)	(604)
WACC (used 1.85%)	change to 0%	(754)	(785)
WACC (used 1.85%)	change to 5%	(754)	(698)

(iii) Interest rate risks

Elkem AS group's interest rate risk arises from borrowings from external financial institutions. Elkem AS group's liabilities mainly drawn in EUR.

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

As at 31 December 2015 Elkem AS group has the following interest-bearing assets and liabilities:

	Floating	Fixed	Total
Interest-bearing liabilities	3 379 897	-	3 379 897
Interest-bearing assets	1 451 434	-	1 451 434
Net exposure	**1 928 463**	**-**	**1 928 463**

Sensitivity
The interest rate sensitivity is based on a parallel shift in the interest rates that Elkem AS group is exposed to. If interest rates had been 50 basis points higher for a full year, based on net debt as at 31 December 2015, with all other variables held constant, the profit after tax would have been NOK 7.0 million lower (NOK 12.9 million in 2014). An overview of Elkem's debt portfolio is presented in note 22 Interest-bearing assets / liabilities.

(b) Counterparty credit risk

Credit risk is the risk of financial losses to the group if customer or counterparty fail to meet contractual obligations. For Elkem AS group this arises mainly to trade receivables and financial trading counterparties.

Trade receivables are generally secured by credit insurance from a reputable credit insurance company. Credit limits for each customer and overdue receivables are monitored at Elkem AS group level. For customers where credit insurance cannot be obtained, other methods are generally used to secure the sales proceeds, such as prepayment, letter of credit, documentary credit or guarantees. In particular, when sales are made in countries with a high political risk, or to remote customers, trade finance products are used to reduce the credit risk. Approximately 90 per cent of Elkem AS group's turnover is covered by credit insurance, trade finance or prepayments. Elkem AS group realised credit losses of NOK 6.0 million in 2015 (NOK 6.4 million in 2014). The maximum exposure to credit risk for the group is NOK 1,978 million per 31 December 2015 (NOK 3,297 million per 31 December 2014).

Evaluation of financial counterparties is based on external credit ratings from Moody's and / or Standard and Poor's. The policy is that financial counterparties should have a rating equal to, or higher than, A- (or the equivalent) from the rating agencies, but exceptions may be made on a case-by-case basis, mainly for local banks in emerging markets. Elkem AS group has not had any losses in 2015 or 2014 related to financial counterparties.

(c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities. Elkem AS group is exposed to liquidity risk related to its operations and financing.

Elkem AS group's cash flow will fluctuate due to economic conditions and financial performance. In order to assess its future operational liquidity risk, short-term and long-term cash flow forecasts are provided. The short-term forecast is updated each week, and the long-term cash flow projection is updated each quarter.

On 26 August 2015 Elkem AS group refinanced its group's bank liabilities comprising a long-term loan of EUR 275 million and a revolving credit facility of EUR 200 million, which were used to refinance the group's prior bilateral revolving credit facilities and certain loan facilities for BSI.

The loan facilities agreement contains two financial covenants. The ratio of EBITDA to consolidated net Interest payable, as defined herein, for each measurement period, where the period is calculated as the 12 months ending on the last day of a financial quarter, must exceed 4.0:1. Additionally, the ratio of total equity to total assets must be more than 30 per cent at all times. Elkem comply with these covenants as of 31 December 2015.

In order to mitigate the operational liquidity risk, Elkem AS group has cash and revolving credit facilities with banks. As at 31 December 2015 Elkem AS group has unrestricted cash of NOK 1,305 million (in 2014 NOK 695 million). In addition, revolving credit facilities amount to NOK 2,342.7 million (in 2014 NOK 3,778.3 million), of which NOK 2,264.3 million is undrawn (in 2014 NOK 2,366.4 million).

The policy is to have cash and available credit facilities amounting to at least 10 per cent of annual turnover. In addition, the policy is to ensure that the main credit facilities have a remaining maturity of at least 12 months. The maturity profile of the credit facilities per 31 December 2015 for Elkem AS group is shown in the table below.

Year / maturity	2016	2020	Total
Total amount of credit facilities	424	1 919	2 343

The table below analyses the group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2015	Less than 6 months	6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Interest-bearing liabilities	190 322	99 405	59 298	2 849 363	157 847
Financial lease	19 127	19 127	2 734	477	-

At 31 December 2014	Less than 6 months	6 months and 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Interest-bearing liabilities	1 227 668	3 281 998	441 234	1 018 135	5 131
Financial lease	17 569	17 573	35 912	2 476	-

A total overview of Elkem AS group's debt portfolio and instalment profile is presented in note 22 Interest-bearing assets / liabilities.

CAPITAL MANAGEMENT

As of 31 December 2015, Elkem's equity was NOK 6,318 million. Including minority interests of NOK 123 million the equity ratio was 44 per cent.
In 2015, Elkem's capital structure has been affected by corporate transactions and dividend distributions. In June Elkem acquired the shares in BSI and divested its shares in Elkem Solar.
A dividend of NOK 1,067 million was distributed to the shareholder as an extraordinary dividend (in kind) in connection with the transactions. In March 2015, a dividend of NOK 750 million was distributed to the shareholder as ordinary dividend. Additionally, the company distributed an extraordinary dividend of NOK 1,150 million in December 2015.
Going forward the policy is to distribute a dividend of 30-50 per cent of the group's net income for the financial year.

Elkem AS group's policy is to have an equity ratio for the group which exceeds 40 per cent. Elkem AS group is managing its financing and liquidity position to reduce liquidity risk and to ensure that the company can meet its financial obligations at all times. With the refinancing transactions in 2015, Elkem has established a good, long-term financing structure.

28. RELATED PARTY TRANSACTIONS

100 per cent of shares in Elkem AS group are held by Bluestar Elkem International Co. Ltd S.A., see note 20 Shareholder information.
Balances and transactions between Elkem AS and subsidiaries have been eliminated in the consolidated financial statemnents and are not disclosed in this note.
Details of transactions between the group and other related parties are disclosed below.

2015	Trade sales	Trade purchases[1]	Sale of services	Purchase of services	Interest income	Interest expenses
Bluestar Elkem International Co. Ltd S.A.	-	-	893	-	-	-
Joint arrangements and associates	-	-	3	(155 097)	3 129	-
Other related parties within China National Bluestar group	145 394	(243 596)	100 845	(11 340)	30 905	(48 336)
Total	**145 394**	**(243 596)**	**101 741**	**(166 437)**	**34 034**	**(48 336)**

[1] Included in trade purchases from joint ventures and associates is purchase of fixed assets of NOK 30 million (Elkem Solar AS).

2014	Trade sales	Trade purchases	Sale of services	Purchase of services	Interest expenses	Interest income
Bluestar Elkem International Co. Ltd S.A.	-	-	134	-	-	-
Joint arrangements and associates	97 374	-	39 339	(197 480)	-	60 735
Other related parties within China National Bluestar group	16 997	(44 672)	23 842	-	(107 851)	-
Total	**114 371**	**(44 672)**	**63 315**	**(197 480)**	**(107 851)**	**60 735**

Loans from / to related parties	31.12.2015	31.12.2014
Loans to joint arrangements	81 442	1 718 129
Loans from other related parties within China National Bluestar group	(6 693)	(3 827 740)
Accrued interest on loans from other related parties within China National Bluestar group	-	(805 375)
Receivables from Bluestar Elkem International Co. Ltd S.A	400	154
Payables to joint arrangements and associates	(9 070)	(23 650)
Receivables from joint arrangements and associates	-	17 469
Payables to other related parties within China National Bluestar group	(50 569)	-
Receivables from other related parties within China National Bluestar group	51 535	25 795

Information about transactions between related parties outside Elkem AS group

The main transactions between Elkem AS group and parties outside Elkem AS group are:

- Sale of management and technology services to Elkem Solar AS
- Power supply and sale of raw materials to Elkem Solar AS
- Purchase of short and deep sea transport from North Sea Containerline AS and Elkem Chartering AS
- Purchase of warehousing for Combined Cargo Warehousing BV
- Sale of silicone to companies within China National Bluestar group

Elkem AS group also has loans from other related parties within China National Bluestar group. The main loans are given from:

- Bluestar Silicones Investment Co. Ltd

The sale and purchase from related parties outside Elkem AS group are made on terms equivalent to those that prevail in arm's length transactions. Prices are set upon negotiations between the parties.

Outstanding balances at year-end are unsecured, and the short-term receivables and payables are interest free, with an exception of the short-term loans. The long-term loans are interest bearing, and the interests are calculated based on interbank rates (for example LIBOR and EURIBOR) plus a margin.

One-time transactions with related parties

On 19 June 2015 Elkem AS group sold 50 per cent of its shares in the Joint Venture Elkem Solar AS at a proceed of NOK 820 million together with a loan receivable of NOK 1,624 million against Elkem Solar AS. The sales resulted in a gain for Elkem AS Group of NOK 104,838 thousand. The gain is presented as part of discontinued profit (loss).

In June 2015 Elkem AS group purchased fixed assets at the Fiskaa plant in Kristiansand, Norway, from Elkem Solar AS. For the rest of 2015, included in sale of services to other related parties within China National Bluestar group, Elkem Solar AS pay a rent and service fee's to Elkem AS group.

Commitments with related parties

For the joint venture in Paraguay, Igazú Alloys S.A., Elkem AS group has, together with the other investor, obligations to finance the development of the foundry plant, that is under construction. Elkem AS group have given a long-term loan of NOK 87.6 million (NOK 58 million) as at 31 December 2015. Of this USD 7,000 thousand is committed to be converted to equity.

Transactions with key management personnel

Information on transactions with key management personnel is included in note 5 Employee benefit expenses.

Information about eliminated transactions between related parties within Elkem AS group

Elkem AS group follows internationally accepted principles for transactions between related parties within the group. In general, Elkem AS group seeks to use transaction based methods (comparable uncontrolled price, transactional net margin method, cost plus and resale price method) in order to set the price for the transaction. Elkem AS group's set-up for sales is based both on an agent strutcture and as a distribution network.

The related party transactions in Elkem AS group can be divided as follows:

1. Buy-sell of products
   a. Supply of raw materials to manufacturers (sales from sourcing companies)
   b. Sale/supply of finished goods from one Elkem manufacturer to another Elkem manufacturer(as in-bound to further production)
   c. Distribution of manufactured goods (directly from the plant or indirectly for resale by distributors)
   d. Flow-through (products are sold to and from Elkem AS due to treatment of indirect taxes)
2. Services
   a. Sales agent/commissionaire services
   b. Order handling services performed for a large part of the companies by one service company (EDC)
   c. General services (cost plus)
      i. Sourcing services
      ii. Technical support services (assistance from one company to another)
      iii. Management services / Divisional management services / Cash management services
   d. Toll manufacturing services (milling services)
3. Financial services
   a. Cash pool
   b. Group loans

29. GOVERNMENT GRANTS

Elkem AS group has received the following grants:	2015	2014
Funding from the Norwegian government R&D	23 548	17 569
Funding from the French government R&D	46 509	45 529
Funding from the Canadian government, related to energy recovery	13 877	31 907
CO2 Compensation from the Norwegian Environment Agency	93 978	32 592
Enova, related to energy recovery	17 134	13 676
NHO NOX fund, related to reduce emission	66 755	13 786
Other grants	7 353	3 932
Total grants received	**269 154**	**158 991**
Grants received is included in the financial statement as follows:		
Other operating income	176 231	100 798
Deduction of carrying amount of fixed assets	92 923	58 193
Total	269 154	158 991
Receivables related to government grants	326 624	209 551
Deferred income related to government grants	(9 837)	(1 376)

In 2015 Elkem AS group has received NOK 28,974 thousand in CO2 compensation which relates to the year 2014. The current CO2 compensation programme will end in 2020.

30. BUSINESS COMBINATION UNDER COMMON CONTROL

19 June 2015 Elkem AS group purchased all the shares in Bluestar Silicones International S.a.r.l (BSI group) for a purchase price of EUR 1.7 million, from Bluestar Silicones Investment Co. Ltd (BSI). Both Elkem AS group and BSI group are under common control by China National Bluestar (group) Co. Ltd. Business combinations involving entities under common control, are accounted for according to the "pooling of interest method" and comparable figures are restated. Below you find an overview of the effects of the restatement.

BSI group made a provision of EUR 21.7 million in 2014 mainly related to VAT audit for the period 2008-2011, the provision has been adjusted in the opening balance 1 January 2014, in the column BSI Group, in the comparable figures.

Statement of income 1.1-31.12	Financial statement 2014	BSI Group	Re-classification[1)]	Elimination	2014
Total operating income	8 652 352	4 329 415	15 291	(323 109)	12 673 949
Total operating expenses	(7 987 780)	(4 367 317)	(15 291)	318 857	(12 051 531)
Other gains and losses	(100 210)	8 524	-	-	(91 686)
Operating profit (loss)	**564 362**	**(29 378)**	**-**	**(4 252)**	**530 732**
Finance expenses net	42 953	(228 790)	-	-	(185 837)
Income from associates and joint ventures	(262 045)	-	303 735	-	41 690
Tax (expense) / income	(157 097)	(62 733)	-	-	(219 830)
Profit (loss) for the year from discontinued operations	80 181	-	(303 735)	-	(223 554)
Profit (loss) for the year	**268 354**	**(320 901)**	**-**	**(4 252)**	**(56 799)**
Other comprehensive income:					
Items that will not be reclassified to profit or loss	(26 107)	(15 078)	-	-	(41 185)
Items that may be reclassified to profit or loss in subsequent periods	273 853	(188 305)	-	-	85 548
Total comprehensive income for the year	**516 100**	**(524 284)**	**-**	**(4 252)**	**(12 436)**

[1)] Share of loss in Elkem Solar is reclassified to discontinued operations, se note 31 Discontinued operations

Statement of financial positioin 31.12	Financial statement 2014	BSI Group	Elimation	Restaded 31.12.2014
Property, plant and equipment	3 294 636	1 888 526	-	5 183 162
Goodwill	160 734	68 736	-	229 470
Other intangible assets	160 884	413 199	-	574 083
Deferred tax assets	333 587	84 240	-	417 827
Investment in joint ventures	960 398	-	-	960 398
Interest in associated and other companies	53 741	64 246	-	117 987
Derivatives, non-current	69 743	-	-	69 743
Other non-current assets	1 582 274	41 631	-	1 623 905
Inventories	2 086 604	825 133	(15 259)	2 896 478
Accounts receivable	1 275 377	587 288	(43 366)	1 819 299
Derivatives	6 844	-	-	6 844
Other current assets	506 421	365 514	-	871 935
Cash and cash equivalents	546 114	148 879	-	694 993
Total assets	**11 037 357**	**4 487 392**	**(58 625)**	**15 466 124**
Total equity	8 723 093	(3 066 767)	(15 259)	5 641 067
Non-current interest-bearing liabilities	14 520	1 488 367	-	1 502 887
Deferred tax liabilities	56 595	155 354	-	211 949
Pension liabilities	204 450	186 326	-	390 776
Derivatives	299 460	-	-	299 460
Provisions and other non-current liabilities	157 838	72 954	-	230 792
Accounts payable	831 317	546 218	(43 366)	1 334 169
Income tax payables	43 370	27 684	-	71 054
Interest-bearing current liabilities	66 425	4 478 383	-	4 544 808
Derivatives	241 155	5 145	-	246 300
Provisions and other current liabilities	399 134	593 728	-	992 862
Total equity and liabilities	**11 037 357**	**4 487 392**	**(58 625)**	**15 466 124**

Cash Flow	Restated 31.12.2014	BSI Group	31.12.2014
Cash flow from operating activities	645 015	29 271	674 286
Cash flow from investing activities	(802 067)	(306 525)	(1 108 592)
Cash flow from financing activities	35 241	274 222	309 463

Statement of financial position 1.1.	Financial statement	BSI Group	Elimination	Restated 1.1.2014
Property, plant and equipment	3 100 763	1 666 237	-	4 767 000
Goodwill	136 137	63 557	-	199 694
Other intangible assets	121 803	365 694	-	487 497
Deferred tax assets	338 004	100 035	-	438 039
Investment in joint ventures	52 905	-	-	52 905
Interest in associated and other companies	28 250	60 955	-	89 205
Derivatives, non-current	40 727	-	-	40 727
Other non-current assets	112 650	26 077	-	138 727
Inventories	1 715 245	774 634	(8 067)	2 481 812
Accounts receivable	1 066 997	524 812	(25 881)	1 565 928
Derivatives	284 187	-	-	284 187
Other current assets	1 254	375 738	-	376 992
Cash and cash equivalents	627 479	96 223	-	723 702
Asset classified as held-for-sale	4 041 698	-	-	4 041 698
Total assets	**11 668 099**	**4 053 962**	**(33 948)**	**15 688 113**
Total equity	7 697 399	(2 545 423)	(8 067)	5 143 909
Non-current interest-bearing liabilities	18 737	1 648 317	-	1 667 054
Deferred tax liabilities	35 073	140 581	-	175 654
Pension liabilities	167 940	213 069	-	381 009
Derivatives	133 580	-	-	133 580
Provisions and other non-current liabilities	142 724	8 619	-	151 343
Accounts payable	673 358	558 094	(25 881)	1 205 571
Income tax payables	37 711	17 983	-	55 694
Interest-bearing current liabilities	570 130	3 509 040	-	4 079 170
Derivatives	215 876	340	-	216 216
Provisions and other current liabilities	448 413	503 342	-	951 755
Liabilities classified as held-for-sale	1 527 158	-	-	1 527 158
Total equity and liabilities	**11 668 099**	**4 053 962**	**(33 948)**	**15 688 113**

31. DISCONTINUED OPERATIONS

Elkem AS group's ownership in Elkem Solar Holding S.a.r.l was reduced from 100 per cent to 50 per cent with effect from 7 March 2014 after a share issue.
19 June 2015 Elkem AS group sold the remaining 50 per cent of its shares in Elkem Solar AS at a proceed of NOK 820 million together with a loan receivable of NOK 1,624 million. The shares and the receivables were transferred to the acquirer, Bluestar Elkem Investment Co. Ltd, and then netted towards shareholder loans of NOK 1,440 million. The remaining receivables of NOK 1,067 million were distributed as dividend. Elkem AS group share of profit (loss) of Elkem Solar Holding, including gain on disposal, is included in Profit (loss) for the year from discontinued operations in the statement of income. Below is an overview of the effects from disposal of Elkem Solar Holding.

Excerpt of the income statement for discontinued operations:	**2015**	**2014**
Revenue (external)	-	27 603
Operating expenses (external)	-	(122 778)
Operating profit	-	(94 675)
Finance expenses (external)	-	10 976
Profit before tax of discontinued operations	-	(83 699)
Tax	-	-
Profit after tax of discontinued operations	**-**	**(83 699)**
Pre-tax gain / (loss) recognised on the re-measurement of assets of disposal group	104 838	163 880
Tax	-	-
After tax gain / (loss) recognised on the re-measurement of assets of disposal group	104 838	163 880
Share of profit equity method[1)]	(111 935)	(303 735)
Profit for the year from discontinued operations	**(7 097)**	**(223 554)**

[1)] See note 13 Joint arrangement

Consolidated statement of cash flows	**2015**	**2014**
Operating cash flows	-	(37 432)
Investing cash flows	-	(1 151)
Financing cash flows	-	-
Total cash flows	**-**	**(38 583)**

The cash flow for period January and February 2014 is fully consolidated and included in the Statement of Cash Flows. Cash at NOK 302,162 thousand was deconsolidated due to the change in ownership and included in item Disposal of subsidiaries and other shares in the consolidated statement of cash flows.

To the shareholders of Elkem AS

Independent auditor's report

We have audited the accompanying consolidated financial statements of Elkem AS, which comprise the consolidated statement of financial position at 31 December 2015, the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of Elkem AS group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Oslo, 14 April 2016
PricewaterhouseCoopers AS

Anders Ellefsen

Anders Ellefsen
State Authorised Public Accountant (Norway)

APPENDIX D:

APPLICATION FORM FOR THE RETAIL OFFERING

APPLICATION FORM FOR THE RETAIL OFFERING

General information: The terms and conditions for the Retail Offering are set out in the prospectus dated 9 March 2018 (the "**Prospectus**"), which has been issued by Elkem ASA ("**Elkem**" or the "**Company**") in connection with the initial public offering (the "**Offering**") of new shares to be issued by the Company and of existing shares in the Company by Bluestar Elkem International Co., Ltd. S.A. (the "**Selling Shareholder**") and the listing of the Company's Shares on the Oslo Stock Exchange. All capitalised terms not defined herein shall have the meaning as assigned to them in the Prospectus.

Application procedure: Norwegian applicants in the Retail Offering who are residents of Norway with a Norwegian personal identification number may apply for Offer Shares through the VPS online application system by following the link to such online application system on the following websites: www.abgsc.no, www.carnegie.no and www.nordea.no/elkem. Applications in the Retail Offering can also be made by using this Retail Application Form. Retail Application Forms must be correctly completed and submitted by the expiry of the Application Period to one of the following application offices:

ABG Sundal Collier	**Carnegie AS**	**Nordea**
Munkedamsveien 45A	Fjordalléen 16, Aker Brygge	Essendropsgate 7
P.O. Box 1444 Vika	P.O. Box 684 Sentrum	P.O. Box 1166 Sentrum
N-0115 Oslo	N-0106 Oslo	N-0107 Oslo
Norway	Norway	Norway
Tel: + 47 22 01 60 00	Tel: +47 22 00 93 60	Tel: + 47 24 01 34 62
E-mail: retail@abgsc.no	E-mail: subscriptions@carnegie.no	E-mail: nis@nordea.com
www.abgsc.no	www.carnegie.no	www.nordea.no/elkem

The applicant is responsible for the correctness of the information filled in on this Retail Application Form. Retail Application Forms that are incomplete or incorrectly completed, electronically or physically, or that are received after the expiry of the Application Period, and any application that may be unlawful, may be disregarded without further notice to the applicant. **Subject to any shortening or extension of the Application Period, applications made through the VPS online application system must be duly registered, and applications made on Retail Application Forms must be received, by one of the application offices by 12:00 hours (CET) on 21 March 2018**. None of the Company, the Selling Shareholder or any of the Managers may be held responsible for postal delays, unavailable internet lines or servers or other logistical or technical matters that may result in applications not being received in time or at all by any of the application offices. All applications made in the Retail Offering will be irrevocable and binding upon receipt of a duly completed Retail Application Form, or in the case of applications through the VPS online application system, upon registration of the application, irrespective of any shortening or extension of the Application Period, and cannot be withdrawn, cancelled or modified by the applicant after having been received by the application office, or in the case of applications through the VPS online application system, upon registration of the application.

Price of Offer Shares: The Company and the Selling Shareholder have, together with the Managers, set an Indicative Price Range for the Offering from NOK 29 to NOK 35 per Offer Share. The Company and the Selling Shareholder will, in consultation with the Managers, determine the final number of Offer Shares and the final Offer Price on the basis of the applications received and not withdrawn in the Institutional Offering during the Bookbuilding Period and the number of applications received in the Retail Offering. The Offer Price will be determined on or about 21 March 2018 and announced through the Oslo Stock Exchange's information system on or about the same date under the ticker code "ELK". The Indicative Price Range is non-binding and the Offer Price may be set within, below or above the Indicative Price Range. Each applicant in the Retail Offering will be permitted, but not required, to indicate when ordering through the VPS online application system or on the Retail Application Form that the applicant does not wish to be allocated Offer Shares should the Offer Price be set above the highest price in the Indicative Price Range (i.e. NOK 35 per Offer Share). If the applicant does so, the applicant will not be allocated any Offer Shares in the event that the Offer Price is set above the highest price in the Indicative Price Range. If the applicant does not expressly stipulate such reservation when ordering through the VPS online application system or on the Retail Application Form, the application will be binding regardless of whether the Offer Price is set within or above (or below) the Indicative Price Range.

Allocation, payment and delivery of Offer Shares: ABGSC, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Shares in the Retail Offering on or about 22 March 2018, by issuing allocation notes to the applicants by mail or otherwise. Any applicant wishing to know the precise number of Offer Shares allocated to it may contact one of the application offices listed above from on or about 22 March 2018 during business hours. Applicants who have access to investor services through an institution that operates the applicant's account with the VPS for the registration of holdings of securities ("**VPS account**") should be able to see how many Offer Shares they have been allocated from on or about 22 March 2018. In registering an application through the VPS online application system or by completing a Retail Application Form, each applicant in the Retail Offering will grant ABGSC (on behalf of the Managers) an irrevocable authorisation to debit the applicant's Norwegian bank account for the total amount due for the Offer Shares allocated to the applicant. The applicant's bank account number must be stipulated on the VPS online application or on the Retail Application Form. Accounts will be debited on or about 23 March 2018 (the "**Payment Date**"), and there must be sufficient funds in the stated bank account from and including 22 March 2018. Applicants who do not have a Norwegian bank account must ensure that payment for the allocated Offer Shares is made on or before the Payment Date. Further details and instructions will be set out in the allocation notes to the applicant to be issued on or about 22 March 2018, or can be obtained by contacting the Managers. ABGSC (on behalf of the Managers) reserves the right (but has no obligation) to make up to three debit attempts through 30 March 2018 if there are insufficient funds on the account on the Payment Date. Should any applicant have insufficient funds on its account, or should payment be delayed for any reason, or if it is not possible to debit the account, overdue interest will accrue and other terms will apply as set out under the heading "Overdue and missing payment" below. Subject to timely payment by the applicant, delivery of the Offer Shares allocated in the Retail Offering is expected to take place on or about 26 March 2018 (or such later date upon the successful debit of the relevant account).

Guidelines for the applicant: Please refer to the second page of this Retail Application Form for further application guidelines.

Applicant's VPS account (12 digits):	**Applicant's LEI code (20 digits):**	**I/we apply for Offer Shares for a total of NOK (minimum NOK 10,500 and maximum NOK 1,999,999):**	**Applicant's bank account to be debited (11 digits):**

OFFER PRICE: My/our application is conditional upon the final Offer Price not being set above the Indicative Price Range (insert cross) **(must only be completed if the application is conditional upon the final Offer Price not being set above the Indicative Price Range):**	

I/we hereby irrevocably (i) apply for the number of Offer Shares allocated to me/us, at the Offer Price, up to the aggregate application amount as specified above subject to the terms and conditions set out in this Retail Application Form and in the Prospectus, (ii) authorise and instruct each of the Managers (or someone appointed by any of them) acting jointly or severally to take all actions required to purchase and/or subscribe the Offer Shares allocated to me/us on my/our behalf, to take all other actions deemed required by them to give effect to the transactions contemplated by this Retail Application Form, and to ensure delivery of such Offer Shares to me/us in the VPS, (iii) authorise ABGSC to debit my/our bank account as set out in this Retail Application Form for the amount payable for the Offer Shares allocated to me/us, and (iv) confirm and warrant to have read the Prospectus and that I/we are aware of the risks associated with an investment in the Offer Shares and that I/we are eligible to apply for and purchase Offer Shares under the terms set forth therein.

Date and place*:	**Binding signature****:

* Must be dated during the Application Period.
** The applicant must be of legal age. If the Retail Application Form is signed by proxy, documentary evidence of authority to sign must be attached in the form of a power of attorney or company registration certificate.

DETAILS OF THE APPLICANT — ALL FIELDS MUST BE COMPLETED	
First name	Surname/Family name/Company name
Home address (for companies: registered business address)	Zip code and town
Identity number (11 digits) / business registration number (9 digits)	Nationality
Telephone number (daytime)	E-mail address

Please note: If the application form is sent to the Managers by e-mail, the e-mail will be unsecured unless the applicant takes measures to secure it. The Managers recommend the applicant to secure all e-mails with application forms attached.

GUIDELINES FOR THE APPLICANT

THIS RETAIL APPLICATION FORM IS NOT FOR DISTRIBUTION OR RELEASE, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES, SWITZERLAND, CANADA, HONG KONG, SINGAPORE OR ANY OTHER JURISDICTION IN WHICH THE DISTRIBUTION OR RELEASE WOULD BE UNLAWFUL. OTHER RESTRICTIONS ARE APPLICABLE. PLEASE SEE "SELLING RESTRICTIONS" BELOW.

Regulatory issues: Legislation passed throughout the European Economic Area (the "**EEA**") pursuant to the Markets and Financial Instruments Directive ("**MiFID**") implemented in the Norwegian Securities Trading Act, imposes requirements in relation to business investment. In this respect, the Managers must categorise all new clients in one of three categories: Eligible counterparties, Professional clients and Non-professional clients. All applicants applying for Offer Shares in the Offering who/which are not existing clients of one of the Managers will be categorised as Non-professional clients. The applicant can by written request to the Managers request to be categorised as a Professional client if the applicant fulfils the provisions of the Norwegian Securities Trading Act and ancillary regulations. For further information about the categorisation, the applicant may contact one of the Managers. The applicant represents that it has sufficient knowledge, sophistication and experience in financial and business matters to be capable of evaluating the merits and risks of an investment decision to invest in the Company by applying for Offer Shares, and the applicant is able to bear the economic risk, and to withstand a complete loss of an investment in the Company.

Execution only: As the Managers are not in the position to determine whether the application for Offer Shares is suitable for the applicant, the Managers will treat the application as an execution only instruction from the applicant to apply for Offer Shares in the Offering. Hence, the applicant will not benefit from the corresponding protection of the relevant conduct of business rules in accordance with the Norwegian Securities Trading Act.

Information Exchange: The applicant acknowledges that, under the Norwegian Securities Trading Act and the Norwegian Financial Undertakings Act and foreign legislation applicable to the Managers, there is a duty of secrecy between the different units of the Managers as well as between the Managers and the other entities in the Managers' respective groups. This may entail that other employees of the Managers or the Managers' respective groups may have information that may be relevant to the subscriber, but which the Managers will not have access to in their capacity as Managers for the Retail Offering.

Information barriers: The Managers are securities firms offering a broad range of investment services. In order to ensure that assignments undertaken in the Managers' corporate finance departments are kept confidential, the Managers' other activities, including analysis and stock broking, are separated from their corporate finance departments by information barriers known as "Chinese walls". The applicant acknowledges that the Managers' analysis and stock broking activity may act in conflict with the applicant's interests with regard to transactions in the Offer Shares as a consequence of such Chinese walls.

VPS account and anti-money laundering procedures: The Retail Offering is subject to applicable anti-money laundering legislation, including the Norwegian Money Laundering Act of 6 March 2009 no. 11 and the Norwegian Money Laundering Regulation of 13 March 2009 no. 302 (collectively, the "**Anti-Money Laundering Legislation**"). Applicants who are not registered as existing customers of one of the Managers must verify their identity to one of the Managers in accordance with requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Applicants who have designated an existing Norwegian bank account and an existing VPS account on the Retail Application Form are exempted, unless verification of identity is requested by a Manager. Applicants who have not completed the required verification of identity prior to the expiry of the Application Period will not be allocated Offer Shares. Participation in the Retail Offering is conditional upon the applicant holding a VPS account. The VPS account number must be stated in the Retail Application Form. VPS accounts can be established with authorised VPS registrars, which can be Norwegian banks, authorised investment firms in Norway and Norwegian branches of credit institutions established within the EEA. Establishment of a VPS account requires verification of identity to the VPS registrar in accordance with the Anti-Money Laundering Legislation. However, non-Norwegian investors may use nominee VPS accounts registered in the name of a nominee. The nominee must be authorised by the Norwegian Ministry of Finance.

Selling restrictions: The Offering is subject to specific legal or regulatory restrictions in certain jurisdictions, see Section 20 "Selling and Transfer Restrictions" in the Prospectus. Neither the Company nor the Selling Shareholder assume any responsibility in the event there is a violation by any person of such restrictions. The Offer Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be taken up, offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. There will be no public offer in the United States. The Offer Shares will, and may, not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from any jurisdiction where the offer or sale of the Offer Shares is not permitted, or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any jurisdiction where the offer or sale is not permitted, except pursuant to an applicable exemption. In the Retail Offering, the Offer Shares are being offered and sold to certain persons outside the United States in offshore transactions within the meaning of and in compliance with Rule 903 of Regulation S under the U.S. Securities Act.

The Company has not authorised any offer to the public of its securities in any Member State of the EEA other than Norway. With respect to each Member State of the EEA other than Norway which has implemented the EU Prospectus Directive (each, a "**Member State**"), no action has been undertaken or will be undertaken to make an offer to the public of the Offer Shares requiring a publication of a prospectus in any Member State. Any offers outside Norway will only be made in circumstances where there is no obligation to publish a prospectus.

Stabilisation: In connection with the Offering, Morgan Stanley (as the "**Stabilisation Manager**"), or its agents, on behalf of the Managers, may, upon exercise of the Over-allotment Option, from the first day of the Listing engage in transactions that stabilise, maintain or otherwise affect the price of the Shares for up to 30 days from the first day of the Listing. Specifically, the Stabilisation Manager may effect transactions with a view to supporting the market price of the Shares at a level higher than what might otherwise prevail, through buying Shares in the open market at prices equal to or lower than the Offer Price. There is no obligation on the Stabilisation Manager and its agents to conduct stabilisation activities and there is no assurance that stabilisation activities will be undertaken. Such stabilisation activities, if commenced, may be discontinued at any time, and will be brought to an end at the latest 30 calendar days after the first day of the Listing.

Investment decisions based on full Prospectus: Investors must neither accept any offer for, nor acquire any Offer Shares, on any other basis than on the complete Prospectus.

Terms and conditions for payment by direct debiting - securities trading: Payment by direct debiting is a service provided by cooperating banks in Norway. In the relationship between the payer and the payer's bank the following standard terms and conditions apply.

1. The service "Payment by direct debiting — securities trading" is supplemented by the account agreement between the payer and the payer's bank, in particular Section C of the account agreement, General terms and conditions for deposit and payment instructions.
2. Costs related to the use of "Payment by direct debiting — securities trading" appear from the bank's prevailing price list, account information and/or information is given by other appropriate manner. The bank will charge the indicated account for incurred costs.
3. The authorisation for direct debiting is signed by the payer and delivered to the beneficiary. The beneficiary will deliver the instructions to its bank who in turn will charge the payer's bank account.
4. In case of withdrawal of the authorisation for direct debiting the payer shall address this issue with the beneficiary. Pursuant to the Financial Contracts Act, the payer's bank shall assist if payer withdraws a payment instruction which has not been completed. Such withdrawal may be regarded as a breach of the agreement between the payer and the beneficiary.
5. The payer cannot authorise for payment a higher amount than the funds available at the payer's account at the time of payment. The payer's bank will normally perform a verification of available funds prior to the account being charged. If the account has been charged with an amount higher than the funds available, the difference shall be covered by the payer immediately.
6. The payer's account will be charged on the indicated date of payment. If the date of payment has not been indicated in the authorisation for direct debiting, the account will be charged as soon as possible after the beneficiary has delivered the instructions to its bank. The charge will not, however, take place after the authorisation has expired as indicated above. Payment will normally be credited the beneficiary's account between one and three working days after the indicated date of payment/delivery.
7. If the payer's account is wrongfully charged after direct debiting, the payer's right to repayment of the charged amount will be governed by the account agreement and the Financial Contracts Act.

Overdue and missing payments: Overdue payments will be charged with interest at the applicable rate under the Norwegian Act on Interest on Overdue Payments of 17 December 1976 no. 100, which at the date of the Prospectus is 8.5% per annum. Should payment not be made when due, the Offer Shares allocated will not be delivered to the applicant, and the Managers reserve the right, at the risk and cost of the applicant, to cancel at any time thereafter the application and to re-allot or, from the third day after the Payment Date, otherwise dispose of or assume ownership to the allocated Offer Shares, on such terms and in such manner as the Managers may decide (and the applicant will not be entitled to any profit therefrom). The original applicant will remain liable for payment of the Offer Price for the Offer Shares allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Company, the Selling Shareholder and/or the Managers may enforce payment of any such amount outstanding.

In order to provide for prompt registration of the New Shares with the Norwegian Register of Business Enterprises, the Managers are expected to, on behalf of the applicants, pre-fund payment for New Shares allocated in the Offering at a total subscription price equal to the Offer Price multiplied by the aggregate number of allocated New Shares.

Elkem ASA
Drammensveien 169
N-0277 Oslo
Norway

Managers

Joint Global Coordinators and Joint Bookrunners

ABG Sundal Collier ASA
Munkedamsveien 45A,
N-0250 Oslo
Norway

Morgan Stanley & Co. International plc
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Joint Bookrunners

Carnegie AS
Fjordalléen16, Aker Brygge
N-0250 Oslo
Norway

Citigroup Global Markets Ltd.
Citigroup Centre
33 Canada Square, Canary Wharf
London E14 5LB
United Kingdom

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Essendropsgate 7
0368 Oslo
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Advokatfirmaet Thommessen AS
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Legal Adviser to the Managers
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One Silk Street
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9 Appold Street
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United Kingdom