

Elkem, Interim report

Fourth quarter report 2018



Contents

Highlights 4 th quarter 2018	3
Key figures	3
Fourth quarter concludes an extraordinary year for Elkem	4
Financial review	5
Group results	5
Cash flow	6
Financial position	6
Segments	7
Silicones	7
Silicon Materials.....	7
Foundry Products.....	8
Carbon	8
Outlook	9
Condensed consolidated interim statement of income	10
Condensed consolidated interim statement of comprehensive income.....	11
Condensed consolidated interim statement of financial position.....	12
Condensed consolidated interim statement of cash flows	13
Condensed consolidated interim statement of changes in equity	14
Notes to the condensed consolidated interim financial statements.....	15
Note 1 General information.....	15
Note 2 Operating segments.....	15
Note 3 Business combinations.....	17
Note 4 Fixed assets	17
Note 5 Intangible assets	18
Note 6 Inventory.....	19
Note 7 Other items	20
Note 8 Finance income and expenses	20
Note 9 Interest-bearing assets / debt.....	21
Note 10 Cash flow hedging	22
Note 11 Number of shares.....	23
Appendix - Alternative performance measures (APMs)	24

Highlights 4th quarter 2018

- Elkem completes a strong 2018, but fourth quarter earnings hampered by weaker market sentiment
- Total operating income of NOK 6,265 million, in line with fourth quarter 2017
- EBITDA of NOK 974 million, down 10% from fourth quarter 2017, mainly due to special items and one-off effects of approx. MNOK 55
- Strong financial position with low leverage, strong cash position and long-term maturity profile
- The board has proposed a dividend of NOK 2.60 per share based on an extraordinary strong year combined with leverage below target

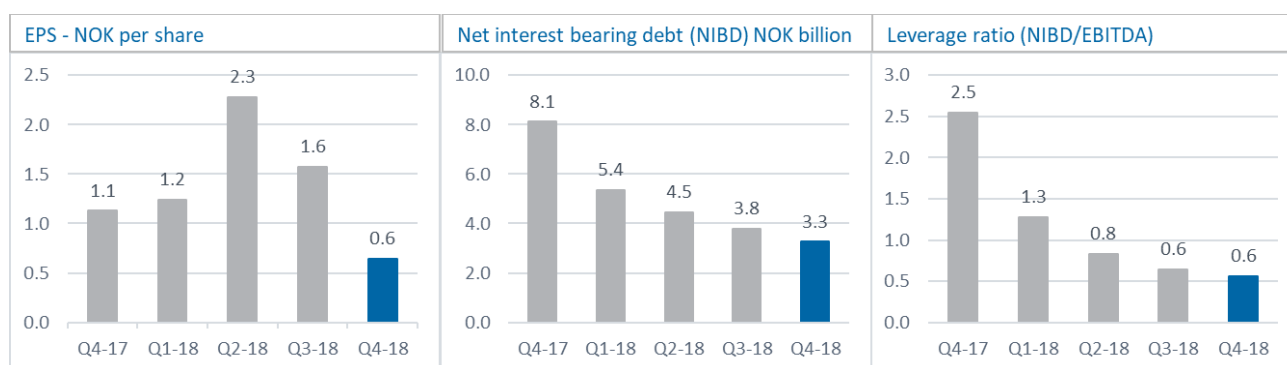
Key figures

CONSOLIDATED KEY FIGURES

(NOK million, except where specified)

	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
Total operating income	6,265	6,364	25,887	21,403	21,403
EBITDA	974	1,078	5,793	3,188	3,188
EBITDA margin (%)	16%	17%	22%	15%	15%
EBIT	639	768	4,522	1,927	1,927
Profit (loss) for the period ⁽¹⁾	374	655	3,337	1,211	1,211
Earning per share (EPS) (NOK per share)	0.64	1.13	5.74	2.08	2.08
Equity ratio (%)	44%	34%	44%	34%	34%
Net interest-bearing debt (NIBD)	3,264	8,111	3,264	8,111	8,111
Cash flow from operations	1,349	858	4,030	2,335	2,335
ROCE - annualised (%)	16%	21%	28%	13%	13%

(1) Owners of the parent's share of profit (loss)



Fourth quarter concludes an extraordinary year for Elkem

Elkem completes a strong 2018, but fourth quarter earnings hampered by weaker market sentiment, especially in China. Sales prices and volumes in China have been affected by lower demand and maintenance stops. Considering the challenging market conditions the result was relatively strong.

Total operating income for the fourth quarter 2018 was NOK 6,265 million, which was in line with fourth quarter 2017. EBITDA for the quarter amounted to NOK 974 million, down from NOK 1,078 million in the corresponding quarter last year. Earnings per share (EPS) was NOK 0.64 in fourth quarter, giving accumulated EPS of NOK 5.74 in 2018.

The board has proposed a dividend of NOK 2.60 per share, which amounts to 45% of the profit for 2018 in line with Elkem's policy and based on an extraordinary strong year with leverage is below target.

Weaker market conditions in China have resulted in lower sales prices and lower volumes for core silicone products. Therefore, Xinghuo Silicones has been operating below full capacity rate in the quarter. As announced, Yongdeng Silicon Materials have completed technical upgrades of two furnaces resulting in lower production and sales. The average sales prices in the fourth quarter have generally been higher than the corresponding quarter last year, but this has been offset by higher raw material costs and lower sales volumes. The fourth quarter was also negatively affected by special items and one-off effects of approx. NOK 55 million.

Elkem raised new financing of NOK 1,750 million in the Norwegian bond market and EUR 215 million in the German Schuldschein market during the fourth quarter. The new loans have maturities ranging from three to seven years and have partly been used to refinance local bank debt in China. Recapitalisation of Xinghuo Silicones and Yongdeng Silicon Materials were completed in December 2018 and January 2019.

The group's equity as at 31 December 2018 amounted to NOK 13,722 million, giving a ratio of equity to total assets of 44%. Net interest-bearing debt was NOK 3,264 million, which gave a ratio of net debt to EBITDA of 0.6 times. The group has a strong liquidity position and a well distributed loan maturity profile.

The company's fundamental position continues to be strong based on favourable market positions and strong financials. The current market sentiment is weak, partly due to seasonality in sectors such as construction. Market prices have however, stabilised and are likely to increase after first quarter.

First quarter 2019 is expected to be weaker than fourth quarter 2018, mainly due to temporary production curtailments, lower average realised sales prices due to time-lag and effects of Chinese New Year.

Subsequent quarters in 2019 likely to improve based on expected higher sales volumes, price recovery, lower raw material costs and accelerated improvement programmes.



Financial review

Group results

KEY FIGURES	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	6,265	6,364	25,887	21,403	21,403
EBITDA	974	1,078	5,793	3,188	3,188
EBIT	639	768	4,522	1,927	1,927
Other items	-112	66	-380	44	44
Net financial items	-32	-108	-327	-452	-452
Profit (loss) before income tax	474	726	3,792	1,519	1,519
Tax	-93	-59	-425	-269	-269
Profit (loss) for the period	381	667	3,367	1,249	1,249

Quarter

Elkem group reported total operating income of NOK 6,265 million in 4Q-2018, down 2% from NOK 6,364 million in 4Q-2017. Reduced operating revenue was primarily due to weaker market conditions in China resulting in lower sales of core silicones products.

The group's EBITDA for 4Q-2018 was NOK 974 million, down 10% from NOK 1,078 million in 4Q-2017. The EBITDA margin was 16% in 4Q-2018, broadly in line the corresponding quarter last year. Average realised sales prices in 4Q-2018 were higher than 4Q-2017 but offset by lower volumes and higher raw materials costs. Foundry Products and Carbon had special items and one-offs during fourth quarter of approx. NOK 55 million.

EBIT for 4Q-2018 was NOK 639 million, down from NOK 768 million in 4Q-2017.

Other items include fair value changes, gains/losses on currency forward contracts, certain provisions and IPO expenses. Other items amounted to NOK -112 million in 4Q-2018. Fair value change of power contracts was NOK -170 million. The mark-to-market value decreased during 4Q-2018 due to higher power prices. The negative change in fair value has been partly offset by currency gains of NOK 60 million. Other items was NOK 66 million in 4Q-2017, including a positive change in fair value of power contracts of NOK 63 million.

Net financial items were NOK -32 million in 4Q-2018, compared to NOK -108 million in 4Q-2017. Finance expenses amounted to NOK 82 million, which is a reduction from NOK 122 million in 4Q-2017. The reduction in finance expenses was mainly due to lower outstanding interest-bearing debt. Gains related to foreign exchange amounted to NOK 45 million, while finance income was NOK 5 million.

Profit before income tax was NOK 474 million compared to NOK 726 million in 4Q-2017, mainly affected by Other items.

Tax expenses in 4Q-2018 were NOK 93 million, giving a tax rate in the quarter of approximately 20%. The tax rate has increased compared to the corresponding quarter in 2017 and previous quarters in 2018, because Xinghuo Silicones in China was in tax position from the fourth quarter 2018.

Profit for the period was NOK 381 million, compared to NOK 667 million in 4Q-2017. Owners of the parent's share of profit is NOK 374 million, which gave earnings per share of NOK 0,64 in the fourth quarter 2018.

Year to date

The group's total operating income was NOK 25,887 million in 2018, up 21% from NOK 21,403 million in 2017. EBITDA in 2018 amounted to NOK 5,793 million, up 82% from NOK 3,188 million in 2017. Higher operating income and EBITDA were mainly driven by higher realised sales prices across all divisions, higher volumes and improved sales mix. Profit for 2018 was 3,367 million compared to NOK 1,249 million in 2017. EPS for 2018 was NOK 5.74.

Cash flow

CASH FLOW FROM OPERATIONS	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
<i>NOK million</i>					
Operating profit (loss) before other items	639	768	4,522	1,927	1,927
Amortisation, depreciation and impairment	334	310	1,270	1,261	1,261
Changes in working capital	768	129	-712	47	47
Reinvestments	-389	-339	-1,064	-890	-890
Equity accounted investments	-4	-10	14	-10	-10
Cash flow from operations	1,349	858	4,030	2,336	2,336
Other cash flow items	1,775	-714	1,268	-1,921	-1,921
Change in cash and cash equivalents	3,124	144	5,298	414	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 1,349 million in 4Q-2018, compared to NOK 858 million in 4Q-2017. A positive change in working capital of NOK 768 million was recorded in 4Q-2018. Elkem entered into a non-recourse factoring agreement of EUR 50 million in 4Q-2018. The agreement has released trade receivables of approx. NOK 480 million.

Reinvestments in 4Q-2018 amounted to NOK 389 million, which was slightly higher than NOK 339 million in 4Q-2017.

Strategic investments are included in other cash flow items and amounted to NOK 283 million in 4Q-2018, up from NOK 153 million in 4Q-2017. The strategic investments in the fourth quarter 2018 were primarily related to specialisation projects, mainly in China.

Cash and cash equivalents have increased by NOK 3,124 million in the quarter to NOK 7,082 million as at 31 December 2018. The increase included new interest-bearing loans raised in the Norwegian bond market and the German Schuldschein market. EUR 123.5 million of the Schuldschein loans had agreed settlement date 8 January 2019.

Year to date

Cash flow from operations amounted to NOK 4,030 million in 2018, compared to NOK 2,336 million in 2017, mainly explained by the significant growth in operating profit partly countered by higher working capital. Reinvestments in 2018 were NOK 1,064 million, which amounted to 84% of depreciations and amortisations.

Financial position

FINANCIAL POSITION	4Q 2018	4Q 2017	FY 2017
Total equity (NOK million)	13,722	8,565	8,565
Equity ratio (%)	44%	34%	34%
EPS (NOK per share)	0.64	1.13	2.08
Net interest bearing debt (NOK million) ⁽¹⁾	3,264	8,111	8,111
Leverage ratio based on LTM EBITDA (ratio)	0.6	2.5	2.5

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

Quarter and year to date

As at 31 December 2018, Elkem's equity was NOK 13,722 million, up from NOK 8,565 million as at 31 December 2017. The equity has increased during 2018 due to net profit and net proceeds from the IPO. The equity ratio as of 31 December 2018 was 44%, up from 34% by year-end 2017.

Elkem's net debt as at 31 December 2018 was NOK 3,264 million, a reduction from NOK 8,111 million by year-end 2017. The debt reduction was mainly explained by IPO proceeds and positive cash flow generation. Elkem's leverage ratio was 0.6 times as at 31 December 2018.

Elkem has raised new long-term financing in the Norwegian bond market of NOK 1,750 million and in the Schuldschein market of EUR 215 million during fourth quarter 2018. The purpose was to replace a bridge facility of EUR 500 million for refinancing of local bank debt in China. Equity injections amounting to RMB 630 million to Xinghuo Silicones and Yongdeng Silicon Materials were completed in December 2018 and shareholder loans of RMB 750 million were completed early 2019.

Segments

Silicones

KEY FIGURES	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	2,919	3,272	13,059	10,026	10,026
EBITDA	544	598	3,535	1,515	1,515
EBITDA margin	19%	18%	27%	15%	15%
Sales volume (thousand mt)	77	88	314	300	300

Quarter

Total operating income for the Silicones division was NOK 2,919 million in 4Q-2018, a reduction of 11% from NOK 3,272 million in 4Q-2017. Lower operating revenue is mainly due to lower sales of core products in China.

EBITDA for 4Q-2018 was NOK 544 million, down 9% from NOK 598 million in 4Q-2017. The EBITDA-margin was relatively stable in the quarters. Lower prices for core products in China have been partly compensated by higher sales prices for specialities. In addition, lower raw materials prices in China also partly compensate for lower sales prices.

The Xinghuo plant in China has not been operating at full capacity in fourth quarter 2018 due to weak market conditions.

Year to date

The Silicones division had total operating income of NOK 13,059 million in 2018, up 30% from NOK 10,026 million in 2017. Higher operating income for the year was explained by higher sales prices and higher sales volumes. The EBITDA was NOK 3,535 million in 2018, more than a doubling from NOK 1,515 million in 2017. Higher EBITDA was mainly explained by higher sales prices, but also higher volumes and better sales mix.

Silicon Materials

KEY FIGURES	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,676	1,762	6,590	6,412	6,412
EBITDA	228	238	1,116	804	804
EBITDA margin	14%	14%	17%	13%	13%
Sales volume (thousand mt) ¹⁾	57	70	237	278	278

1) Excluding Microsilica and quartz

Quarter

Silicon Materials reported total operating income of NOK 1,676 million in 4Q-2018, down 5% from NOK 1,761 million in 4Q-2017, due to lower sales volumes. The upgrade of the Yongdeng plant during the fourth quarter has reduced production and sales volumes by approx. 10-11,000 mt.

EBITDA was NOK 228 million in 4Q-2018, down from NOK 238 million in the corresponding quarter last year. The EBITDA-margin was stable at 14%. Average realised sales prices in 4Q-2018 are higher than 4Q-2017 but offset by generally higher raw material costs.

Production volumes have been impacted by the furnace upgrades at Yongdeng.

Year to date

Silicon Materials reported total operating income of NOK 6,590 million in 2018, an increase of 3% from NOK 6,412 million in 2017, despite lower sales volumes. The division reported an EBITDA of NOK 1,116 million, up 39% from NOK 804 million in 2017, mainly due to higher sales prices.

Foundry Products

KEY FIGURES	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,221	1,199	5,082	4,241	4,241
EBITDA	113	234	931	701	701
EBITDA margin	9%	20%	18%	17%	17%
Sales volume (thousand mt) ¹⁾	68	65	275	260	260

1) Excluding Microsilica sales

Quarter

Total operating income for Foundry Products was NOK 1,221 million in 4Q-2018, up 2% from NOK 1,199 million in 4Q-2017. Sales volumes and average realised sales prices have been stable quarter vs. quarter.

EBITDA was NOK 113 million in 4Q-2018, significantly down compared to NOK 234 million in the corresponding quarter last year. The quarter has been negatively affected by special items and one-offs amounting to approx. NOK 45 million.

The production has been fairly good during the quarter.

Year to date

Foundry Products reported total operating income of NOK 5,082 million in 2018, up 20% from NOK 4,241 million in 2017. Increased operating income was due to higher sales prices and higher sales volumes. EBITDA for 2018 amounted to NOK 931 million, up 33% from NOK 701 million in 2017, mainly explained by higher sales prices and improved sales mix. This has been partly offset by higher raw materials costs.

Carbon

KEY FIGURES	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
<i>MNOK except where indicated otherwise</i>					
Total operating income	525	416	1,892	1,577	1,577
EBITDA	82	57	335	274	274
EBITDA margin	16%	14%	18%	17%	17%
Sales volume (thousand mt)	75	73	289	284	284

Quarter

Carbon's total operating income was NOK 525 million in 4Q-2018, up 26% from NOK 416 million in 4Q-2017. Higher operating income was mainly due to higher sales prices for all products, but also some positive volume and sales mix effects.

EBITDA for the 4Q-2018 was NOK 82 million, clearly up from NOK 57 million in the corresponding quarter last year. Improved EBITDA was due to higher sales prices and some positive volume and sales mix effects, which have been partly offset by higher raw material costs. Special items and one-offs of approx. NOK 10 million have impacted the 4Q-2018 result negatively.

Production has been according to plan at all plants.

Year to date

The result for 2018 is the best ever for the Carbon division. The division reported total operating income of NOK 1,892 million in 2018, an increase of 20% from NOK 1,577 million in 2017. EBITDA was NOK 335 million 2018, up 22% compared to NOK 274 million in 2017. Higher operating income and EBITDA were mainly due to higher sales prices, which have been partly offset by higher raw material costs.

Outlook

Elkem's fundamental position continue to be strong based on favourable market positions and strong financials.

The current market sentiment is weak, partly due to seasonality in sectors such as construction.

Market prices have stabilised and are likely to increase after first quarter.

First quarter 2019 is expected to be weaker than fourth quarter 2018, mainly due to temporary production curtailments, lower average realised sales prices due to time-lag and effects of Chinese New Year.

The subsequent quarters in 2019 are likely to improve based on expected higher sales volumes, price recovery, lower raw material costs and accelerated improvement programmes.

Elkem ASA

Oslo, 11 February 2019



Condensed consolidated interim statement of income

Amounts in NOK million	Note	Fourth quarter		Year	
		2018	2017	2018	2017
Revenues	2	6,173	6,248	25,625	21,133
Other operating income	2	88	103	244	236
Share of profit from equity accounted companies	2	4	14	18	35
Total operating income		6,265	6,364	25,887	21,403
Raw materials and energy for smelting		(3,077)	(3,148)	(12,023)	(10,825)
Employee benefit expenses		(950)	(868)	(3,449)	(3,145)
Other operating expenses		(1,263)	(1,271)	(4,622)	(4,245)
Amortisations and depreciations	4, 5	(333)	(307)	(1,263)	(1,244)
Impairment losses	4, 5	(1)	(3)	(8)	(17)
Operating profit (loss) before other items		639	768	4,522	1,927
Other items	7	(112)	66	(380)	44
Operating profit (loss)		527	834	4,142	1,971
Share of profit from equity accounted financial investments		(22)	(1)	(23)	(1)
Finance income	8	5	8	42	30
Foreign exchange gains (losses)	8	45	6	19	(8)
Finance expenses	8	(82)	(122)	(388)	(474)
Profit (loss) before income tax		474	726	3,792	1,519
Income tax (expenses) benefits		(93)	(59)	(425)	(269)
Profit (loss) for the period		381	667	3,367	1,249
Attributable to:					
Non-controlling interest's share of profit (loss)		8	12	29	39
Owners of the parent's share of profit (loss)		374	655	3,337	1,211
Interim earnings per share					
		2018	2017	2018	2017
Basic earnings per share in NOK ¹⁾		0.64	1.13	5.74	2.08
Diluted earnings per share in NOK ¹⁾		0.64	1.13	5.74	2.08
Weighted average number of outstanding shares (million)		581	581	581	581
Weighted average number of outstanding shares -diluted (million)		581	581	581	581

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.

Condensed consolidated interim statement of comprehensive income

Amounts in NOK million	Fourth quarter		Year	
	2018	2017	2018	2017
Profit (loss) for the period	381	667	3,367	1,249
Other comprehensive income:				
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit pension plans	17	1	17	1
Tax effects of remeasurements of defined benefit pension plans	(6)	2	(6)	2
Change in fair value of equity instruments	2	0	2	0
Share of other comprehensive income (loss) equity accounted companies	-	-	(0)	-
	14	4	14	4
Items that may be reclassified to profit or loss				
Currency translation differences	494	660	113	279
Hedging of net investment in foreign operations	(133)	(313)	(29)	(209)
Tax effects hedging of net investment in foreign operations	30	72	7	48
Cash flow hedges	(31)	(735)	697	(6)
Tax effects on cash flow hedges	8	163	(159)	(4)
Share of other comprehensive income (loss) equity accounted companies	(8)	0	(8)	(0)
	361	(152)	621	107
Other comprehensive income, net of tax	375	(149)	634	111
Total comprehensive income	756	518	4,001	1,360
Attributable to:				
Non-controlling interest's share of comprehensive income	12	8	32	40
Owners of the parent's share of comprehensive income	744	510	3,969	1,320
Total comprehensive income	756	518	4,001	1,360

Condensed consolidated interim statement of financial position

Amounts in NOK million	Note	31 December 2018	31 December 2017
ASSETS			
Property, plant and equipment	4	12,445	11,950
Goodwill	4	342	326
Other intangible assets	4	922	911
Deferred tax assets		60	90
Investments equity accounted companies		134	159
Derivatives	10	131	152
Other non-current assets		441	407
Total non-current assets		14,474	13,995
Inventories	6	5,467	4,099
Accounts receivable		2,391	2,518
Derivatives	10	303	33
Other current assets		836	2,091
Restricted deposits	9	577	1,020
Cash and cash equivalents	9	7,082	1,751
Total current assets		16,656	11,513
TOTAL ASSETS		31,129	25,507
EQUITY AND LIABILITIES			
Paid-in capital	11	8,102	2,918
Retained earnings		5,520	5,545
Non-controlling interest		101	102
Total equity		13,722	8,565
Interest-bearing non-current liabilities	9	7,131	4,585
Deferred tax liabilities		207	105
Employee benefit obligations		563	556
Derivatives	10	450	379
Provisions and other non-current liabilities		232	315
Total non-current liabilities		8,583	5,940
Accounts payable		2,731	2,650
Income tax payables		330	139
Interest-bearing current liabilities	9	2,052	3,647
Bills payable	9	1,740	2,650
Employee benefit obligations		671	587
Derivatives	10	79	247
Provisions and other current liabilities		1,221	1,083
Total current liabilities		8,824	11,003
TOTAL EQUITY AND LIABILITIES		31,129	25,507

Condensed consolidated interim statement of cash flows

Amounts in NOK million	Note	Fourth quarter		Year	
		2018	2017	2018	2017
Operating profit (loss)		527	834	4,142	1,971
Amortisation, depreciation and impairment		334	310	1,270	1,261
Changes in working capital ^{1, 2)}		768	129	(712)	47
Equity accounted companies		(4)	(10)	14	(10)
Changes in fair value commodity contracts		165	(66)	321	(79)
Changes in provisions, pension obligations and other ¹⁾		108	(232)	46	(313)
Interest payments received		5	69	41	24
Interest payments made		(76)	(124)	(390)	(446)
Income taxes paid		(146)	(76)	(272)	(198)
Cash flow from operating activities		1,682	833	4,460	2,256
Investments in property, plant and equipment and intangible assets		(800)	(338)	(1,916)	(1,126)
Acquisition of subsidiaries, net of cash acquired	3	(0)	0	(4,049)	4
Payment received on loan to related parties		-	-	1,303	-
Other investments / sales		14	12	(9)	(6)
Cash flow from investing activities		(787)	(326)	(4,671)	(1,128)
Dividends paid to non-controlling interest		(23)	(14)	(33)	(26)
Dividends paid to owner of the parent		-	(144)	-	(144)
Capital increase		-	-	5,171	-
Net changes in bills payable		77	99	(445)	285
Net changes in other short term debt		-	-	-	-
New interest-bearing loans and borrowings		2,648	10	6,643	60
Net changes of short term loans from related parties		-	97	(241)	(30)
Repayment of interest-bearing loans and borrowings		(473)	(411)	(5,586)	(859)
Cash flow from financing activities		2,229	(363)	5,509	(714)
Change in Cash and cash equivalents		3,124	144	5,298	414
Currency exchange differences		100	61	33	17
Cash and cash equivalents Opening Balance		3,858	1,546	1,751	1,320
Cash and cash equivalents Closing Balance		7,082	1,751	7,082	1,751

1) Bills receivable are reclassified from changes in working capital to Changes in provisions, pension obligations and other. See note 1 General information.

2) Elkem entered into a non-recourse factoring agreement of EUR 50 million in 4Q-2018. The agreement has released trade receivables of approx. NOK 480 million.

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	-	3,337	3,337	29	3,367
Other comprehensive income	-	632	632	2	634
Total comprehensive income	-	3,969	3,969	32	4,001
Capital increase ¹⁾	5,177	-	5,177	-	5,177
Share-based payment ¹⁾	6	-	6	-	6
Changes in the composition of the group ²⁾	-	(3,995)	(3,995)	-	(3,995)
Dividends to equity holders	-	-	-	(33)	(33)
Balance 31 December 2018	8,102	5,520	13,622	101	13,722

¹⁾ See note 9 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 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 fourth quarter of 2018 were approved at the meeting of the board of directors on 11 February 2019.

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. For investments in associates and joint ventures that do not operate within Elkem's main business areas are classified on the line item Share of profit from equity accounted financial investments.

Elkem has made two changes to the presentation in the statement of financial position. Current part of Employee benefit obligations is presented on a separate line item. Previously this was included in Provision and other current liabilities. Non-current part of Employee benefit obligations is presented together with Pension liabilities and the line item is renamed to Employee benefit obligations. Previously this was included in Provisions and other non-current liabilities. Comparable figures are restated.

Elkem has made one change to the presentation in Statement of cash flows. Cash flow effects related to bills receivable are reclassified to Changes in provisions, pension obligations and other, before included in changes in working capital.

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, share of profit from equity accounted financial investments, 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.

	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Fourth quarter 2018							
Revenue from sale of goods	2,859	1,361	1,154	465	248	-	6,087
Other revenue	12	8	16	5	46	-	86
Other operating income	46	19	9	5	9	-	88
Share of profit from equity accounted companies	0	-	(0)	-	4	-	4
Total operating income from external customers	2,917	1,388	1,179	475	306	-	6,265
Revenue from other group segments	3	288	42	50	98	(481)	-
Total operating income	2,919	1,676	1,221	525	404	(481)	6,265
Operating expenses	(2,375)	(1,448)	(1,107)	(443)	(428)	511	5,291
EBITDA	544	228	113	82	(24)	30	974
Operating profit (loss) before other items (EBIT)	364	155	59	62	(31)	30	639

	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Fourth quarter 2017							
Revenue from sale of goods	3,227	1,323	1,107	342	46	-	6,044
Other revenue	10	(18)	11	15	186	-	204
Other operating income	28	28	25	4	17	-	103
Share of profit from equity accounted companies	-	-	0	-	14	-	14
Total operating income from external customers	3,265	1,333	1,143	361	263	-	6,364
Revenue from other group segments	7	429	56	56	100	(648)	-
Total operating income	3,272	1,762	1,199	416	363	(648)	6,364
Operating expenses	(2,674)	(1,524)	(965)	(360)	(399)	636	(5,287)
EBITDA	598	238	234	57	(37)	(12)	1,078
Operating profit (loss) before other items (EBIT)	438	166	182	39	(45)	(12)	768

	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Year 2018							
Revenue from sale of goods	12,909	5,003	4,827	1,677	903	-	25,319
Other revenue	29	34	44	8	191	-	306
Other operating income	108	75	31	7	23	-	244
Share of profit from equity accounted companies	0	-	(0)	-	18	-	18
Total operating income from external customers	13,046	5,113	4,902	1,692	1,134	-	25,887
Revenue from other group segments	14	1,477	180	200	343	(2,214)	-
Total operating income	13,059	6,590	5,082	1,892	1,477	(2,214)	25,887
Operating expenses	(9,524)	(5,474)	(4,151)	(1,558)	(1,613)	2,226	(20,094)
EBITDA	3,535	1,116	931	335	(136)	12	5,793
Operating profit (loss) before other items (EBIT)	2,864	833	710	267	(164)	12	4,522

	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Year 2017							
Revenue from sale of goods	9,893	4,955	3,987	1,310	565	-	20,709
Other revenue	29	52	47	47	249	-	423
Other operating income	93	71	39	5	28	-	236
Share of profit from equity accounted companies	-	-	(6)	-	41	-	35
Total operating income from external customers	10,015	5,077	4,066	1,362	882	-	21,403
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)	21,403
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	527	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

31 December 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	2	2	37	3	1,685	1,729
Transferred from CiP	217	173	1,111	34	(1,535)	-
Re-classification	2	2	(5)	1	(11)	(10)
Business combinations	-	-	7	-	-	7
Disposals	(4)	(63)	(317)	(7)	(47)	(438)
Exchange differences	11	14	30	(0)	(7)	47
Balance 31.12.2018	550	6,127	19,103	485	1,602	27,866
Accumulated depreciation						
Balance 01.01.2018	(101)	(2,060)	(9,467)	(306)	-	(11,934)
Addition	(10)	(168)	(947)	(31)	-	(1,156)
Re-classifications	(2)	(2)	4	(1)	-	(0)
Disposals	3	31	233	5	-	273
Exchange differences	(1)	0	(20)	(2)	-	(21)
Balance 31.12.2018	(111)	(2,198)	(10,196)	(334)	-	(12,840)
Impairment losses						
Balance 01.01.2018	(15)	(391)	(2,134)	(0)	(108)	(2,647)
Addition	-	(0)	(5)	(0)	(3)	(8)
Re-classifications	-	-	-	-	-	-
Disposals	1	15	35	0	35	86
Exchange differences	(0)	(1)	(12)	(0)	1	(13)
Balance 31.12.2018	(13)	(377)	(2,116)	(0)	(75)	(2,582)
Net book value 31.12.2018	425	3,551	6,790	152	1,527	12,445

31 December 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	48	68	510	20	(645)	-
Re-classifications	5	1	(10)	5	(1)	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	(6)	(165)	(942)	(31)		(1,144)
Re-classifications	(4)	(1)	6	(1)		-
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

31 December 2018	Goodwill	Leasehold land and land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under construction	Total
Cost								
Balance 01.01.	326	326	526	409	548	53	117	1,980
Additions	-	9	0	15	2	0	76	102
Transferred from CiP	-	-	10	2	31	-	(43)	-
Re-classification	-	(2)	-	9	2	1	-	10
Business combinations	15	-	-	-	-	3	-	3
Disposals	-	(7)	(2)	(45)	-	-	-	(54)
Exchange differences	1	2	5	2	8	0	3	20
Balance 31.12	342	328	540	392	591	57	154	2,062
Accumulated depreciation								
Balance 01.01.		(82)	(365)	(289)	(314)	(19)		(1,068)
Addition		(5)	(26)	(28)	(44)	(4)		(107)
Re-classification		-	-	1	-	(1)		0
Disposals		1	2	45	-	-		48
Exchange differences		(1)	(4)	(2)	(5)	(0)		(12)
Balance 31.12		(87)	(392)	(272)	(364)	(24)		(1,139)
Impairment losses								
Balance 01.01.	-	(1)	-	-	-	-	-	(1)
Exchange differences	-	(0)	-	-	-	-	-	(0)
Balance 31.12	-	(1)	-	-	-	-	-	(1)
Net book value 31.12	342	240	147	120	227	33	154	922

31 December 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	-	-	7	21	100	-	(127)	-
Re-classification	-	-	(2)	(0)	-	1	-	(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)	(25)	(28)	(38)	(4)		(101)
Re-classification			1	(0)		(0)		-
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)
Addition	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
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

	31 December 2018	31 December 2017
Raw materials	1,268	902
Work in progress	510	315
Finished goods	3,236	2,458
Operating materials and spare parts	453	424
Total inventories	5,467	4,099
Provisions for write-down of inventories	(98)	(120)

Note 7 Other items

	Fourth quarter		Year to date		Year
	2018	2017	2018	2017	2017
Change in fair value commodity contracts ¹⁾	(170)	63	(319)	26	26
Ineffectiveness on cash flow hedges	13	3	19	43	43
Net foreign exchange gains / losses - forward contracts	(0)	(13)	29	(3)	(3)
Operating foreign exchange gains / losses	60	21	32	(11)	(11)
Other gains / losses	(97)	74	(240)	55	55
Net dividend / write-down external shares	0	4	1	6	6
Gains / losses disposal of subsidiaries	0	-	1	0	0
Other income	0	4	1	6	6
Expenses IPO	(0)	-	(96)	-	-
Other ²⁾	(14)	(12)	(46)	(18)	(18)
Other expenses	(15)	(12)	(142)	(18)	(18)
Total other items	(112)	66	(380)	44	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

	Fourth quarter		Year to date		Year
	2018	2017	2018	2017	2017
Interest income	5	7	41	29	29
Interest income from Bluestar Elkem International Co. Ltd. S.A	-	-	-	-	0
Other financial income	0	0	1	1	1
Total finance income	5	8	42	30	30
Net foreign currency translation expenses	45	6	19	(8)	(8)
Interest expenses on interest-bearing liabilities measured at amortised cost	(57)	(74)	(280)	(317)	(317)
Interest expenses from other financial liabilities measured at amortised cost	(19)	(35)	(92)	(137)	(137)
Capitalised interest expenses	0	-	0	-	-
Unwinding of discounted liabilities	(3)	(6)	(5)	(10)	(10)
Interest on net pension liabilities	(4)	(6)	(10)	(9)	(9)
Other financial expenses	1	(1)	(2)	(2)	(2)
Total finance expenses	(82)	(122)	(388)	(474)	(474)
Net Finance income (expenses)	(32)	(108)	(327)	(452)	(452)

Note 9 Interest-bearing assets / debt

Non-current interest-bearing debt	31 December 2018	31 December 2017
Loans from related parties	-	7
Financial leases	-	0
Loans from external parties, other than banks	2,731	80
Bank financing	4,400	4,498
Total non-current interest-bearing debt	7,131	4,585
Current interest-bearing debt		
Financial lease	0	1
Loans from external parties, other than banks	195	61
Bank financing, current	1,834	3,418
Accrued interest, related parties	-	157
Accrued interest	23	10
Total current interest-bearing debt	2,052	3,647
Current bills payable	1,740	2,650
Total interest-bearing liabilities including bills payable	10,923	10,882
Cash and cash equivalents	7,082	1,751
Current restricted deposits bills payable	569	1,016
Other current restricted deposits	8	4
Other non-current restricted deposits	97	95
Loans to related parties	2	2
Loans to external parties	8	7
Accrued interest income	0	0
Total other interest-bearing assets	7,765	2,875
Total interest-bearing assets / (liabilities)	(3,158)	(8,007)

Pledges and guaranteed liabilities

The main part of Elkem's interest-bearing liabilities are neither pledged nor guaranteed.

The totals of liabilities that have pledged assets or guarantees related to them are stated below:

Guaranteed liabilities	31 December 2018	31 December 2017
Guaranteed liabilities	1,988	4,725
Pledged liabilities	30 Jun 2018	31 Dec 2017
Pledged liabilities	0	118
Pledged provisions	-	-

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. In December bridge financing term loan facility of EUR 500 million was terminated as a result of other re-financing. At the end of December 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%.

The loan facilities are unsecured.

On the 27 November 2018 Elkem issued a senior unsecured bond loan of NOK 1,750 million. An application will be made for the bond to be listed at Oslo Børs.

On the 10 December 2018 Elkem issued a series of floating and fixed rate loans in the Schuldschein market. Total size of the transaction is EUR 215 million where of EUR 91.5 million was issued at 31 December and the remainder EUR 123.5 million in January 2019. The loans are unsecured.

Note 10 Cash flow hedging

Hedge Accounting

Elkem 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 Q4 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	2,120	(52)	(65)	(67)	2		
Embedded EUR derivatives	4,800	(229)	(133)	(9)	(12)	(13)	(99)
Power contracts ¹⁾	4,058	187	332	234	64	28	6
Platinum contracts	21	(1)	-	-	-	-	-
Total derivatives		(95)	134	158	55	15	(94)
EUR loan designed as cash flow hedging instrument		(263)	(25)	(5)	(5)	(5)	(10)
Total			110	153	50	10	(104)

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	Fourth quarter		Year to date		Full year
	2018	2017	2018	2017	2017
Realised effects from forward foreign exchange contracts, Revenue	3	(23)	(34)	(41)	(41)
Realised effects from embedded derivatives EUR, Revenue	(2)	(1)	(3)	(1)	(1)
Realised effects from EUR loans, Revenue	(1)	(1)	(3)	(2)	(2)
Realised effects from power contracts, Raw materials and energy for smelting	63	(0)	216	(60)	(60)
Total realised hedging effects recycled from OCI	63	(25)	176	(105)	(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 31 December 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.

On 19 September 2018 7,850,000 options are granted to members of the management and certain other key employees. Each option gives the option holder the right to subscribe or purchase one share in the Company at an exercise price of NOK 38.52, which is equal to the share price at closing on 13 September 2018. The options will vest over a period of three years from grant with one-third vesting each year and the first one-third vesting on 18 September 2019. The options will expire two years after vesting, i.e. on 18 September 2021, 2022 and 2023, respectively.

The fair value of options granted under the share incentive scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

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, share of profit from equity accounted financial investments 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, share of profit from equity accounted financial investments, 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 Fourth quarter 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							381
Income tax (expense) benefit							93
Finance expenses							82
Foreign exchange gains (losses)							(45)
Finance income							(5)
Share of profit from equity accounted financial investments							22
Other items							112
EBIT	364	155	59	62	(31)	30	639
Impairment losses							1
Amortisations and depreciations							333
EBITDA	544	228	113	82	(24)	30	974
Amounts in NOK million Fourth quarter 2017	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							667
Income tax (expense) benefit							59
Finance expenses							122
Foreign exchange gains (losses)							(6)
Finance income							(8)
Share of profit from equity accounted financial investments							1
Other items							(66)
EBIT	438	166	182	39	(45)	(12)	768
Impairment losses							3
Amortisations and depreciations							307
EBITDA	598	238	234	57	(37)	(12)	1,078

Amounts in NOK million Year 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							3,367
Income tax (expense) benefit							425
Finance expenses							388
Foreign exchange gains (losses)							(19)
Finance income							(42)
Share of profit from equity accounted financial investments							23
Other items							380
EBIT	2,864	833	710	267	(164)	12	4,522
Impairment losses							8
Amortisations and depreciations							1,263
EBITDA	3,535	1,116	931	335	(136)	12	5,793

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)
Share of profit from equity accounted financial investments							1
Other items							(44)
EBIT	840	527	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	Fourth quarter		Year	
	2018	2017	2018	2017
Reinvestments	(389)	(339)	(1,064)	(890)
Strategic investments	(283)	(153)	(726)	(390)
Periodisations ¹⁾	(128)	153	(125)	154
Investments in property, plant and equipment and intangible assets	(800)	(338)	(1,916)	(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	Fourth quarter		Year	
	2018	2017	2018	2017
Cash flow from operating activities	1,682	833	4,460	2,256
Income taxes paid	146	76	272	198
Interest payments made	76	124	390	446
Interest payments received	(5)	(69)	(41)	(24)
Changes in provisions, pension obligations and other	(108)	232	(46)	313
Changes in fair value commodity contracts	(165)	66	(321)	79
Other	112	(66)	380	(44)
Reinvestments	(389)	(339)	(1,064)	(890)
Cash flow from operations	1,349	858	4,030	2,336

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, Property, plant and equipment, Investments equity accounted companies and Accounts payable and prepayments related to purchase of non-current assets.
- Working capital is defined as accounts receivable, inventory, other current assets, accounts payable, employee benefit obligations and other current liabilities. Accounts receivable is defined as accounts receivable less bills receivable. Other current assets is defined as other current assets less current receivables to related parties, current interest-bearing receivables, tax receivables, grants receivable and accrued interest income. Accounts payable is defined as accounts payable less accounts payable related to purchase of non-current assets. 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:

	31 December 2018	31 December 2017
Inventories	5,467	4,099
Accounts receivable	2,391	2,518
Bills receivable	-354	-272
Accounts receivable	2,037	2,247
Other current assets	836	2,091
Current interest bearing receivables	0	0
Other current receivables to related parties interest free	-4	-1,354
Grants receivables	-148	-56
Tax receivable	-38	-25
Accrued interest	0	0
Other current assets included in working capital	645	656
Accounts payable	2,731	2,650
Accounts payable related to purchase of non-current assets	-307	-439
Accounts payable included in working capital	2,423	2,211
Employee benefit obligations	671	587
Provisions and other current liabilities	1,221	1,083
Current provisions	-141	-155
Liabilities to related parties	-328	-324
Other current liabilities included in working capital	752	604
Working capital	4,303	3,600
Property, plant and equipment	12,445	11,950
Investments equity accounted companies	134	159
Accounts payable and prepayments related to purchase of non-current assets	-251	-416
Capital employed	16,631	15,292