

Elkem Group, Interim Report

Second quarter and half year 2018



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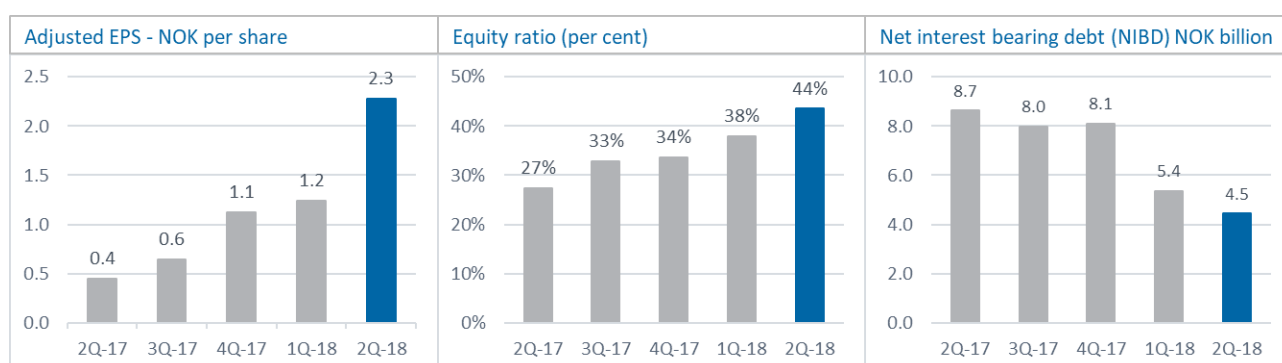
Highlights 2nd quarter 2018

- Strong earnings, particularly driven by the Silicones division.
- Total operating income of NOK 7,120 million, up 38% from second quarter last year. All divisions report revenue growth compared to 2Q-2017.
- EBITDA reaching NOK 1,970 million, up 143% from second quarter last year. This gives an EBITDA margin of 28% for the quarter.
- Sales volumes for specialties show continued growth.
- Earnings per share amount to NOK 2.28 in the quarter.

Key figures

<i>(NOK million, except where specified)</i>	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
Total operating income	7,120	5,158	13,571	9,732	21,402
EBITDA	1,970	810	3,423	1,253	3,188
EBITDA margin (%)	28%	16%	25%	13%	15%
EBIT	1,655	484	2,804	613	1,927
Profit (loss) for the period	1,334	270	2,062	201	1,249
Cash flow from operations	1,127	338	1,925	647	2,161
ROCE - annualised (%)	40%	12%	34%	8%	12%

(1) Excluding non-current restricted deposits and interest-bearing financial assets



Strong second quarter for Elkem

Elkem has delivered another excellent quarter with strong growth in revenue and profit. The strong result is particularly driven by the Silicones division, where attractive market conditions continue to boost financial performance. However, all four divisions report revenue growth and improved results compared to second quarter 2017.

The total operating income for the second quarter 2018 was NOK 7,120 million, which is 38% higher than second quarter 2017. EBITDA for the second quarter 2018 amounted to NOK 1,970 million, up from NOK 810 million in the corresponding quarter last year. Earnings per share (EPS) was NOK 2.28, bringing EPS up to NOK 3.53 year-to-date 2018.

All divisions report revenue growth and improved earnings compared to the corresponding quarter last year. The result is however, particularly driven by the Silicones division, where the tight market situation for intermediate products leads to higher sales prices across all market segments.

Elkem's financial position is strong. The group's equity at 30 June 2018 amounted to NOK 12,178 million, giving a ratio of equity to total assets of 44%. Net interest-bearing debt at quarter-end was NOK 4,458 million, a reduction from NOK 5,369 million at the end of the first quarter.

The integration of Xinghuo Silicones and Yongdeng Silicon Materials, which were acquired in connection with the IPO, is making good progress. The focus is on organisational implementation and operational excellence. Xinghuo Silicones has gradually increased its production capacity in 2018 through operational improvements and debottlenecking. Yongdeng Silicon Materials will be significantly upgraded during the second half of 2018, through furnace relining, technical upgrades and environmental and safety investments.

Elkem continues to deliver in accordance with its specialisation strategy. The Silicones division increases its sales of specialities, particularly within personal care and sealants, Foundry Products continues to increase its sales of specialty products to the foundry market, while Silicon Materials and Carbon both increase their sales of special grades.

The market sentiment continues to be good, but is expected to soften somewhat. Silicone prices seem to be levelling off and are expected to soften somewhat going forward. The effect of duties on US imports of silicone products from China is still uncertain, but could represent a downside risk. Prices for silicon metal and ferrosilicon have softened during the second quarter, which is likely to continue during third quarter affected by higher seasonal production in China and weaker market conditions for polysilicon. The markets for foundry alloys and carbon products are expected to be stable. Xinghuo Silicones completed the announced maintenance stop in August 2018. This is expected to impact EBITDA by approximately NOK 200 million. Based on these factors, the result for the third quarter is expected to be somewhat weaker than the second quarter.



Financial review

Group results

KEY FIGURES	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	7,120	5,158	13,571	9,732	21,402
EBITDA	1,970	810	3,423	1,253	3,188
EBIT	1,655	484	2,804	613	1,927
Other items	-153	-32	-355	-70	44
Net financial items	-78	-109	-197	-213	-452
Profit (loss) before income tax	1,423	342	2,252	331	1,519
Tax	-90	-72	-190	-130	-269
Profit (loss) for the period	1,334	270	2,062	201	1,249

Quarter

The Elkem group reports total operating income of NOK 7,120 million in 2Q-2018, up significantly from NOK 5,158 million in 2Q-2017. The growth in operating revenue is primarily driven by the Silicones division but all divisions report revenue growth compared to 2Q-2017. Higher sales prices are the main driver for all divisions, while Silicones also report a strong growth in sales volumes.

EBITDA for 2Q-2018 was NOK 1,970 million, up from NOK 810 million in 2Q-2017. The EBITDA margin was 28% in 2Q-2018 compared to 16% in the corresponding quarter last year. The improvements in earnings and margins are primarily a result of higher sales prices. In addition, the result for the Silicones division is positively impacted by higher sales volumes. All division have increased raw material costs compared to 2Q-2017.

EBIT for 2Q-2018 was NOK 1,655 million, up from NOK 484 million in 2Q-2017. There have not been any significant one-off items during the quarter.

Other items include fair value changes, gains/losses on currency forward contracts, certain provisions and IPO expenses. Other items amounted to NOK -153 in 2Q-2018, of which the change in fair value of power contracts is the main contributor with NOK -130 million. The mark-to-market value of the respective power contracts, have declined due to contract prices being affected by higher average spot prices.

Net financial items were NOK -78 million in 2Q-2018, compared to NOK -109 million in 2Q-2017. Financial items mainly consist of interest expenses and reflect the financing structure for Xinghuo Silicones and Yongdeng Silicon Materials. The planned refinancing of these entities has been delayed, but will likely be concluded during 3Q/4Q 2018. Currency effects are modest in 2Q-2018 with NOK 10 million.

Profit before income tax was NOK 1,423 million compared to NOK 342 million in 2Q-2017.

Tax expenses in 2Q-2018 were NOK 90 million, representing a tax rate for the group of approximately 6%. The main reason for the low tax rate is that a high share of the group's profit is generated by the silicones business in France and China. These entities are not in a tax position in 2Q-2018. In Norway, IPO expenses and fair value changes of the power contracts are reducing the tax cost.

Profit for the period was NOK 1,334 million, compared to NOK 270 million in 2Q-2017. Owners of the parent's share of profit is NOK 1,327 million, which gives earnings per share of NOK 2,28 in the second quarter 2018.

Year to date

The group's total operating income was NOK 13,571 million YTD 2018, up from NOK 9,732 million YTD 2017. EBITDA YTD 2018 amounts to NOK 3,423 million, a strong improvement from NOK 1,253 million YTD 2017, mainly driven by higher sales prices across all divisions, particularly for Silicones due to strong market conditions.

Cash flow

CASH FLOW FROM OPERATIONS	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
<i>NOK million</i>					
Operating profit (loss) before other items	1,655	484	2,804	613	1,927
Amortisation, depreciation and impairment	315	326	619	640	1,261
Changes in working capital	-550	-278	-1,046	-267	-128
Reinvestments	-292	-207	-472	-350	-890
Equity accounted investments	-0	13	19	10	-9
Cash flow from operations	1,127	338	1,925	647	2,161
Other cash flow items	-1,433	-24	672	-283	-1,746
Change in cash and cash equivalents	-305	313	2,597	364	414

Elkem's internal cash flow measure is defined and described as part of the APM section in the back of this report.

Quarter

Cash flow from operations was NOK 1,127 million in 2Q-2018, compared to NOK 338 million in 2Q-2017. Improved cash flow is mainly driven by improved operating profit. Working capital has increased during the quarter and is negatively affecting the cash flow. The increase in working capital must however, be seen in connection with strong revenue growth and higher prices for raw materials and finished goods.

Reinvestments in 2Q-2018 amounted to NOK 292 million, compared to NOK 207 million in 2Q-2017. Reinvestments are in line with plan and the full year guiding of approximately NOK 1,000 million.

Strategic investments are included in other cash flow items and amounted to NOK 120 million in 2Q-2018. This is broadly in line with 2Q-2017 when strategic investments were NOK 102 million. The main strategic investments in second quarter 2018 are related to various downstream projects within silicones and the upgrade of the Rana plant.

Cash and cash equivalents have decreased by NOK 305 million in 2Q-2018 to NOK 4,306 million, mainly as a result of debt repayments.

Year to date

Cash flow from operations amounts to NOK 1,925 million YTD 2018, compared to NOK 647 million YTD 2017, mainly explained by the significant growth in operating profit.

Financial position

FINANCIAL POSITION	2Q 2018	2Q 2017	FY 2017
Total equity (NOK million)	12,178	6,636	8,565
Equity ratio (%)	44%	27%	34%
EPS - adjusted (NOK per share)	2.28	0.45	2.08
Net interest bearing debt (NOK million) ⁽¹⁾	4,458	8,651	8,111
Leverage ratio based on LTM EBITDA (ratio)	0.8	NA	2.5

(1) Excluding non-current restricted deposits and interest-bearing financial assets

Quarter and year to date

As at 30 June 2018, Elkem's equity was NOK 12,178 million, up from NOK 8,565 million at 31 December 2017. The equity increased during the first half due to net profit and net proceeds from the IPO. The acquisition of Xinghuo Silicones and Yongdeng Silicon Materials is booked against equity. The equity ratio as of 30 June 2018 was 44%, up from 34% by year-end 2017.

Elkem's net debt as at 30 June 2018 was NOK 4,458 million, a reduction from NOK 8,111 million by year-end 2017. The debt reduction is mainly explained by IPO proceeds and positive cash flow generation. Elkem's leverage ratio was 0.8x at 30 June 2018.

The planned refinancing of Xinghuo Silicones and Yongdeng Silicon Materials is progressing, but has been delayed due to approval processes in China. The refinancing will be covered by utilisation of a bridge loan facility of EUR 500 million, established in March 2018 in connection with the IPO and the subsequent acquisition of the two plants. Elkem is also planning to refinance of the bridge loan facility during 2H-2018.

Segments

Silicones

KEY FIGURES	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	3,898	2,292	7,107	4,154	10,026
EBITDA	1,357	335	2,139	470	1,515
EBITDA margin	35%	15%	30%	11%	15%
Sales volume (thousand mt)	90	68	172	127	300

Quarter

Total operating income for the Silicones division was NOK 3,898 million in 2Q-2018, a significant improvement compared from NOK 2,292 million in 2Q-2017. Increased operating income is explained by higher sales prices, higher sales volumes and higher sales of speciality products. Sales prices have increased across all business segments, mainly driven by higher prices for commodity products (silicone intermediary products) where the market balance remains tight. Sales volumes have increased, mainly in China due to increased production through operational improvements and debottlenecking of the Xinghuo plant. Sales of speciality products have increased in line with Elkem's strategy and the improvement is especially strong within personal care and sealing products.

The EBITDA for 2Q-2018 was NOK 1,357 million, giving an EBITDA-margin of 35%. This is significantly up from an EBITDA of NOK 335 million and a margin of 15% in 2Q-2017. The improvements are mainly explained by higher sales prices, higher sales volumes and enhanced sales mix. Raw material costs have increased compared to 2Q-2017, mainly driven by higher prices for silicon metal and methyl-chloride. Higher raw material prices have however, been more than offset by higher sales prices.

The production has generally been good in 2Q-2018. The Xinghuo plant has had a maintenance stop of approximately four weeks in July and August, which reduces sales and production volumes in 3Q-2018.

Year to date

The Silicones division has total operating income of NOK 7,107 million YTD 2018, compared to NOK 4,154 million YTD 2017, mainly explained by higher sales prices and higher sales volumes. The EBITDA is NOK 2,139 million YTD 2018 up from NOK 470 million YTD 2017.

Silicon Materials

KEY FIGURES	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,754	1,603	3,441	3,096	6,412
EBITDA	309	229	649	333	804
EBITDA margin	18%	14%	19%	11%	13%
Sales volume (thousand mt) ¹⁾	65	67	128	141	278

1) Excluding Microsilica and quartz

Quarter

Total operating income for Silicon Materials was NOK 1,754 million in 2Q-2018, up from NOK 1,603 million in 2Q-2017, mainly explained by higher sales prices for silicon metal. Sales volumes are stable compared to 2Q-2017, but the sales mix has improved with higher sales of specialty grades.

Silicon Materials generated an EBITDA of NOK 309 million in 2Q-2018 compared to NOK 229 million in the corresponding quarter last year. The EBITDA-margin in 2Q-2018 was 18% compared to 14% in 2Q-2017. Higher EBITDA and EBITDA-margin are mainly results of higher sales prices, which to some extent have been offset by increased raw material costs.

The production has been satisfactory in the quarter, but the furnace relining at Salten has still affected sales and production volumes. The relining was completed in April and the Salten plant is now operating at normal capacity.

Year to date

The Silicon Materials division reports total operating income of NOK 3,441 million YTD 2018, an increase of 11% from NOK 3,096 million YTD 2017. The division reports an EBITDA of NOK 649 million, which is a significant improvement from NOK 333 million YTD 2017, mainly due to higher sales prices.

Foundry Products

KEY FIGURES	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,305	1,056	2,629	2,074	4,241
EBITDA	263	192	569	329	701
EBITDA margin	20%	18%	22%	16%	17%
Sales volume (thousand mt) ¹⁾	68	66	140	135	260

1) Excluding Microsilica sales

Quarter

Total operating income for Foundry Products was NOK 1,305 million in 2Q-2018, which is up 24% from NOK 1,056 million in 2Q-2017. Increased operating income is mainly due to higher sales prices compared to the corresponding quarter last year.

EBITDA for the division was NOK 263 million, giving an EBITDA-margin of slightly above 20% in 2Q-2018. In 2Q-2017 the EBITDA was NOK 192 million, with an EBITDA-margin of 18%. Increased EBITDA and EBITDA margins are mainly due to higher sales prices. The result is also positively impacted by improved sales mix and modest volume growth. Raw material costs, e.g. coal and energy, have however increased compared to 2Q-2017.

The production has been fairly good at most plants during the quarter.

Year to date

The Foundry Products division reports total operating income of NOK 2,629 million YTD 2018, up from NOK 2,074 million YTD 2017. EBITDA amounts to NOK 569 million, up from NOK 329 million YTD 2017, mainly explained by higher sales prices.

Carbon

KEY FIGURES	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	445	382	887	765	1,577
EBITDA	80	72	155	152	274
EBITDA margin	18%	19%	17%	20%	17%
Sales volume (thousand mt)	72	68	142	139	284

Quarter

Total operating income for Carbon was NOK 445 million in 2Q-2018, up 16% from NOK 382 million in 2Q-2017. Higher operating income is a result of higher sales prices and slightly higher sales volumes.

EBITDA for the 2Q-2018 was NOK 80 million, which is up from NOK 72 million in the corresponding quarter last year. Sales prices have been increased, but is not yet fully compensating for higher raw material costs. The EBITDA-margin is therefore lower than in the corresponding quarter last year.

Production has been according to plan at all plants.

Year to date

The Carbon division report total operating income of NOK 887 million YTD 2018, an increase of 16% compared to NOK 765 million YTD 2017. EBITDA is NOK 155 million YTD 2018, compared to NOK 152 million YTD 2017. Sales prices have increased but are not fully compensating for higher raw material costs.

Outlook

The market sentiment is still good for all divisions, but will likely soften somewhat compared to the second quarter. Silicone prices seem to level off towards the end of 2Q-2018, and are expected to soften somewhat going forward. Market prices for silicon metal and ferrosilicon will likely continue to soften during 3Q-2018, partly due to seasonally higher production in China. The markets for foundry alloys and carbon products are expected to be stable.

The announced maintenance stop at Xinghuo Silicones has been completed in August. The maintenance stop is estimated to have a negative EBITDA effect of approximately NOK 200 million in 3Q.

A major upgrade for Yongdeng Silicon Materials will take place in 2H-2018 and slightly reduce profitability.

Based on this the result for the third quarter 2018 is expected to be somewhat lower than for the second quarter.

Declaration by the Board of Directors

We confirm, to the best of our knowledge, that the unaudited, condensed half-year financial statements for the period 1 January to 30 June 2018 have been prepared in conformity with IAS 34 Interim Reporting and that the information in the financial statements provides a fair view of the enterprise and the group's assets, liabilities, financial position and overall results, and that the half-year report provides a fair overview of the information specified in section 5-6, fourth paragraph, of the Norwegian Securities Trading Act.

Elkem ASA

Oslo, 16 August 2018

Michael Koenig
Chairman

Guihua Pei
Board member

Olivier de Clermont-Tonnerre
Board member

Dag Opedal
Board member

Anja Isabel Dotzenrath
Board member

Caroline Gregoire Sainte Marie
Board member

Marianne Færøyvik
Board member

Terje Andre Hanssen
Board member

Helge Aasen
CEO

Condensed consolidated interim statement of income

Amounts in NOK million	Note	Second quarter		Year to date		Year
		2018	2017	2018	2017	2017
Revenues	2	7,061	5,101	13,459	9,637	21,133
Other operating income	2	56	47	105	84	236
Share of profit from equity accounted companies	2	4	10	7	11	34
Total operating income		7,120	5,158	13,571	9,732	21,402
Raw materials and energy for smelting		(3,179)	(2,557)	(6,180)	(4,941)	(10,825)
Employee benefit expenses		(846)	(779)	(1,693)	(1,538)	(3,145)
Other operating expenses		(1,126)	(1,011)	(2,275)	(2,001)	(4,245)
Amortisations and depreciations	4	(310)	(318)	(612)	(626)	(1,244)
Impairment losses	4	(5)	(9)	(7)	(14)	(17)
Operating profit (loss) before other items		1,655	484	2,804	613	1,927
Other items	7	(153)	(32)	(355)	(70)	44
Operating profit (loss)		1,501	451	2,449	543	1,971
Finance income	8	13	7	22	15	30
Foreign exchange gains (losses)	8	10	(7)	(1)	(5)	(8)
Finance expenses	8	(101)	(109)	(218)	(222)	(474)
Profit (loss) before income tax		1,423	342	2,252	331	1,519
Income tax (expenses) benefits	13	(90)	(72)	(190)	(130)	(269)
Profit (loss) for the period		1,334	270	2,062	201	1,249
Attributable to:						
Non-controlling interest's share of profit (loss)		7	10	13	18	39
Owners of the parent's share of profit (loss)		1,327	260	2,049	183	1,211
Interim earnings per share		2018	2017	2018	2017	2017
Basic and diluted earnings per share in NOK ¹⁾		2.28	0.45	3.53	0.31	2.08

¹⁾Earnings per share has been presented as if the number of shares at the IPO date 22 March 2018 581,310,344 was outstanding for all periods presented. There were no diluting effects.

Condensed consolidated interim statement of comprehensive income

Amounts in NOK million	Second quarter		Year to date		Year
	2018	2017	2018	2017	2017
Profit (loss) for the period	1,334	270	2,062	201	1,249
Other comprehensive income:					
Items that will not be reclassified to profit or loss					
Remeasurements of post employment benefit obligation	-	-	(0)	-	1
Tax effects on remeasurements of post employment benefit obligation	-	-	0	-	2
Share of profit (loss) from associates and joint ventures	-	-	(0)	-	-
	-	-	(0)	-	3
Items that may be reclassified to profit or loss					
Currency translation differences	(80)	106	(268)	151	279
Hedging of net investment in foreign operations	39	(111)	91	(135)	(209)
Tax effects hedging of net investment in foreign operations	(9)	27	(21)	32	48
Cash flow hedges	482	37	749	(133)	(6)
Tax effects on cash flow hedges	(110)	(9)	(172)	32	(4)
Share of profit (loss) from associates and joint ventures	0	0	(0)	0	(0)
Change in value of available-for-sale financial assets	-	-	-	-	0
	322	50	379	(53)	107
Other comprehensive income, net of tax	322	50	379	(53)	111
Total comprehensive income	1,656	320	2,441	148	1,360
Attributable to:					
Non-controlling interest's share of comprehensive income	8	8	11	8	40
Owners of the parent's share of comprehensive income	1,648	312	2,429	140	1,320
Total comprehensive income	1,656	320	2,441	148	1,360

Condensed consolidated interim statement of financial position

Amounts in NOK million	Note	30 Jun 2018	30 Jun 2017	31 Dec 2017
ASSETS				
Property, plant and equipment	4	11,812	11,360	11,950
Goodwill	4	332	344	326
Other intangible assets	4	897	898	911
Deferred tax assets		93	84	90
Investments equity accounted companies		158	174	159
Derivatives	10	34	48	152
Other non-current assets		412	499	407
Total non-current assets		13,738	13,407	13,995
Inventories	6	4,733	4,202	4,099
Accounts receivable		3,149	2,330	2,518
Derivatives	10	269	26	33
Other current assets		902	1,447	2,091
Restricted deposits	9	872	1,181	1,020
Cash and cash equivalents	9	4,306	1,697	1,751
Total current assets		14,231	10,883	11,513
TOTAL ASSETS		27,969	24,290	25,507
EQUITY AND LIABILITIES				
Paid-in capital	11	8,096	3,088	2,918
Retained earnings		3,980	3,454	5,545
Non-controlling interest		103	95	102
Total equity		12,178	6,636	8,565
Interest-bearing non-current liabilities	9	4,525	5,865	4,585
Deferred tax liabilities		244	111	105
Pension liabilities		426	435	445
Derivatives	10	233	520	379
Provisions and other non-current liabilities		405	490	426
Total non-current liabilities		5,833	7,420	5,940
Accounts payable		2,875	2,902	2,650
Income tax payables		298	122	139
Interest-bearing current liabilities	9	2,747	3,044	3,647
Bills payable	9	2,364	2,620	2,650
Derivatives	10	36	233	247
Provisions and other current liabilities		1,636	1,312	1,670
Total current liabilities		9,957	10,233	11,003
TOTAL EQUITY AND LIABILITIES		27,969	24,290	25,507

Condensed consolidated interim statement of cash flows

Amounts in NOK million	Note	Second quarter		Year to date		Year
		2018	2017	2018	2017	2017
Operating profit (loss)		1,501	451	2,449	543	1,971
Amortisation, depreciation and impairment		315	326	619	640	1,261
Changes in working capital		(550)	(278)	(1,046)	(267)	(128)
Equity accounted companies		(0)	13	19	10	(9)
Changes in fair value commodity contracts		128	(87)	251	(47)	(79)
Changes in provisions, pension obligations and other		(60)	31	(29)	11	(138)
Interest payments received		13	8	21	14	24
Interest payments made		(67)	(108)	(241)	(211)	(446)
Income taxes paid		(35)	(49)	(107)	(84)	(198)
Cash flow from operating activities		1,245	307	1,937	609	2,256
Investments in property, plant and equipment and intangible assets		(404)	(290)	(805)	(493)	(1,126)
Acquisition of subsidiaries, net of cash acquired	3	0	4	(4,049)	4	4
Payment received on loan to related parties		-	-	1,303	-	-
Other investments / sales		(30)	(8)	(35)	(19)	(6)
Cash flow from investing activities		(433)	(294)	(3,587)	(508)	(1,128)
Dividends paid to non-controlling interest		(10)	(9)	(10)	(12)	(26)
Dividends paid to owner of the parent		-	-	-	-	(144)
Capital increase		0	-	5,171	-	-
Net changes in bills payable		165	79	(84)	124	285
Net changes in other short term debt		-	140	-	323	-
New interest-bearing loans and borrowings		166	44	3,996	48	60
Net changes of short term loans from related parties		-	77	(241)	(50)	(30)
Repayment of interest-bearing loans and borrowings		(1,439)	(32)	(4,584)	(169)	(859)
Cash flow from financing activities		(1,117)	300	4,247	263	(714)
Change in Cash and cash equivalents		(305)	313	2,597	364	414
Currency exchange differences		(8)	1	(42)	13	17
Cash and cash equivalents Opening Balance		4,621	1,382	1,751	1,320	1,320
Cash and cash equivalents Closing Balance		4,306	1,697	4,306	1,697	1,751

Condensed consolidated interim statement of changes in equity

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2018	2,918	5,545	8,463	102	8,565
Profit (loss) for the period	-	2,049	2,049	13	2,062
Other comprehensive income	-	380	380	(2)	379
Total comprehensive income	-	2,429	2,429	11	2,441
Capital increase ¹⁾	5,177	-	5,177	-	5,177
Changes in the composition of the group ²⁾	-	(3,995)	(3,995)	-	(3,995)
Dividends to equity holders	-	-	-	(10)	(10)
Balance 30 June 2018	8,096	3,980	12,075	103	12,178

¹⁾ See note 11 Number of shares

²⁾ See note 3 Business combinations

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2017	3,088	2,655	5,743	88	5,830
Profit (loss) for the period	-	183	183	18	201
Other comprehensive income	-	(54)	(54)	1	(53)
Total comprehensive income	-	129	129	19	148
Conversion of liabilities ¹⁾	-	670	670	-	670
Dividends to equity holders	-	-	-	(12)	(12)
Balance 30 June 2017	3,088	3,454	6,542	95	6,636

¹⁾ In May 2017 a shareholder loan of CNY 543 million in Yongdeng was converted to equity

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interest	Total
Balance 1 January 2017	3,088	2,655	5,743	88	5,830
Profit (loss) for the year	-	1,211	1,211	39	1,249
Other comprehensive income	-	109	109	1	111
Total comprehensive income	-	1,320	1,320	40	1,360
Conversion of liabilities ¹⁾	-	1,571	1,571	-	1,571
Dividends to equity holders ²⁾	(170)	-	(170)	(26)	(196)
Balance 31 December 2017	2,918	5,545	8,463	102	8,565

¹⁾ In May 2017 a shareholder loan of CNY 543 million in Yongdeng and in August 2017 a shareholder loan 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.

Notes to the condensed consolidated interim financial statements

Note 1 General information

Elkem ASA is a limited liability company located in Norway and whose shares are publicly traded at Oslo Stock Exchange. Elkem ASA's condensed consolidated financial statements for the second quarter of 2018 were approved at the meeting of the board of directors on 16 August 2018.

The condensed consolidated interim financial statements comprise Elkem ASA and its subsidiaries (hereafter Elkem/the group) and Elkem's investments in associates and interests in joint arrangements. The interim financial statements are prepared in compliance with International Accounting Standard (IAS) 34 Interim Financial Reporting. The condensed interim financial statements do not include all information and disclosure required in the annual financial statements and should be read in conjunction with the combined financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

The accounting policies applied by the group in these interim financial statements are consistent with those of the financial year 2017, except for the adoption of new standards effective as of 1 January 2018. The group applies, for the first time, IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial instruments and a number of other amendments and interpretations. The new standards have no impact on the interim condensed financial statements of the group.

Elkem has made one change to the presentation in the statement of income. Income from associates and joint ventures is renamed to Share of profit from equity accounted companies and is included in operating income. The investments are closely related to the group's main activities.

The interim financial statements are unaudited. The presentation currency of Elkem is NOK (Norwegian krone). All financial information is presented in NOK million, unless otherwise stated. One or more columns included in the interim report may not add up to the total due to rounding.

Note 2 Operating segments

Elkem has four reportable segments; Silicones, Silicon Materials, Foundry products and Carbon. See note 4 operating segments to the combined financial statements for the year ended 31 December 2017, for more information.

- **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 metal treatments and 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.
- **Other** comprise Elkem group management and centralised functions within finance, sales, logistics, power purchase and technology.
- **Eliminations** comprise intersegment sales and profit. Transactions between operating segments are conducted on an arm's length basis in a manner similar to transactions with third parties.

Elkem identifies its segments according to the organisation and reporting structure used by group management. Segments performance are evaluated based on EBITDA and operating profit (loss) before other items (EBIT). EBITDA is defined as Elkem's profit (loss) for the period, less income tax (expenses) benefits, finance expenses, foreign exchange gains (losses), finance income, other items, impairment loss and amortisation and depreciation. Elkem's definition of EBITDA may be different from other companies.

Elkem's financing and taxes are managed on a group basis and are not allocated to operating segments.

Second quarter 2018	Silicon		Foundry	Carbon	Other	Eliminations	Total
	Silicones	materials	Products				
Revenue from sale of goods	3,861	1,295	1,245	388	206	-	6,994
Other revenue	7	2	2	4	52	-	67
Other operating income	23	16	6	0	10	-	56
Share of profit from equity accounted companies	-	(1)	-	-	4	-	4
Total operating income from external customers	3,890	1,313	1,253	392	273	-	7,120
Revenue from other group segments	8	442	52	53	70	(624)	-
Total operating income	3,898	1,754	1,305	445	342	(624)	7,120
Operating expenses	(2,541)	(1,446)	(1,042)	(366)	(380)	624	5,150
EBITDA	1,357	309	263	80	(38)	-	1,970
Operating profit (loss) before other items (EBIT)	1,190	237	208	64	(45)	-	1,655

Second quarter 2017	Silicon		Foundry	Carbon	Other	Eliminations	Total
	Silicones	materials	Products				
Revenue from sale of goods	2,235	1,264	1,001	315	175	-	4,989
Other revenue	35	21	10	11	36	-	112
Other operating income	20	16	6	0	5	-	47
Share of profit from equity accounted companies	-	-	(2)	-	12	-	10
Total operating income from external customers	2,289	1,300	1,014	327	227	-	5,158
Revenue from other group segments	3	303	42	56	92	(495)	-
Total operating income	2,292	1,603	1,056	382	319	(495)	5,158
Operating expenses	(1,957)	(1,374)	(864)	(311)	(334)	492	(4,347)
EBITDA	335	229	192	72	(15)	(3)	810
Operating profit (loss) before other items (EBIT)	161	158	134	55	(22)	(3)	484

Year to date 2018	Silicon		Foundry	Carbon	Other	Eliminations	Total
	Silicones	materials	Products				
Revenue from sale of goods	7,042	2,590	2,498	765	394	-	13,289
Other revenue	14	21	21	20	94	-	170
Other operating income	42	39	12	2	10	-	105
Share of profit from equity accounted companies	-	(1)	-	-	8	-	7
Total operating income from external customers	7,098	2,648	2,531	787	506	-	13,571
Revenue from other group segments	9	792	98	100	153	(1,152)	-
Total operating income	7,107	3,441	2,629	887	659	(1,152)	13,571
Operating expenses	(4,968)	(2,791)	(2,060)	(732)	(746)	1,149	(10,148)
EBITDA	2,139	649	569	155	(87)	(3)	3,423
Operating profit (loss) before other items (EBIT)	1,811	509	464	124	(100)	(3)	2,804

Year to date 2017	Silicon		Foundry	Carbon	Other	Eliminations	Total
	Silicones	materials	Products				
Revenue from sale of goods	4,054	2,412	1,971	637	347	-	9,421
Other revenue	59	45	23	21	68	-	216
Other operating income	37	31	9	1	6	-	84
Share of profit from equity accounted companies	-	-	(4)	-	15	-	11
Total operating income from external customers	4,150	2,488	1,999	659	437	-	9,732
Revenue from other group segments	4	607	74	107	149	(941)	-
Total operating income	4,154	3,096	2,074	765	586	(941)	9,732
Operating expenses	(3,683)	(2,763)	(1,745)	(613)	(618)	943	(8,479)
EBITDA	470	333	329	152	(33)	2	1,253
Operating profit (loss) before other items (EBIT)	126	195	217	120	(46)	2	613

Year 2017	Silicon		Foundry	Carbon	Other	Eliminations	Total
	Silicones	materials	Products				
Revenue from sale of goods	9,807	4,955	3,987	1,310	565	-	20,623
Other revenue	116	52	47	47	249	-	510
Other operating income	93	71	39	5	28	-	236
Share of profit from equity accounted companies	-	(1)	(6)	-	41	-	34
Total operating income from external customers	10,015	5,077	4,066	1,362	882	-	21,402
Revenue from other group segments	11	1,335	175	214	376	(2,112)	-
Total operating income	10,026	6,412	4,241	1,577	1,258	(2,112)	21,402
Operating expenses	(8,510)	(5,608)	(3,540)	(1,303)	(1,337)	2,083	(18,215)
EBITDA	1,515	804	701	274	(78)	(28)	3,188
Operating profit (loss) before other items (EBIT)	840	526	486	209	(107)	(28)	1,927

Note 3 Business combinations

On 22 March 2018 Elkem acquired all the shares in Bluestar Silicone Material Co., Ltd. (hereafter Yongdeng Silicon Materials) and Jiangxi Bluestar Xinghuo Silicone (hereafter Xinghuo Silicones) for a purchase price of CNY 3,274 million, (NOK 3,995 million) from Bluestar Elkem Investment Co. Ltd. Both Elkem, Yongdeng Silicon Materials and Xinghuo Silicones 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'. This method involves the following:

- Assets and liabilities of the combining entities are reflected at their carrying amounts in China National Bluestar (group) Co. Ltd.'s consolidated financial statements
- 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/period, irrespective of when the combination took place. Comparable figures are restated.

An effect of this principle is that the purchase price of NOK 3,995 million is booked directly against equity. See note 33 Events after the reporting period to the combined financial statements for the year ended 31 December 2017.

Elkem acquired the UK company TM Technology Ltd and its production of the foundry alloy, Tenbloc® on 16 March 2018. Tenbloc® is used in the mould inoculation of ductile and grey iron. See note 4 Property, plant and equipment, intangible assets and goodwill for additions due to the purchase. In 2017, TM Technology had an operating income of GBP 3.8 million (approx. NOK 40.2 million), and operating profit of GBP 0.9 million (approx. NOK 9.2 million). The figures do not include purchase of a "Ball Mill" and related business that were completed through purchase of assets. The company was consolidated into Elkem's financial statements as of 16 March 2018.

Note 4 Fixed assets

30 Jun 2018	Land and other property	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Balance 01.01.2018	322	5,998	18,241	454	1,517	26,532
Additions	0	4	17	2	678	701
Transferred from CiP	3	47	491	15	(582)	(26)
Business combinations	-	-	6	-	-	6
Disposals	(0)	(2)	(13)	(1)	(2)	(18)
Exchange differences	(6)	(110)	(356)	(16)	(41)	(529)
Balance 30.06.2018	320	5,937	18,385	454	1,571	26,666
Accumulated depreciation						
Balance 01.01.2018	(101)	(2,060)	(9,467)	(306)		(11,934)
Addition	(3)	(84)	(459)	(15)		(561)
Business combinations	-	-	-	-		-
Disposals	0	2	11	1		15
Exchange differences	1	32	184	9		226
Balance 30.06.2018	(103)	(2,110)	(9,731)	(311)		(12,255)
Impairment losses						
Balance 01.01.2018	(15)	(391)	(2,134)	(0)	(108)	(2,647)
Addition	-	(0)	(1)	-	(5)	(6)
Disposals	-	0	1	-	-	1
Exchange differences	0	8	43	0	2	54
Balance 30.06.2018	(14)	(383)	(2,090)	(0)	(111)	(2,599)
Net book value 30.06.2018	203	3,444	6,563	142	1,460	11,812

30 Jun 2017	Land and other property	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Balance 01.01.2017	233	5,850	17,517	422	691	24,713
Additions	3	16	57	3	392	472
Transferred from CiP	6	7	35	10	(57)	1
Business combinations	-	-	-	-	-	-
Disposals	(0)	(1)	(29)	(0)	(3)	(33)
Exchange differences	5	20	142	7	5	179
Balance 30.06.2017	247	5,892	17,721	442	1,029	25,331
Accumulated depreciation						
Balance 01.01.2017	(91)	(1,879)	(8,449)	(272)		(10,690)
Addition	(3)	(85)	(473)	(16)		(577)
Disposals	-	1	25	0		26
Exchange differences	0	(10)	(94)	(6)		(111)
Balance 30.06.2017	(93)	(1,973)	(8,991)	(294)		(11,352)
Impairment losses						
Balance 01.01.2017	(14)	(386)	(2,105)	(0)	(107)	(2,612)
Addition	(0)	(0)	(13)	-	-	(14)
Disposals	0	-	1	-	-	1
Exchange differences	(1)	1	5	-	0	5
Balance 30.06.2017	(15)	(385)	(2,113)	(0)	(107)	(2,620)
Net book value 30.06.2017	139	3,534	6,618	148	922	11,360

31 Dec 2017	Land and other property	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Balance 01.01.2017	233	5,850	17,517	422	691	24,713
Additions	1	3	(2)	5	1,192	1,199
Transferred from CiP	53	69	500	25	(646)	1
Business combinations	27	-	5	-	252	284
Disposals	(1)	(9)	(153)	(10)	(4)	(177)
Exchange differences	9	86	374	12	32	512
Balance 31.12.2017	322	5,998	18,241	454	1,517	26,532
Accumulated depreciation						
Balance 01.01.2017	(91)	(1,879)	(8,449)	(272)		(10,690)
Addition	(10)	(166)	(936)	(32)		(1,144)
Disposals	0	7	129	9		144
Exchange differences	(1)	(23)	(211)	(10)		(245)
Balance 31.12.2017	(101)	(2,060)	(9,467)	(306)		(11,934)
Impairment losses						
Balance 01.01.2017	(14)	(386)	(2,105)	(0)	(107)	(2,612)
Addition	(0)	(1)	(15)	(1)	-	(17)
Disposals	0	2	17	1	1	21
Exchange differences	(1)	(6)	(31)	(0)	(2)	(39)
Balance 31.12.2017	(15)	(391)	(2,134)	(0)	(108)	(2,647)
Net book value 31.12.2017	206	3,547	6,640	148	1,409	11,950

Note 5 Intangible assets

30 Jun 2018	Goodwill	Leasehold land and land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under constuction	Total
Cost								
Balance 01.01.2018	326	326	526	409	548	53	117	1,980
Additions	0	(7)	0	3	1	0	38	34
Transferred from CiP	-	-	0	7	43	-	(24)	26
Business combinations	18	-	-	-	-	-	-	-
Exchange differences	(13)	(9)	(17)	(5)	(18)	(1)	(3)	(53)
Balance 30.06.2018	332	311	510	413	574	52	128	1,987
Accumulated depreciation								
Balance 01.01.2018		(82)	(365)	(289)	(314)	(19)		(1,068)
Addition		(2)	(12)	(13)	(22)	(2)		(51)
Exchange differences		2	12	4	11	1		30
Balance 30.06.2018		(81)	(365)	(297)	(326)	(20)		(1,090)
Impairment losses								
Balance 01.01.2018	-	(1)	-	-	-	-	-	(1)
Exchange differences	-	0	-	-	-	-	-	0
Balance 30.06.2018	-	(1)	-	-	-	-	-	(1)
Net book value 30.06.2018	332	229	145	116	248	31	128	897

30 Jun 2017	Goodwill	Leasehold land and land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under constuction	Total
Cost								
Balance 01.01.2017	343	318	485	385	416	49	153	1,807
Additions	-	(1)	(0)	1	(2)	(0)	35	33
Transferred from CiP	-	-	6	8	43	5	(63)	(1)
Business combinations	(2)	(1)	-	-	-	-	-	(1)
Disposals	-	-	-	(3)	-	-	-	(3)
Exchange differences	3	4	23	2	23	1	5	59
Balance 30.06.2017	344	320	514	394	480	56	130	1,894
Accumulated depreciation								
Balance 01.01.2017		(71)	(316)	(260)	(254)	(14)		(914)
Addition		(2)	(13)	(7)	(19)	(7)		(49)
Disposals		-	-	3	-	-		3
Exchange differences		(2)	(15)	(2)	(14)	(1)		(35)
Balance 30.06.2017		(76)	(344)	(266)	(287)	(22)		(995)
Impairment losses								
Balance 01.01.2017	-	(1)	-	-	-	-	-	(1)
Exchange differences	-	(0)	-	-	-	-	-	(0)
Balance 30.06.2017	-	(1)	-	-	-	-	-	(1)
Net book value 30.06.2017	344	243	170	127	194	34	130	898

31 Dec 2017	Goodwill	Leasehold land and land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under construction	Total
Cost								
Balance 01.01.2017	343	318	485	385	416	49	153	1,807
Additions	-	(0)	(0)	3	(5)	0	85	82
Transferred from CiP	-	-	5	20	100	1	(127)	(1)
Business combinations	(20)	(2)	-	0	-	-	-	(2)
Disposals	-	-	(0)	(4)	-	-	-	(5)
Exchange differences	4	10	37	5	37	2	7	99
Balance 31.12.2017	326	326	526	409	548	53	117	1,980
Accumulated depreciation								
Balance 01.01.2017		(71)	(316)	(260)	(254)	(14)		(914)
Addition		(6)	(24)	(28)	(38)	(4)		(101)
Disposals		-	0	4	-	-		5
Exchange differences		(4)	(25)	(5)	(22)	(1)		(58)
Balance 31.12.2017		(82)	(365)	(289)	(314)	(19)		(1,068)
Impairment losses								
Balance 01.01.2017	-	(1)	-	-	-	-	-	(1)
Exchange differences	-	(0)	-	-	-	-	-	(0)
Balance 31.12.2017	-	(1)	-	-	-	-	-	(1)
Net book value 31.12.2017	326	244	162	121	234	33	117	911

Note 6 Inventory

	30 Jun 2018	30 Jun 2017	31 Dec 2017
Finished goods	2,793	2,426	2,458
Work in progress	415	368	315
Raw materials	1,085	1,012	902
Operating materials and spare parts	440	396	424
Total inventories	4,733	4,202	4,099
Provisions for write-down of inventories	-84	-142	-120

Note 7 Other items

	Second quarter		Year to date		Year
	2018	2017	2018	2017	2017
Change in fair value commodity contracts ¹⁾	(130)	(17)	(244)	(74)	26
Ineffectiveness on cash flow hedges	6	3	6	20	43
Net foreign exchange gains / losses - forward contracts	9	(6)	23	(6)	(3)
Operating foreign exchange gains / losses	(5)	(6)	(13)	(4)	(11)
Other gains/losses	(120)	(25)	(228)	(64)	55
Net dividend / write-down external shares	1	1	0	2	6
Gains / losses disposal of subsidiaries	(0)	-	1	-	-
Other income	1	1	1	2	6
Expenses IPO	(3)	-	(95)	-	-
Other ²⁾	(31)	(8)	(32)	(8)	(18)
Other expenses	(34)	(8)	(127)	(8)	(18)
Total other items	(153)	(32)	(355)	(70)	44

¹⁾ Mainly fair value changes of the 30-øring contract, see note 26 financial instruments to the combined financial statements for the year ended 31 December 2017.

²⁾ Mainly related to provision for environmental measurements, infrastructure obligations and minor business projects/acquisitions.

Note 8 Finance income and expenses

	Second quarter		Year to date		Year
	2018	2017	2018	2017	2017
Interest income	13	7	21	14	29
Interest income from Bluestar Elkem International Co. Ltd. S.A	-	-	-	-	0
Other financial income	0	0	1	0	1
Total finance income	13	7	22	15	31
Interest expenses on interest-bearing liabilities measured at amortised cost	(81)	(82)	(159)	(164)	(317)
Interest expenses from other financial liabilities measured at amortised cost	(15)	(24)	(53)	(53)	(137)
Unwinding of discounted liabilities	0	(2)	(1)	(3)	(10)
Interest on net pension liabilities	(2)	(1)	(3)	(2)	(9)
Other financial expenses	(2)	(1)	(2)	(1)	(2)
Total finance expenses	(101)	(109)	(218)	(222)	(474)
Net foreign currency translation expenses	10	(7)	(1)	(5)	(8)
Net Finance income (expenses)	(78)	(109)	(197)	(213)	(451)

Note 9 Interest-bearing assets / debt

Non-current interest-bearing debt	30 Jun 2018	30 Jun 2017	31 Dec 2017
Loans from other related parties within China National Bluestar group	7	7	7
Financial leases	1	1	0
Loans from external parties, other than banks	80	-	80
Bank financing	4,436	5,857	4,498
Total non-current interest-bearing debt	4,525	5,865	4,585
Current interest-bearing debt			
Financial lease	1	2	1
Bank financing, current	2,546	2,829	3,418
Loans from external parties, other than banks	179	49	61
Accrued interest other related parties within China National Bluestar group	-	154	157
Accrued interest	21	10	10
Total current interest-bearing debt	2,747	3,044	3,647
Current bills payable	2,364	2,620	2,650
Total interest-bearing liabilities including bills payable	9,636	11,529	10,882
Cash and bank balances	4,306	1,697	1,751
Current restricted deposits bills payable	858	1,178	1,016
Other current restricted deposits	14	3	4
Other non-current restricted deposits	93	95	95
Interest-bearing financial assets	9	79	9
Accrued interest income	0	0	0
Total other interest-bearing assets	5,280	3,052	2,875
Total interest-bearing assets / (liabilities)	(4,356)	(8,477)	(8,007)

Elkem signed a new loan facilities agreement 13 February 2018, consisting of a revolving credit facility (RCF) of EUR 250 million, a term loan facility of EUR 400 million, and a bridge financing term loan facility of EUR 500 million. At the end of June 2018 only the term loan facility is drawn.

The loan facilities agreement contains two financial covenants.

- The ratio of operating EBITDA to consolidated net interest payable, for each measurement period, which is calculated as the 12 months ending on the last day of a financial quarter, must not be less than 4.0:1.0.
- The ratio of total equity to total assets must be more than 30%.

Elkem complies with the financial covenants as of 30 June 2018.

These loan facilities are unsecured.

Note 10 Cash flow hedging

Hedge Accounting

Elkem group is applying hedge accounting for parts of the foreign exchange forward contracts, certain parts of EUR loans, 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. The commodity contracts 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 an adjustment energy for smelting when realised.

Derivatives as at Q2 2018

	Nominal value	Fair value	Hereof recognised in OCI	Effects to be recycled from OCI			
				Within 1 year	Within 2 years	Within 3 years	Within 4 years or more
Purchase contracts							
Forward foreign exchange contracts	2,999	48	32	18	14	-	-
Embedded EUR derivatives	3,665	(68)	31	(1)	1	4	27
Power contracts ¹⁾	4,143	53	113	164	(23)	(33)	6
Platinum contracts	7	(1)	-	-	-	-	-
Total derivatives		33	176	181	(9)	(29)	33
EUR loan designed as cash flow hedging instrument		280	(14)	(3)	(3)	(3)	(7)
Total			162	178	(12)	(31)	26

¹⁾ For certain contracts and part of contracts hedge accounting is applied. Remaining power contracts are assessed to be for own use and not financial instruments according to IFRS, hence these are not recognised in the statement of financial positions.

Realised effects hedge accounting, recycled from OCI	Second quarter		Year to date		Full year
	2018	2017	2018	2017	2017
Realised effects from forward foreign exchange contracts, sales revenues	(7)	(12)	(31)	(13)	(41)
Realised effects from embedded derivatives EUR, sales revenues	(1)	1	(1)	1	(1)
Realised effects from EUR loans, sales revenues	(1)	(1)	(1)	(1)	(2)
Realised effects from power contracts, Raw materials and energy for smelting	31	(19)	60	(34)	(60)
Total realised hedging effects recycled from OCI	22	(31)	26	(46)	(105)

See note 26 Financial instruments and note 27 Financial risk and capital management to the combined financial statements for the year ended 31 December 2017.

Note 11 Number of shares

The development in share capital and other paid-in equity is set out in the Condensed consolidated interim statement of changes in equity. The development in the number of issued and outstanding shares is as follows:

	Outstanding
As at 1 January 2018	1
Share split	401 999 999
Capital increase	179 310 344
As at 30 June 2018	581 310 344

In an extraordinary general meeting in Elkem ASA 23 February 2018, it was approved a split of Elkem's one share into 402 million shares.

On 22 March 2018 Elkem ASA's shares were listed on Oslo Stock Exchange. At the same date the share capital was increased with 179,310,344 shares. The capital increase was completed at an offer price of NOK 29 per share, which gives a gross capital increase of NOK 5,200 million. Expenses related to the capital increase amount to NOK 29 million. Net expenses after taxes was NOK 23 million.

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.

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. 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 share incentive scheme. The authorisation does not cover capital increases against contribution in kind or capital increases in connection with mergers. At the date of issuing the second quarter report no options are granted.

Note 12 Related party transactions

Elkem ASA is owned 58.2% by Bluestar Elkem International Co. Ltd. S.A. Which is under control of China National Bluestar (group) Co. Ltd. (Bluestar). On 22 March 2018 Elkem acquired all the shares in Yongdeng Silicon Materials and Xinghuo Silicones from Bluestar Elkem Investment Co. Ltd. a company controlled by Bluestar. See note 3 Business combinations.

In March 2017, Elkem initiated an 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 275 GWh electricity, which amounts to approximately 28% of the energy consumption at the plant. Salten Energy Recovery Project is operated as a joint venture, where Elkem's share is 50 per cent. The final investment decision was approved by the board in April 2018. Estimated project cost is NOK 1 billion. The project cost will be covered by bank financing, Enova grants and equity contribution from the shareholders. Elkem is committed to cover its proportion of the capital injection, estimated to NOK 100 million. The project is estimated to be completed in 2020.

Elkem is obligated to deliver minimum 990 GWh heat energy to the energy plant and to purchase all the power produced for the first fifteen years to a fixed price. Estimated purchase commitment for the power produced for the first fifteen years is EUR 123 million.

There were no other significant transactions with related parties in first half 2018. See also note 28 Related party transactions in the combined financial statements for 2017.

Note 13 Taxes

Xinghuo Silicones has been awarded income tax preference as "High and new technology company" in China with effect from 1 January 2018, which means that the tax rate will decrease from 25 per cent to 15 per cent. This credential needs to be renewed every two years. Xinghuo Silicones has tax losses to carry forward, which are not recognised, and the change has no effect on the group's tax expenses as of 30 June 2018.

Appendix - Alternative performance measures (APMs)

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 EBITDA and EBITDA margin to measure operating performance at the group and segment level. In particular, Management regards EBIT and EBITDA as useful performance measures at segment level because income tax, finance expenses, foreign exchange gains (losses), finance income, other items, impairment loss and amortisation and depreciation are managed on a group basis and are not allocated to each segment. Elkem uses Cash flow from operations to measure the segments cash flow performance, this measure is excluding items that are managed on a group level. Elkem uses ROCE, or return on capital employed as measures of the development of the group's return on capital. Elkem relies on these measures as part of its capital allocation strategy.

The APMs presented herein are not measurements of performance under IFRS or other generally accepted accounting principles and should not be considered as a substitute for measures of performance in accordance with IFRS. 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.

Elkem's financial APMs, EBITDA and EBIT

- EBIT, also referred to as operating profit (loss) before other items is defined as Elkem's profit (loss) for the period, less income tax (expenses), finance expenses, foreign exchange gains (losses), finance income and other items.
- EBITDA is defined as Elkem's profit (loss) for the period, less income tax (expenses), finance expenses, foreign exchange gains (losses), finance income, other items, impairment loss and amortisation and depreciation.
- EBITDA margin is defined as EBITDA divided by total operating income.

Below is a reconciliation of EBIT and EBITDA

Amounts in NOK million Second quarter 2018	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							1,334
Income tax (expense) benefit							90
Finance expenses							101
Foreign exchange gains (losses)							(10)
Finance income							(13)
Other items							153
EBIT	1,190	237	208	64	(45)	-	1,655
Impairment losses							5
Amortisations and depreciations							310
EBITDA	1,357	309	263	80	(38)	-	1,970

Amounts in NOK million Second quarter 2017	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							270
Income tax (expense) benefit							72
Finance expenses							109
Foreign exchange gains (losses)							7
Finance income							(7)
Other items							32
EBIT	161	158	134	55	(22)	(3)	484
Impairment losses							9
Amortisations and depreciations							318
EBITDA	335	229	192	72	(15)	(3)	810

Amounts in NOK million YTD 2018	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							2,062
Income tax (expense) benefit							190
Finance expenses							218
Foreign exchange gains (losses)							1
Finance income							(22)
Other items							355
EBIT	1,811	509	464	124	(100)	(3)	2,804
Impairment losses							7
Amortisations and depreciations							612
EBITDA	2,139	649	569	155	(87)	(3)	3,423

Amounts in NOK million YTD 2017	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							201
Income tax (expense) benefit							130
Finance expenses							222
Foreign exchange gains (losses)							5
Finance income							(15)
Other items							70
EBIT	126	195	217	120	(46)	2	613
Impairment losses							14
Amortisations and depreciations							626
EBITDA	470	333	329	152	(33)	2	1,253

Amounts in NOK million Year 2017	Silicones	Silicon materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							1,249
Income tax (expense) benefit							269
Finance expenses							474
Foreign exchange gains (losses)							8
Finance income							(30)
Other items							(44)
EBIT	840	526	486	209	(107)	(28)	1,927
Impairment losses							17
Amortisations and depreciations							1,244
EBITDA	1,515	804	701	274	(78)	(28)	3,188

Elkem's financial APMs, Cash flow from operations

- Cash flow from operations is defined as Cash flow from operating activities, less income taxes paid, interest payments made, interest payments received, changes in provision, pension obligations and other, changes in fair value commodity contracts, other items (from income statements) and including reinvestments.
- Reinvestments generally consist of maintenance capital expenditure to maintain existing activities or that involve investments designed to improve health, safety or the environment.
- 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.

Below is a split of the items included in investment in property, plant and equipment and intangible assets

Amounts in NOK million	Second quarter		Year to date		Year
	2018	2017	2018	2017	2017
Reinvestments	(292)	(207)	(472)	(350)	(890)
Strategic investments	(120)	(102)	(264)	(150)	(390)
Periodisations ¹⁾	8	18	(70)	6	154
Investments in property, plant and equipment and intangible assets	(404)	(290)	(805)	(493)	(1,126)

¹⁾ Periodisations reflects the difference between payment date and accounting date of the investment.

Below is a reconciliation between cash flow from operating activities and cash flow from operations

Amounts in NOK million	Second quarter		Year to date		Year
	2018	2017	2018	2017	2017
Cash flow from operating activities	1,245	307	1,937	609	2,256
Income taxes paid	35	49	107	84	198
Interest payments made	67	108	241	211	446
Interest payments received	(13)	(8)	(21)	(14)	(24)
Changes in provisions, pension obligations and other	60	(31)	29	(11)	138
Changes in fair value commodity contracts	(128)	87	(251)	47	79
Other	153	32	355	70	(44)
Reinvestments	(292)	(207)	(472)	(350)	(890)
Cash flow from operations	1,127	338	1,925	647	2,161

Elkem's financial APMs, ROCE

- ROCE, Return on capital employed, is defined as EBIT divided by the average capital employed, where capital employed comprises working capital and fixed assets.
- 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 are 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:

	30 June 2018	30 June 2017	31 December 2017
Inventories	4,733	4,202	4,099
Accounts receivable	3,149	2,330	2,518
Other current assets	902	1,447	2,091
Current interest bearing receivables	0	0	0
Other current receivables to related parties interest free	-18	-376	-1,354
Grants that are net settled against tax payables	-73	-74	-56
Tax receivable	-53	-71	-25
Accrued interest	-1	3	0
Other current assets included in working capital	757	929	656
Accounts payable	2,875	2,902	2,650
Accounts payable related to purchase of non-current assets	-354	-282	-439
Accounts payable included in working capital	2,521	2,621	2,211
Provisions and other current liabilities	1,636	1,312	1,670
Current provisions	-165	-144	-155
Liabilities to related parties	-204	-311	-324
Other current liabilities included in working capital	1,267	857	1,191
Working capital	4,850	3,984	3,871
Property, plant and equipment	11,812	11,360	11,950
Capital employed	16,662	15,344	15,822