

Elkem ASA

Fourth quarter results 2019

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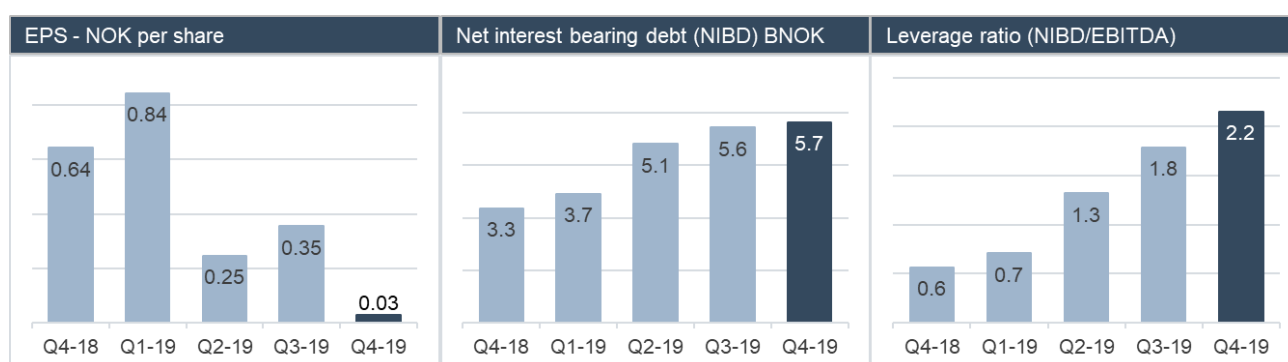
Highlights 4th quarter 2019

- Elkem's result for the fourth quarter was weighed down by weak market conditions and operational issues.
- Total operating income was NOK 5,559 million in the fourth quarter, down 9% from the corresponding quarter last year.
- EBITDA was NOK 517 million, negatively impacted by low sales prices and as announced, extra start-up costs in China after the National Day. In addition, the result was lowered by operational issues.
- Elkem has strengthened cost and working capital improvement programmes in order to mitigate the negative market development.
- Earnings per share (EPS) was NOK 0.03 in the quarter and NOK 1.47 YTD.
- The board has proposed a dividend of NOK 0.60 per share representing a dividend pay-out ratio of 41% of net profit.
- On 30 December 2019, Elkem announced the acquisition of Polysil. This will strengthen Elkem's position in selected silicone segments in China and constitute an important part of the growth and specialisation strategy.

Key figures

(NOK million, except where specified)	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
Total operating income	5,559	6,093	22,668	25,230	25,230
EBITDA	517	974	2,656	5,793	5,793
EBITDA margin (%)	9%	16%	12%	23%	23%
EBIT	92	639	1,189	4,522	4,522
Profit (loss) for the period ⁽¹⁾	17	373	855	3,337	3,337
Earning per share (EPS) (NOK per share)	0.03	0.64	1.47	5.74	5.74
Equity ratio (%)	45%	44%	45%	44%	44%
Net interest-bearing debt (NIBD)	5,722	3,264	5,722	3,264	3,264
Cash flow from operations	464	1,349	2,140	4,030	4,030
ROCE - annualised (%)	2%	15%	7%	28%	28%

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



Results still hampered by weak markets, new acquisition supporting specialisation

Elkem's result for the fourth quarter of 2019 was hampered by weak markets. Prices for silicon metal and ferrosilicon have however, started to recover from their historic lows. Operational issues have also impacted the result negatively. On 30 December 2019, Elkem announced the acquisition of Polysil. The acquisition will strengthen Elkem's position in selected silicones segments in China and constitute an important part of the growth and specialisation strategy.

Total operating income for the fourth quarter 2019 was NOK 5,559 million, which was down 9% compared to fourth quarter 2018. EBITDA amounted to NOK 517 million in the quarter, compared to NOK 974 million in the corresponding quarter last year. Earnings per share (EPS) was NOK 0.03 in the quarter. The board of directors has proposed a dividend of NOK 0.60 per share for 2019, representing a dividend pay-out ratio of 41% of net profit.

Market prices for silicones in China were mainly stable in fourth quarter but picked up towards year-end, mainly due to inventory build-up among downstream producers ahead of Chinese New Year. Prices for silicon and ferrosilicon have recovered from historic low levels, as significant production curtailments have started to have effect.

In addition to weak market conditions, the result for the fourth quarter was negatively impacted by operational issues. As previously announced, the production stop and subsequent start-up issues in connection with the National Day in China resulted in extra costs of approx. NOK 60 million. Operational issues in the Foundry Products division also impacted the result negatively by approx. NOK 60 million.

The realised effect of the accelerated improvement programme was NOK 596 million by the end of fourth quarter, which exceeded the target of NOK 500 million. All plants and divisions have worked systematically to reduce costs and enhance operations. The effects have however, been countered by further market deterioration during 2019. Elkem will continue its focus on operational improvements and cost optimisation.

Elkem entered into an agreement to acquire all of the shares in Polysil on 30 December 2019. Polysil is a leading Chinese silicone elastomer & resins material manufacturer with strong positions in baby care and food grade silicones, as well as silicone products for the electronics and medical markets. Acquiring Polysil will strengthen Elkem's position in selected specialised silicones segments in China. Elkem and Polysil's complementary product and market positions provide a solid platform for further specialisation and growth in China and globally.

The group's equity as at 31 December 2019 amounted to NOK 12,952 million, which gave a ratio of equity to total assets of 45%. Net interest-bearing debt was NOK 5,722 million, which gave a ratio of net interest-bearing debt to EBITDA of 2.2 times. Elkem had cash and cash equivalents of NOK 4,496 million as at 31 December 2019. The financial position is strong.

The outlook for the first quarter 2020 is mixed. Market prices recovered from historic low levels during fourth quarter. The price trend has continued upwards for silicon and modestly up for ferrosilicon. Silicone prices are expected to remain stable. The first quarter will be impacted by Chinese New Year and slower activity due to the coronavirus. The silicones market is mixed with stable prices for specialties, but prices for core products are still low. The expected demand pick-up after Chinese New Year will be delayed due to the coronavirus. The demand for silicon metal seems to have normalised with destocking effects levelling out. Ferrosilicon and foundry alloys still hampered by weakness in steel and automotive. Demand outlook for carbon products expected to be in line with preceding quarters.



Financial review

Group results

KEY FIGURES	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	5,559	6,093	22,668	25,230	25,230
EBITDA	517	974	2,656	5,793	5,793
EBIT	92	639	1,189	4,522	4,522
Other items	-16	-112	195	-380	-380
Net financial items	-79	-32	-239	-327	-327
Profit (loss) before income tax	2	474	1,134	3,792	3,792
Tax	26	-93	-237	-425	-425
Profit (loss) for the period	28	381	897	3,367	3,367

Quarter

Elkem group had total operating income of NOK 5,559 million in 4Q-2019, down 9% from NOK 6,093 million in 4Q-2018. All divisions were down, primarily due to lower sales prices.

The group's EBITDA for 4Q-2019 was NOK 517 million, down 47% from NOK 974 million in 4Q-2018. The EBITDA margin was 9% in the quarter, compared to 16% in 4Q-2018. Due to weak market conditions, the sales prices for Elkem's standard products are lower than the corresponding quarter last year. Prices for specialty products have been stable, but sales volumes have been reduced due to the weaker automotive market. EBITDA in the quarter was also negatively impacted by start-up costs in China after the National Day and operational issues in the Foundry Products division.

EBIT for 4Q-2019 was NOK 92 million, down from NOK 639 million in 4Q-2018.

Other items include fair value changes, gains/losses on currency forward contracts and other income and expenses. Other items amounted to NOK -16 million in 4Q-2019. Positive fair value changes in commodity contracts and embedded derivatives of NOK 33 million was offset by negative currency effects of NOK -37 million and NOK -12 million mainly related to provisions for environmental measures.

Net financial items were NOK -79 million in 4Q-2019, compared to NOK -32 million in 4Q-2018. Net interest expenses amounted to NOK -53 million, which is a reduction from NOK -70 million in 4Q-2018. Net interest expenses in 4Q-2019 included interest expenses on lease obligations in accordance with IFRS 16. Loss on foreign exchange amounted to NOK -9 million, compared to a gain of NOK 45 million in the corresponding quarter last year, mainly explained by translation effects on external loans and inter-company positions. Other financial expenses amounted to NOK -17 million.

Profit before income tax was NOK 2 million compared to NOK 474 million in 4Q-2018.

The quarter had positive tax effects of NOK 26 million. Positive tax effects were explained by low profit in the fourth quarter, which also affected the tax calculations made in the preceding quarters.

Profit for the period was NOK 28 million, compared to NOK 381 million in 4Q-2018. Owners of the parent's share of profit was NOK 17 million, which gave earnings per share of NOK 0.03 in 4Q-2019.

Year to date

The group's total operating income was NOK 22,668 million YTD 2019, down 10% from NOK 25,230 million YTD 2018. EBITDA YTD 2019 amounted to NOK 2,656 million, down 54% from NOK 5,793 million YTD 2018, mainly due to lower sales prices driven by a weak market sentiment in several sectors. Operational issues in the second and fourth quarter have also impacted the result negatively. Earnings per share was NOK 1.47 YTD 2019.

Cash flow

CASH FLOW FROM OPERATIONS	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
<i>NOK million</i>					
Operating profit (loss) before other items	92	639	1,189	4,522	4,522
Amortisation, depreciation and impairment	425	334	1,467	1,270	1,270
Changes in working capital	463	768	649	-712	-712
Reinvestments	-522	-389	-1,162	-1,064	-1,064
Equity accounted investments	6	-4	-4	14	14
Cash flow from operations	464	1,349	2,140	4,030	4,030
Other cash flow items	-1,023	1,775	-4,773	1,268	1,268
Change in cash and cash equivalents	-559	3,124	-2,633	5,298	5,298

Elkem's internal cash flow measure is defined and described in the APM appendix to the report.

Quarter

Cash flow from operations was NOK 464 million in 4Q-2019, compared to NOK 1,349 million in 4Q-2018. Lower cash flow was mainly explained by lower operating profit. The fourth quarter 2019 was positively impacted by lower working capital. Working capital optimisation was a key focus area for the group in 2019.

Reinvestments were NOK 522 million in 4Q-2019. This was higher than normal and must be seen in connection with the 3Q-2019 which was lower than normal. Strategic investments were included in other cash flow items and amounted to NOK 398 million in 4Q-2019, up from NOK 283 million in 4Q-2018. The strategic investments were primarily related to Silicones R&D centre and other specialisation projects, furnace upgrades for Silicon Materials and the battery project for Carbon.

Cash and cash equivalents have decreased by NOK 559 million in the fourth quarter, mainly explained higher investments and repayment of interest-bearing loans. Total cash and cash equivalents amounted to NOK 4,496 million as at 31 December 2019.

Year to date

Cash flow from operations amounted to NOK 2,140 million YTD 2019, down from NOK 4,030 million YTD 2018, mainly explained by lower operating profit, which has been partly offset by working capital changes. Elkem's reinvestment target is 80-90% of depreciation and amortisation (D&A). In 2019 reinvestments were NOK 1,162 million, which amounted to 80% of D&A. Strategic investments amounted to NOK 963 million YTD 2019, which was in line with the guiding for the year.

Financial position

FINANCIAL POSITION	4Q 2019	4Q 2018	FY 2018
Total equity (NOK million)	12,952	13,722	13,722
Equity ratio (%)	45%	44%	44%
EPS (NOK per share)	0.03	0.64	5.74
Net interest bearing debt (NOK million) ⁽¹⁾	5,722	3,264	3,264
Leverage ratio based on LTM EBITDA (ratio)	2.2	0.6	0.6

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

Quarter and year to date

Elkem's equity as at 31 December 2019 was NOK 12,952 million, which was down NOK 92 million from 30 September 2019. Compared to 31 December 2018, the equity was down NOK 771 million from NOK 13,722 million, mainly due to dividend payment of NOK 1,511 million. The equity ratio as at 31 December 2019 was 45%.

Net-interest bearing debt as at 31 December 2019 was NOK 5,722 million, which was up NOK 149 million from 30 September 2019. Compared to 31 December 2018, net-interest bearing debt was up NOK 2,458 million from NOK 3,264 million, explained by dividend payment, recognition of lease liabilities in accordance with IFRS 16 and the acquisition of Basel Chemie.

Elkem's leverage ratio was 2.2 times as at 31 December 2019. NIBD and leverage will likely increase in the next quarters due to dividend and acquisition of Polysil.

Segments

Silicones

KEY FIGURES	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	2,824	2,919	11,274	13,059	13,059
EBITDA	313	544	1,523	3,535	3,535
EBITDA margin	11%	19%	14%	27%	27%
Sales volume (thousand mt)	86	77	336	314	314

Quarter

The Silicones division had total operating income of NOK 2,824 million in 4Q-2019, a reduction of 3% from NOK 2,919 million in 4Q-2018. Lower operating income was mainly due to lower sales prices in China.

EBITDA for 4Q-2019 was NOK 313 million, a reduction of 42% from 4Q-2018. Lower EBITDA was partly explained by lower sales prices in China. As previously announced, extra costs in China after the production stop during the National Day impacted the result negatively by approx. NOK 60 million. In addition, EBITDA was impacted by lower speciality sales volumes, which were offset by higher volumes of core products.

Year to date

The Silicones division reported total operating income of NOK 11,274 million in YTD 2019, down 14% compared to NOK 13,059 million YTD 2018, mainly due to lower sales prices.

The EBITDA was NOK 1,523 million YTD 2019 down 57% from NOK 3,535 million YTD 2018, impacted by lower sales prices, production problems in France in the second quarter and extra costs in China in the fourth quarter following the National Day.

Silicon Materials

KEY FIGURES	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,607	1,676	6,533	6,590	6,590
EBITDA	159	228	601	1,116	1,116
EBITDA margin	10%	14%	9%	17%	17%
Sales volume (thousand mt) ¹⁾	54	57	240	237	237

1) Excluding Microsilica and quartz

Quarter

The Silicon Materials division had total operating income of NOK 1,607 million in 4Q-2019, down 4% from NOK 1,676 million in 4Q-2018. The reduction was mainly due to lower sales prices and slightly lower sales volumes.

The EBITDA for Silicon Materials was NOK 159 million in 4Q-2019, down 30% from NOK 228 million in 4Q-2018. Lower EBITDA was mainly explained by lower sales prices. The result was relatively good given the challenging market conditions and reflect the division's strong cost position and good operations.

Year to date

The Silicon Materials division reported total operating income of NOK 6,533 million YTD 2019, which was in line with YTD 2018. The division reported an EBITDA of NOK 601 million, which was 46% lower than 2018, mainly due to lower sales prices.

Foundry Products

KEY FIGURES	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,038	1,221	4,505	5,082	5,082
EBITDA	16	113	342	931	931
EBITDA margin	2%	9%	8%	18%	18%
Sales volume (thousand mt) ¹⁾	64	68	258	275	275

1) Excluding Microsilica sales

Quarter

Total operating income for the Foundry Products division was NOK 1,038 million in 4Q-2019, down 15% from NOK 1,221 million in 4Q-2018. Lower operating income was mainly explained by lower sales prices for ferrosilicon.

Foundry Products reported EBITDA of NOK 16 million in 4Q-2019, down by 86% from NOK 113 million in the corresponding quarter last year. Lower EBITDA was partly explained by lower ferrosilicon prices and lower sales volumes of speciality foundry alloys. In addition, the EBITDA was negatively impacted by approx. NOK 60 million due to operational issues at Bjolvefossen and Iceland, which resulted in higher costs and lower production. A furnace relining was accelerated at Bjolvefossen in the fourth quarter, while Iceland experienced problems related to equipment failure and unstable production.

Year to date

The Foundry Products division reported total operating income of NOK 4,505 million YTD 2019, down 11% from NOK 5,082 million YTD 2018. EBITDA amounted to NOK 342 million, down 63% from NOK 931 million YTD 2018, mainly explained by lower ferrosilicon prices, lower sales volumes for speciality products and the operational issues in the fourth quarter.

Carbon

KEY FIGURES	4Q 2019	4Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	461	525	1,836	1,892	1,892
EBITDA	71	82	308	335	335
EBITDA margin	15%	16%	17%	18%	18%
Sales volume (thousand mt)	63	75	257	289	289

Quarter

The Carbon division reported total operating income of NOK 461 million in 4Q-2019, which is down 12% from 4Q-2018. Lower operating income was due to lower sales volumes.

EBITDA for 4Q-2019 was NOK 71 million, down 13% from NOK 82 million in the corresponding quarter last year. Lower EBITDA was mainly explained by lower sales volumes due to weak ferroalloy markets, which has reduced the demand for carbon products.

Year to date

The Carbon division reported total operating income of NOK 1,836 million YTD 2019, which was 3% lower than YTD 2018. EBITDA was NOK 308 million YTD 2019, compared to NOK 335 million YTD 2018. Sales volumes were down YTD 2019 compared to YTD 2018, impacted by maintenance/project stops in 1Q- 2019 and weaker market conditions in 3Q and 4Q-2019.

Outlook

The outlook for the first quarter 2020 is mixed. During the fourth quarter 2019 market prices recovered from historic low levels. The price trend has continued upwards for silicon and modestly up for ferrosilicon. Silicone prices are expected to remain stable.

First quarter 2020 will be impacted by Chinese New Year and slower activity due to the coronavirus.

The silicones market is mixed. Prices for specialties remain stable, but prices for core products are still low. The expected demand pick-up after Chinese New Year may be delayed due to the coronavirus. The demand for silicon metal seems to have normalised with destocking effects levelling out. Ferrosilicon and foundry alloys are still hampered by weakness in steel and automotive markets. The demand outlook for carbon products is expected to be in line with preceding quarters.



Condensed consolidated interim statement of income

Amounts in NOK million	Note	Fourth quarter		Year to date	
		2019	2018*	2019	2018*
Revenue	2,13	5,406	6,001	22,246	24,968
Other operating income	2	144	88	392	244
Share of profit (loss) from equity accounted companies	2	9	4	31	18
Total operating income		5,559	6,093	22,668	25,230
Raw materials and energy for production	13	(2,829)	(2,905)	(11,512)	(11,366)
Employee benefit expenses		(954)	(950)	(3,696)	(3,449)
Other operating expenses	5	(1,258)	(1,263)	(4,804)	(4,622)
Amortisations and depreciations	4,5,6	(418)	(333)	(1,456)	(1,263)
Impairment losses	4,5,6	(7)	(1)	(11)	(8)
Operating profit (loss) before other items		92	639	1,189	4,522
Other items	8	(16)	(112)	195	(380)
Operating profit (loss)		76	527	1,384	4,142
Share of profit (loss) from equity accounted financial investments		4	(22)	(12)	(23)
Finance income	9	10	5	41	42
Foreign exchange gains (losses)	9	(9)	45	16	19
Finance expenses	5,9	(79)	(82)	(295)	(388)
Profit (loss) before income tax		2	474	1,134	3,792
Income tax (expenses) benefits		26	(93)	(237)	(425)
Profit (loss) for the period		28	381	897	3,367
Attributable to:					
Non-controlling interests' share of profit (loss)		11	8	42	29
Owners of the parent's share of profit (loss)		17	373	855	3,337
*) 2018 figures have been restated, see note 13 Changes in accounting policies					
Earnings per share		Fourth quarter		Year to date	
		2019	2018	2019	2018
Basic earnings per share in NOK		0.03	0.64	1.47	5.74
Diluted earnings per share in NOK		0.03	0.64	1.47	5.74
Weighted average number of outstanding shares (million)		12	581	581	581
Weighted average number of outstanding shares -diluted (million)		12	581	581	581

Condensed consolidated interim statement of comprehensive income

Amounts in NOK million	Fourth quarter		Year to date	
	2019	2018	2019	2018
Profit (loss) for the period	28	381	897	3,367
Items that will not be reclassified to profit or loss				
Remeasurement of defined benefit pension plans	(26)	17	(26)	17
Tax effects on remeasurements of defined benefit pension plans	2	(6)	3	(6)
Change in fair value of equity instruments	(0)	2	10	2
Share of other comprehensive income (loss) from equity accounted companies	-	-	0	(0)
	(24)	14	(13)	14
Items that may be reclassified to profit or loss				
Currency translation differences	(105)	494	33	113
Hedging of net investment in foreign operations	11	(133)	24	(29)
Tax effects hedging of net investment in foreign operations	(2)	30	(5)	7
Cash flow hedges	2	(31)	(203)	697
Tax effects on cash flow hedges	(0)	8	45	(159)
Share of other comprehensive income (loss) from equity accounted companies	7	(8)	(14)	(8)
	(88)	361	(120)	621
Other comprehensive income, net of tax	(112)	375	(133)	634
Total comprehensive income	(83)	756	764	4,001
Attributable to:				
Non-controlling interests' share of comprehensive income	10	12	45	32
Owners of the parent's share of comprehensive income	(93)	744	720	3,969
Total comprehensive income	(83)	756	764	4,001

Condensed consolidated interim statement of financial position

Amounts in NOK million	Note	31 December 2019	31 December 2018
ASSETS			
Property, plant and equipment	4	13,202	12,445
Right-of-use assets	5	580	-
Goodwill	6	466	342
Other intangible assets	6	777	922
Deferred tax assets		66	60
Investments in equity accounted companies		129	134
Derivatives	11	66	131
Other non-current assets		407	441
Total non-current assets		15,692	14,474
Inventories	7	5,224	5,467
Trade receivables		2,269	2,391
Derivatives	11	38	303
Other current assets		1,013	836
Restricted deposits	10	271	577
Cash and cash equivalents	10	4,496	7,082
Total current assets		13,311	16,656
TOTAL ASSETS		29,004	31,129
EQUITY AND LIABILITIES			
Paid-in capital	12	6,616	8,102
Retained earnings		6,240	5,520
Non-controlling interests		96	101
Total equity		12,952	13,722
Interest-bearing non-current liabilities	5.10	8,340	7,131
Deferred tax liabilities		243	207
Employee benefit obligations		584	563
Derivatives	11	210	450
Provisions and other liabilities		158	232
Total non-current liabilities		9,536	8,583
Trade payables		2,767	2,731
Income tax payables		51	330
Interest-bearing current liabilities	5.10	1,262	2,052
Bills payable	10	887	1,740
Employee benefit obligations		640	671
Derivatives	11	37	79
Provisions and other liabilities		871	1,221
Total current liabilities		6,516	8,824
TOTAL EQUITY AND LIABILITIES		29,004	31,129

Condensed consolidated interim statement of cash flows

Amounts in NOK million	Note	Fourth quarter		Year to date	
		2019	2018	2019	2018
Operating profit (loss)	5	76	527	1,384	4,142
Amortisation, depreciation and impairment	4,5,6	425	334	1,467	1,270
Changes in working capital		463	768	649	(712)
Equity accounted companies		6	(4)	(4)	14
Changes in fair value of commodity contracts		(19)	165	(218)	321
Changes in provisions, bills receivable and other		(42)	108	(671)	46
Interest payments received		9	5	38	41
Interest payments made		(65)	(76)	(248)	(390)
Income taxes paid		(137)	(146)	(559)	(272)
Cash flow from operating activities		716	1,682	1,839	4,460
Investments in property, plant and equipment and intangible assets		(823)	(800)	(2,107)	(1,916)
Acquisition of subsidiaries, net of cash acquired		9	(0)	(206)	(4,049)
Payment received on loan to related parties		-	-	-	1,303
Other investments / sales		8	14	28	(9)
Cash flow from investing activities		(807)	(787)	(2,285)	(4,671)
Dividends paid to non-controlling interests		(15)	(23)	(49)	(33)
Dividends paid to owners of the parent		-	-	(1,511)	-
Capital increase		-	-	-	5,171
Net changes in bills payable		(211)	77	(556)	(445)
Repayment of lease liabilities (IFRS 16)	5	(25)	-	(78)	-
New interest-bearing loans and borrowings		251	2,648	2,082	6,643
Repayment of interest-bearing loans and borrowings		(469)	(473)	(2,074)	(5,586)
Net changes of short term loans from related parties		-	-	-	(241)
Cash flow from financing activities		(468)	2,229	(2,187)	5,509
Change in Cash and cash equivalents		(559)	3,124	(2,633)	5,298
Currency exchange differences		(16)	100	47	33
Cash and cash equivalents opening balance		5,071	3,858	7,082	1,751
Cash and cash equivalents closing balance		4,496	7,082	4,496	7,082

Condensed consolidated interim statement of changes in equity

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non- controlling interests	Total
Opening balance 1 January 2019	8,102	5,520	13,622	101	13,722
Profit (loss) for the period	-	855	855	42	897
Other comprehensive income	-	(135)	(135)	2	(133)
Total comprehensive income	-	720	720	45	764
Share-based payment	25	-	25	-	25
Dividends to equity holders	(1,511)	-	(1,511)	(49)	(1,560)
Closing balance 31 December 2019	6,616	6,240	12,855	96	12,952

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non- controlling interests	Total
Opening balance 1 January 2018	2,918	5,545	8,463	102	8,565
Profit (loss) for the year	-	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	5,177	-	5,177	-	5,177
Business combination under common control	-	(3,995)	(3,995)	-	(3,995)
Share-based payment	6	-	6	-	6
Dividends to equity holders	-	-	-	(33)	(33)
Closing balance 31 December 2018	8,102	5,520	13,622	101	13,722

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 2019 were approved at the meeting of the board of directors on 12 February 2020.

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 consolidated financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

The accounting policies applied are consistent with those applied in the annual consolidated financial statements 2018, except for following changes;

- Implementation of IFRS 16 Leases (see note 5 Right of use assets)
- Presentation of sale of Power (see note 13 Changes in accounting policies)

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 6 operating segments to the consolidated financial statements for the year ended 31 December 2018, 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.

Fourth quarter 2019	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	2,715	1,152	945	407	35		5,255
Other revenue	57	14	19	6	54		151
Other operating income	43	73	16	5	7		144
Share of profit from equity accounted companies	-	-	(1)	-	10		9
Total operating income from external customers	2,815	1,240	979	418	106		5,559
Operating income from other segments	9	367	59	42	116	(593)	-
Total operating income	2,824	1,607	1,038	461	222	(593)	5,559
Operating expenses	(2,511)	(1,448)	(1,022)	(390)	(269)	598	(5,042)
EBITDA	313	159	16	71	(47)	5	517
Operating profit (loss) before other items (EBIT)	93	49	(51)	47	(52)	5	92

Fourth quarter 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other*	Eliminations	Total
Revenue from sale of goods	2,859	1,361	1,154	465	75		5,915
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)	-	4		4
Total operating income from external customers	2,917	1,388	1,179	475	134		6,092
Operating income from other segments	3	288	42	50	98	(481)	-
Total operating income	2,919	1,676	1,221	525	232	(481)	6,092
Operating expenses	(2,375)	(1,448)	(1,107)	(443)	(256)	511	(5,119)
EBITDA	544	228	113	82	(24)	30	974
Operating profit (loss) before other items (EBIT)	364	155	59	62	(31)	30	639

*) 2018 figures have been restated, see note 13 Changes in accounting policies

Year to date 31 December 2019	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	11,047	4,781	4,223	1,635	203		21,890
Other revenue	80	36	34	12	195		356
Other operating income	132	166	63	10	22		392
Share of profit from equity accounted companies	-	-	(1)	-	31		31
Total operating income from external customers	11,259	4,982	4,320	1,657	451		22,668
Operating income from other segments	15	1,551	185	179	452	(2,382)	-
Total operating income	11,274	6,533	4,505	1,836	903	(2,382)	22,668
Operating expenses	(9,750)	(5,932)	(4,162)	(1,528)	(1,035)	2,397	(20,012)
EBITDA	1,523	601	342	308	(133)	15	2,656
Operating profit (loss) before other items (EBIT)	742	270	100	232	(170)	15	1,189

Year to date 31 December 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other*	Eliminations	Total
Revenue from sale of goods	12,909	5,003	4,827	1,677	246		24,662
Other revenue	29	34	44	8	192		307
Other operating income	108	75	31	7	23		244
Share of profit from equity accounted companies	-	-	(0)	-	18		18
Total operating income from external customers	13,046	5,113	4,902	1,692	478		25,230
Operating income from other segments	14	1,477	180	200	343	(2,214)	-
Total operating income	13,059	6,590	5,082	1,892	821	(2,214)	25,230
Operating expenses	(9,524)	(5,474)	(4,151)	(1,558)	(957)	2,226	(19,438)
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

*) 2018 figures have been restated, see note 13 Changes in accounting policies

Note 3 Changes in composition of the group

In 2019 Elkem invested NOK 206 million related to acquisition of new subsidiaries and business (business combinations). The amount comprises cash consideration transferred, reduced by cash and cash equivalents of the acquiree.

30 September 2019 Elkem acquired 100% of the shares in Basel Chemie Co. Ltd. a Korean producer of specialty silicone gels for cosmetics and water repellents for the construction industry. The acquisition gives Elkem access to leading technology in attractive end-user silicone segments and provides a solid platform for further development and growth.

Acquisition-related costs of NOK 2 million year to date are classified as other items in the statement of income.

The table below summarise the amounts recognised for assets acquired and liabilities assumed after the business combination.

	Carrying amount	Excess value	Fair value
Non-current assets	50	55	106
Current assets	40	-	40
Non-current liabilities	(24)	(12)	(36)
Current liabilities	(11)	-	(11)
Total identifiable net assets	57	43	100
Non-controlling interests	-	-	-
Goodwill	-	122	122
Total recognised	57	165	222

The goodwill of NOK 122 million is attributable to the know-how in the acquired business and synergies for the Silicones segment. The allocation is based on provisional assessment of the fair value.

The fair value of acquired receivables NOK 9 million adjusted for NOK 0.4 million in expected uncollectable receivables at the date of acquisition.

For the period of purchase to 31 December 2019 Basel has contributed NOK 0.1 million to the profit (loss) for the period. If the acquisition date of business combination was on 1 January 2019, the operating income of Elkem would have increased with NOK 58 million and the profit would have increased by NOK 1 million.

Note 4 Fixed assets

31 December 2019	Land	Plant, buildings and other property	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Opening balance	148	6,529	19,103	485	1,619	27,883
Additions	2	19	7	5	1,997	2,031
Transferred from CiP	0	349	1,564	61	(1,974)	-
Reclassification	-	0	19	(16)	(48)	(45)
Business combinations	30	32	8	1	-	70
Disposals	(2)	(10)	(430)	(12)	(7)	(461)
Exchange differences	(0)	(10)	(26)	(1)	(4)	(42)
Closing balance	178	6,908	20,245	523	1,583	29,437
Accumulated depreciation						
Opening balance	-	(2,310)	(10,213)	(334)		(12,856)
Addition	-	(193)	(1,013)	(35)		(1,241)
Reclassification	-	(0)	(19)	19		0
Disposals	-	7	396	12		415
Exchange differences	-	2	12	0		14
Closing balance	-	(2,494)	(10,837)	(338)		(13,668)
Impairment losses						
Opening balance	(11)	(380)	(2,116)	(0)	(75)	(2,582)
Addition	(0)	(0)	(9)	(0)	(1)	(10)
Disposals	0	1	14	0	1	16
Exchange differences	0	1	8	0	0	10
Closing balance	(11)	(378)	(2,103)	(0)	(75)	(2,567)
Net book value	167	4,036	7,305	186	1,508	13,202

31 December 2018	Land	Plant, buildings and other property	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Opening balance	144	6,177	18,241	454	1,517	26,532
Additions	0	3	37	3	1,661	1,705
Transferred from CiP	0	389	1,111	34	(1,535)	-
Reclassification	-	4	(5)	1	(11)	(10)
Business combinations	-	-	7	-	-	7
Disposals	-	(67)	(317)	(7)	(47)	(438)
Exchange differences	3	22	30	(0)	33	87
Closing balance	148	6,529	19,103	485	1,619	27,883
Accumulated depreciation						
Opening balance	-	(2,162)	(9,467)	(306)		(11,934)
Addition	-	(178)	(947)	(31)		(1,156)
Reclassification	-	(3)	4	(1)		(0)
Disposals	-	34	233	5		273
Exchange differences	-	(0)	(36)	(2)		(38)
Closing balance	-	(2,310)	(10,213)	(334)		(12,856)
Impairment losses						
Opening balance	(11)	(395)	(2,134)	(0)	(108)	(2,647)
Addition	-	(0)	(5)	(0)	(3)	(8)
Disposals	-	17	35	0	35	86
Exchange differences	(0)	(1)	(12)	-	1	(13)
Closing balance	(11)	(380)	(2,116)	(0)	(75)	(2,582)
Net book value	137	3,839	6,774	152	1,544	12,445

Note 5 Right of use assets

31 December 2019	Land	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Total
Cost					
Opening balance	-	-	-	-	-
IFRS 16 Opening balance	14	322	68	8	412
Additions	1	40	33	-	74
Reclassification	223	-	0	-	223
Disposals	-	(3)	(3)	-	(6)
Exchange differences	0	(2)	(0)	0	(2)
Closing balance	239	357	99	8	702
Accumulated depreciation					
Opening balance	-	-	-	-	-
Addition	(6)	(56)	(30)	(1)	(93)
Reclassification	(37)	-	(0)	-	(37)
Disposals	-	3	3	-	6
Exchange differences	0	1	0	0	1
Closing balance	(42)	(52)	(27)	(1)	(123)
Impairment losses					
Opening balance	-	-	-	-	-
Exchange differences	-	-	-	-	-
Closing balance	-	-	-	-	-
Net book value	197	305	72	6	580

Transition to IFRS 16 Leases

Under the previous IFRS standard, leases classified as operational leases was presented as operating expenses. Under the new IFRS 16 the capitalised right-of-use assets are depreciated over the lease term and presented as depreciation, and the interest effect from the discounted liability is presented as a financial item in the statement of income. Lease of land that were previously recognised as intangible assets are from

1 January 2019 reclassified to right-of-use assets. Elkem has implemented the leasing standard using a modified retrospective method where comparative figures are not restated. Below is an overview of the implementation impact of IFRS 16 Leases:

Consolidated statement of financial position (increase / (decrease))

Effect on opening balance	31 December 2018	Impact IFRS 16	Reclassification leasehold land	1 January 2019
Assets				
Right-of-use assets	-	412	187	599
Other intangible assets	922	-	(187)	735
Liabilities				
Interest-bearing non-current liabilities	7,131	328	-	7,459
Interest-bearing current liabilities	2,052	85	-	2,137

Consolidated statement of income

	Year to date 2019 IFRS 16	Impact IFRS 16	Year to date 2019 IAS 17
Other operating expenses	(4,804)	(95)	(4,899)
Amortisations and depreciations	(1,456)	89	(1,367)
Finance expenses	(295)	17	(278)

Cash flow from operating activities has increased and cash flow from financing activities has decreased correspondingly by NOK 78 million year to date 2019 as repayment of the principal portion of the lease liabilities is classified as cash flow from financing activities compared with IAS 17. Cash flow from operations, that is used to measure segment performance, has increased with additional NOK 17 million due to cash flow related to finance expenses.

Elkem's activities, as lessor that are mainly related to sublease of office buildings. The effects are not material and Elkem has not identified any impact on the financial statements due to transition to IFRS 16.

Note 6 Intangible assets

31 December 2019	Goodwill	Land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under construction	Total other intangible assets
Cost								
Opening balance	342	328	540	392	591	57	154	2,062
Additions	-	0	0	10	-	-	84	94
Transferred to/from CiP	-	-	20	19	50	5	(95)	0
Reclassification	-	(223)	2	1	34	(1)	10	(179)
Business combinations	122	-	-	-	-	31	-	31
Disposals	-	(1)	-	(1)	(7)	-	-	(8)
Exchange differences	3	(2)	(5)	(1)	(6)	0	(1)	(14)
Closing balance	466	101	557	421	663	92	152	1,987
Accumulated depreciation								
Opening balance		(87)	(392)	(272)	(364)	(24)		(1,139)
Addition		(1)	(29)	(35)	(53)	(4)		(122)
Reclassification		37	(1)	2	0	(1)		37
Disposals		0	-	1	7	-		7
Exchange differences		1	3	1	3	(0)		8
Closing balance		(50)	(419)	(304)	(407)	(29)		(1,209)
Impairment losses								
Opening balance	-	(1)	-	-	-	-	-	(1)
Addition	-	(1)	-	-	-	-	-	(1)
Disposals	-	1	-	-	-	-	-	1
Exchange differences	-	0	-	-	-	-	-	0
Closing balance	-	(1)	-	-	-	-	-	(1)
Net book value	466	51	138	117	256	63	152	777

31 December 2018	Goodwill	Leasehold land and land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under construction	Total other intangible assets
Cost								
Opening balance	326	326	526	409	548	53	117	1,980
Additions	-	9	0	15	2	0	76	102
Transferred to/from CiP	-	-	10	2	31	-	(43)	-
Reclassification	-	(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
Closing balance	342	328	540	392	591	57	154	2,062
Accumulated depreciation								
Opening balance		(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)
Closing balance		(87)	(392)	(272)	(364)	(24)		(1,139)
Impairment losses								
Opening balance	-	(1)	-	-	-	-	-	(1)
Exchange differences	-	(0)	-	-	-	-	-	(0)
Closing balance	-	(1)	-	-	-	-	-	(1)
Net book value	342	240	147	120	227	33	154	922

Note 7 Inventories

	31 December 2019	31 December 2018
Raw materials	1,206	1,268
Semi-finished goods	346	510
Finished goods	3,187	3,236
Operating materials and spare parts	485	453
Total inventories	5,224	5,467
Provisions for write-down of inventories	(119)	(98)

Note 8 Other items

	Fourth quarter		Year to date	
	2019	2018	2019	2018
Change in fair value commodity contracts ¹⁾	33	(170)	246	(319)
Ineffectiveness on cash flow hedges	-	13	(13)	19
Net foreign exchange gains (losses) - forward currency contracts	14	(0)	23	29
Operating foreign exchange gains (losses)	(52)	60	(45)	32
Other gains / (losses)	(4)	(97)	211	(240)
Dividend from interest in other companies	0	1	1	2
Change in fair value from shares in other companies	0	(1)	1	(2)
Gains (losses) disposal of subsidiaries	0	0	0	1
Other income	0	0	3	1
Expenses IPO	-	(0)	-	(96)
Other	(12)	(14)	(18)	(46)
Other expenses	(12)	(15)	(18)	(142)
Total other items	(16)	(112)	195	(380)

1) Mainly fair value changes of the 30-øring contract and interest element from embedded derivatives EUR in power contracts, see note 26 Financial assets and liabilities to the consolidated financial statements for the year ended 31 December 2018.

Note 9 Finance income and expenses

	Fourth quarter		Year to date	
	2019	2018	2019	2018
Interest income on loans and receivables	10	5	40	41
Other financial income	0	0	1	1
Total finance income	10	5	41	42
Foreign exchange gains (losses)	(9)	45	16	19
Interest expenses on interest-bearing liabilities measured at amortised cost	(51)	(57)	(221)	(280)
Interest expenses from other items measured at amortised cost	(5)	(19)	(25)	(92)
Interest expenses on lease liabilities	(6)	-	(17)	-
Capitalised interest expenses	-	0	-	0
Unwinding of discounted liabilities	(2)	(3)	(5)	(5)
Interest on net pension liabilities	(4)	(4)	(10)	(10)
Other financial expenses	(11)	1	(18)	(2)
Total finance expenses	(79)	(82)	(295)	(388)
Net Finance income (expenses)	(79)	(32)	(239)	(327)

Note 10 Interest-bearing assets and liabilities

	31 December 2019	31 December 2018
Non-current interest-bearing debt		
Financial leases	-	-
Lease liabilities	323	-
Loans from external part, other than bank	3,928	2,731
Bank financing	4,089	4,400
Total non-current interest-bearing debt	8,340	7,131
Current interest-bearing debt		
Financial lease	-	0
Lease liabilities	85	-
Loans from external parties, other than banks	266	195
Bank financing, current	887	1,834
Accrued interest	25	23
Total current interest-bearing debt	1,262	2,052
Current bills payable	887	1,740
Total interest-bearing liabilities including bills payable	10,489	10,923
Cash and cash equivalents	4,496	7,082
Current restricted deposits bills payable	267	569
Other current restricted deposits	4	8
Other non-current restricted deposits	42	97
Receivables from related parties	1	2
Loans to external parties	8	8
Accrued interest income	2	0
Total other interest-bearing assets	4,820	7,765
Total interest-bearing assets / (liabilities)	(5,669)	(3,158)

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 2019	31 December 2018
Guaranteed liabilities	492	1,988

Pledged liabilities	31 December 2019	31 December 2018
Pledged liabilities	35	0
Pledged provisions	-	-

Note 11 Cash flow hedging

Hedge Accounting

Elkem is applying hedge accounting for parts of its forward currency contracts, certain parts of EUR loans, for embedded EUR derivatives in power contracts and for certain power contracts. The forward currency contracts are designated in a cash flow hedge to hedge currency fluctuations in highly probable future sales, mainly in USD and EUR. The power 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 to revenue and energy for production respectively, when realised.

Derivatives as at 31 December 2019

	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 currency contracts	2,606	41	22	2	5	5	9
Embedded EUR derivatives	4,618	(217)	(95)	(13)	(12)	(12)	(58)
Power contracts ¹⁾	3,182	31	(3)	(62)	25	8	27
Platinum contracts	14	1	-	-	-	-	-
Total derivatives		(144)	(76)	(72)	19	1	(23)
EUR loan designed as cash flow hedging instrument		(211)	(18)	(4)	(4)	(4)	(4)
Total			(94)	(77)	14	(4)	(27)

1) For certain contracts and part of contracts hedge accounting is applied.

Realised effects hedge accounting, recycled from OCI	Fourth quarter		Year to date	
	2019	2018	2019	2018
Realised effects from forward currency contracts, Revenue	(21)	3	(50)	(34)
Realised effects from embedded derivatives EUR, Revenue	(5)	(2)	(11)	(3)
Realised effects from EUR loans, Revenue	(3)	(1)	(5)	(3)
Realised effects from power contracts, raw materials, energy for smelting	19	63	87	216
Total realised hedging effects recycled from OCI	(10)	63	21	176

See note 26 Financial assets and liabilities, note 27 Hedging and note 28 Financial risk to the consolidated financial statements for the year ended 31 December 2018.

Note 12 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.

	Outstanding
As at 1 January 2019	581,310,344
As at 31 December 2019	581,310,344

In the annual general meeting held on 30 April 2019, the board of directors was granted an authorisation to repurchase the company's own shares within a total nominal value of up to NOK 290,655,172. 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 2020, but not later than 30 June 2020. 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.

In the annual general meeting held on 30 April 2019, the board of directors was granted an authorisation to increase the company's share capital with an amount up to NOK 290,655,172. The authorisation is valid until the annual general meeting in 2020, but not later than 30 June 2020. The authorisation can be used to cover share capital increases against contribution in kind and in connection with mergers.

In the annual general meeting held on 30 April 2019, the board of directors was 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 is valid until the annual general meeting in 2020, but not later than 30 June 2020. The authorisation does not cover capital increases against contribution in kind or capital increases in connection with mergers. As at 31 December 2019 14,767,000 options are granted and outstanding to members of the management and certain other key employees.

Note 13 Changes in accounting policies

Elkem has some power contracts where the power is delivered in other grid areas than Elkem's consumption. Elkem therefore needs to sell the power in the grid area where the power is delivered and purchase power in the areas where the plants are located. Previously Elkem presented sale of power in the same grid area that it's bought due to transfer of the power from one grid area to another grid area gross, as revenue and a corresponding raw material and energy for smelting. The new accounting policy is to present these transactions net, as the risks related to these transactions are immaterial and only related to Elkem's own use of power. There are no gains or losses from these transactions. Comparable figures are restated. The impact on comparable figures in the statement of income are shown in the tables below. The change in accounting policy has only effect on the segment other in note 2 Operating segments.

Statement of income	Q4 2019 after change	Impact	Q4 2019 before change
Revenue	5,406	154	5,559
Raw materials and energy for smelting	(2,829)	(154)	(2,983)
Operating profit (loss) before other items	92	-	92

Statement of income	Q4 2018 after change	Impact	Q4 2018 before change
Revenue	6,001	172	6,173
Raw materials and energy for smelting	(2,905)	(172)	(3,077)
Operating profit (loss) before other items	639	-	639

Statement of income	YTD 2019 after change	Impact	YTD 2019 before change
Revenue	22,246	605	22,852
Raw materials and energy for smelting	(11,512)	(605)	(12,118)
Operating profit (loss) before other items	1,189	-	1,189

Statement of income	YTD 2018 after change	Impact	YTD 2018 before change
Revenue	24,968	656	25,625
Raw materials and energy for smelting	(11,366)	(656)	(12,023)
Operating profit (loss) before other items	4,522	-	4,522

Note 14 Events after reporting period

Elkem has in December 2019 entered into an agreement to acquire all of the shares in Guandong Polysil Technology Co. Ltd. (hereafter Polysil), a leading Chinese silicone elastomer & resins material manufacturer with strong positions in baby care and food grade silicones, as well as silicone products for the electronics and medical markets. The companies have agreed an enterprise value for Polysil of up to RMB 941 million, including potential bonus and earn-out depending on pre-agreed criteria. In 2019, Polysil is estimated to generate a total operating revenue of RMB 630 million and profit of RMB 100 million. Completion of the acquisition is subject to final regulatory approvals. Closing is expected by end of first quarter 2020.

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 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. Elkem uses net interest-bearing debt less non-current interest-bearing assets / EBITDA as leverage ratio for measuring the group's financial flexibility and ability for step-change growth and acquisitions.

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

Fourth quarter 2019	Silicon Foundry					Other Eliminations	Elkem
	Silicones	Materials	Products	Carbon			
Profit (loss) for the period							28
Income tax (expense) benefit							(26)
Finance expenses							79
Foreign exchange gains (losses)							9
Finance income							(10)
Share of profit from equity accounted financial investments							(4)
Other items							16
EBIT	93	49	(51)	47	(52)	5	92
Impairment losses							7
Amortisations and depreciations							418
EBITDA	313	159	16	71	(47)	5	517

Fourth quarter 2018	Silicon Foundry					Other Eliminations	Elkem
	Silicones	Materials	Products	Carbon			
Profit (loss) for the period							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

Year to date 31 December 2019	Silicon		Foundry	Carbon	Other	Eliminations	Elkem
	Silicones	Materials	Products				
Profit (loss) for the year							897
Income tax (expense) benefit							237
Finance expenses							295
Foreign exchange gains (losses)							(16)
Finance income							(41)
Share of profit from equity accounted financial investments							12
Other items							(195)
EBIT	742	270	100	232	(170)	15	1,189
Impairment losses							11
Amortisations and depreciations							1,456
EBITDA	1,523	601	342	308	(133)	15	2,656

Year to date 31 December 2018	Silicon		Foundry	Carbon	Other	Eliminations	Elkem
	Silicones	Materials	Products				
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

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 the statement of income) 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

	Fourth quarter		Year to date	
	2019	2018	2019	2018
Reinvestments	(522)	(389)	(1,162)	(1,064)
Strategic investments	(398)	(283)	(963)	(726)
Periodisations ¹⁾	96	(128)	18	(125)
Investments in property, plant and equipment and intangible assets	(823)	(800)	(2,107)	(1,916)

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:

	Fourth quarter		Year to date	
	2019	2018	2019	2018
Cash flow from operating activities	716	1,682	1,839	4,460
Income taxes paid	137	146	559	272
Interest payments made	65	76	248	390
Interest payments received	(9)	(5)	(38)	(41)
Changes in provisions, pension obligations and other	42	(108)	671	(46)
Changes in fair value commodity contracts	19	(165)	218	(321)
Other items	16	112	(195)	380
Reinvestments	(522)	(389)	(1,162)	(1,064)
Cash flow from operations	464	1,349	2,140	4,030

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, right-of-use assets, investments equity accounted companies and trade payables 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 are defined as trade receivables less bills receivable. Other current assets are 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 are defined as trade payables less CAPEX payables. Other current liabilities are defined as provisions and other current liabilities less current provisions and liabilities to related parties.
- Capital employed consists of working capital as defined above, property, plant and equipment, right of use assets, investments equity accounted companies, accounts payable and prepayments related to purchase of non-current assets.
- 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:

Working capital bridge from statutory accounts to company definition

	31 December 2019	31 December 2018
Inventories	5,224	5,467
Trade receivables	2,269	2,391
Bills receivable	(675)	(354)
Accounts receivable	1,594	2,037
Other current assets	1,013	836
Current interest-bearing receivables	-	-
Other current receivables to related parties interest free	(2)	(4)
Grants receivables	(361)	(148)
Tax receivables	(137)	(38)
Accrued interest	(2)	(0)
Other current assets included in working capital	510	645
Trade payables	2,767	2,731
Trade payables related to purchase of non-current assets	(389)	(307)
Accounts payable included in working capital	2,378	2,423
Employee benefit obligations	640	671
Provisions and other current liabilities	871	1,221
Current provisions	(161)	(141)
Liabilities to related parties	(81)	(328)
Other current liabilities included in working capital	629	752
Working capital	3,681	4,303
Property, plant and equipment	13,202	12,445
Right-of-use assets	580	-
Investments equity accounted companies	129	134
Trade payables and prepayments related to purchase of non-current assets	(323)	(251)
Capital employed	17,269	16,631

Elkem's financial APMs, Leverage ratio

- Net interest-bearing debt that is used to measured leverage ratio is excluding non-current interest-bearing financial assets and accrued interest income. These assets are not easily available to be used to finance the group's operations. Below a calculation of Elkem's leverage ratio.

	31 December 2019	31 December 2018
Net interest-bearing assets / (liabilities)	(5,669)	(3,158)
Non-current interest-bearing assets	(51)	(106)
Accrued interest income	(2)	(0)
Net interest-bearing debt	(5,722)	(3,264)
EBITDA (LTM)	2,656	5,793
Leverage ratio	2.2	0.6