

THE BOARD OF DIRECTOR'S REPORT ON CORPORATE GOVERNANCE

0. Corporate governance

Elkem considers good corporate governance to be a prerequisite for value creation and trustworthiness. The group has governance documents setting out principles for how business should be conducted. These apply to all Elkem entities.

Elkem is subject to corporate governance reporting requirements according to section 3-3b of the Norwegian Accounting Act and the Continuing obligations of stock exchange listed companies at Oslo Stock Exchange. Further, Elkem's board of directors endorses "The Norwegian Code of Practice for Corporate Governance" (the "Code"), most recently revised on 17 October 2018 and issued by the Norwegian Corporate Governance Policy Board. The Code of Practice is available at <http://www.nues.no/>.

This report follows the system used in the Code.

1. Implementation and reporting on corporate governance

Elkem's corporate governance policy is based on the Code, and as such designed to establish a basis for good corporate governance to support achievement of the company's core objectives on behalf of its shareholders, including the achievement of sustainable profitability.

Elkem believes good corporate governance involves openness and trustful cooperation between all parties involved in the group: the shareholders, the board of directors and executive management, employees, customers, suppliers, public authorities and society in general.

By pursuing the principles of corporate governance, the board of directors and management contributes to achieving open communication, equal rights for all shareholders and good control and corporate governance mechanisms. The board of directors assesses and discusses Elkem's corporate governance policy on a yearly basis.

Elkem aspire to comply with the recommendations of the Code. If the Code is deviated from, the deviation is described and explained in the relevant section of this statement.

Elkem's mission is to contribute to a sustainable future by providing advanced silicon, silicones and carbon solutions, adding value to our stakeholders globally. Further information on Elkem's corporate values is available on www.elkem.com.

2. Business

Elkem was founded in 1904 and is a market leader in the production of silicon-based advanced materials. Elkem is a fully integrated producer with operations throughout the silicon value chain from quartz to silicon and downstream silicone specialities, as well as speciality ferrosilicon alloys and carbon materials.

Elkem's business scope is clearly described in our articles of association, and is as follows:

The object of the company is to develop and engage in industry, mining, trade and transportation as well as exploration and exploitation of natural resources. The company may also develop, acquire and exploit patents, inventions and technical knowhow. The company may participate directly or by other means in companies engaged in activities outlined above or activities that promote or support such objects.

Elkem is operating in capital intensive industries and has 27 production sites and an extensive network of sales offices around the world. This gives competitive strengths, but also exposure to a range of risk factors. The board of directors has defined goals and strategies for the business and has a clear focus on risk profiles and risk management to create value for the company's shareholders.

The board has set out a strategy based on cost efficiency, growth and specialisation. Elkem's strategy is to ensure operational excellence and cost-effective production based on the lean manufacturing principles in Elkem Business System (EBS). The target is to grow Elkem's business both organically and through acquisitions. An important part of Elkem's strategy is also further product specialisation to improve and stabilise the group's profitability.

Risk management and internal control systems are in place to manage operational risks. The company aims to maintain a strong financial profile with a robust capital structure. The target is to have a leverage ratio of 1.0x – 2.0x, defined as net interest-bearing debt to EBITDA.

Sustainability is central in Elkem's business strategy. Elkem's mission is to "contribute to a sustainable future by providing advanced silicon, silicones and carbon solutions, adding value to the stakeholders globally". Elkem is a signatory to the UN Global Compact and apply sustainability in line with the principles of the UN Global Compact. Elkem supports the UN Sustainable Development Goals (SDGs), and has analysed how our business activities impact the SDGs and which goals are most relevant for Elkem to contribute towards. Elkem has implemented guidelines and procedures as set out in section 3-3c of the Accounting Act, including code of conduct, policy on anti-corruption and CSR policies.

Elkem's objectives, strategy and financial targets are evaluated by the board of directors on an annual basis. The board also reviews the group's CSR and risk profile and make regular assessments of these processes to ensure high quality standards.

No deviations from the Code.

3. Equity and dividends

Capital structure

As of 31 December 2018, the group's equity was NOK 13,722 million, which is equivalent to 44% of total assets. The total issued share capital of Elkem amounted to NOK 2,907 million divided into 581,310,344 shares, each with a par value of NOK 5.

In connection with the listing of Elkem on Oslo Stock Exchange in March 2018, the company raised NOK 5,200 million in new equity through an offering of 179,310,344 new shares, completed at a subscription price of NOK 29 per share. In connection with the listing, Elkem acquired all the shares in Bluestar Silicone Material Co., Ltd. and Jiangxi Bluestar Xinghuo Silicone for a purchase price of NOK 3,995 million. Due to common control by China National Bluestar (group) Co. Ltd, the purchase price is booked directly against equity according to the "pooling of interest method".

Elkem aims to maintain an investment grade profile and targets a leverage ratio in the level of 1.0 – 2.0x. In addition, Elkem aims to keep a robust liquidity reserve and a smooth maturity profile on its loan portfolio to mitigate financing and liquidity risk. As of 31.12.2018 the leverage ratio was 0.6x. In 2018, Elkem raised new financing in the bank and bonds markets which has improved the maturity profile and diversification of funding sources. Elkem's loan maturities in 2019 mainly consist of bank loan in China which are expected to be rolled over. As of 31.12.2018 available cash amounted to NOK 7,092 million providing a very strong liquidity position. In addition, Elkem has undrawn credit facilities.

Based on this the board of directors considers Elkem's capital structure, including equity and debt structure, to be strong and appropriate to the company's objective, strategy and risk profile.

Dividend policy

The board of director's dividend policy is to aim for dividends distributions to reflect the underlying earnings and cash flow of the group and targets a dividend pay-out ratio of 30-50% of the group's net income for the year.

The proposed dividend pay-out for the 2018 financial year is NOK 1.5 billion, which corresponds to NOK 2.60 per share. The proposed dividend represents 45% of the Group's net income.

The board of directors have not been granted any authorisation to approve distribution of dividends.

Authorisations to the board of directors

At an extraordinary general meeting held on 23 February 2018, i.e. prior to the listing of the Company's shares on Oslo Børs, the board of directors was granted the following authorisations:

- (i) Authorisation to acquire up to 10% of the company's shares with a total nominal value of NOK 200 million. 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 ordinary general meeting in 2019.
- (ii) Authorisation to increase the share capital by a maximum of NOK 40 million to be used in connection with the issuance of new shares under the Company's share incentive scheme. The authorisation is valid until the ordinary general meeting in 2019.

For any new board authorisations, the board of directors of Elkem will propose that these are limited to a defined purpose so that the shareholders' may vote separately on each purpose.

No deviations from the Code.

4. Equal treatment of shareholders and transactions with close associates

All shareholders shall be treated on an equal basis, unless there is just cause for treating them differently.

In the event of an increase in share capital through the issue of new shares, a decision to waive the existing shareholders' pre-emptive rights will be publicly disclosed in a stock exchange announcement issued in connection with the shares issuance.

If Elkem should carry out any transaction in its own shares, this will be carried out either through the stock exchange or at prevailing stock exchange prices to ensure equal treatment of all shareholders.

In the event of a not immaterial transaction between the company and its shareholders, a shareholder's parent company, members of the board, executive management or closely-related parties of any such parties, the board will arrange for a valuation to be obtained from an independent third party. The acquisition of Bluestar Silicone Material Co., Ltd. and Jiangxi Bluestar Xinghuo Silicone which was completed in 2018 was made according to these principles.

No deviations from the Code.

5. Freely negotiable shares

The shares in Elkem are freely negotiable and there are no restrictions on any party's ability to own, trade or vote for the share in the company.

No deviations from the Code.

6. General meetings

The first ordinary general meeting after the listing of Elkem will take place in the 2nd quarter 2019. The board of directors will ensure that as many of the company's shareholders as possible can participate in the general meeting. The board of directors will further ensure that;

- the resolutions and any supporting documentation are sufficiently detailed, comprehensive and specific allowing shareholders to understand and form a view on all matters to be considered at the general meeting;
- members of the board of directors and the chairman of the nomination committee are present at the general meeting; and
- the general meeting is able to elect an independent chairperson for the general meeting.

The articles of association of Elkem does not provide for any deadline for the shareholders to give notice of their attendance at the general meeting. The board of directors may still encourage shareholders to give such notice within a set deadline.

Shareholders who are unable to be present at the general meeting will be given the opportunity to vote by proxy or through written voting in a period prior to the general meeting. The company will in this respect provide information on the procedure and prepare a proxy form/written voting form.

Elkem does not intend to follow the recommendation to vote separately on each candidate nominated for the board of directors and the nomination committee. The process of the nomination committee is focused on the combined qualification and experience of the proposed members to the board of directors and the nomination committee and the voting should therefore also be combined.

7. Nomination committee

Establishment and composition

According to section 7 of Elkem's articles of association, the company shall have a nomination committee consisting of two or three members. according to decision of the general meeting. The members of the nomination committee are elected by the annual general meeting, which also have approved guidelines for the duties of the nomination committee.

The nomination committee comprise the following members, all of whom are elected for the period until the annual general meeting in 2019. The members of the nomination committee have been selected to take into account the interests of shareholders in general and are independent of the board of directors and the executive management:

- **Sverre Sellæg Tysland** / Chairperson / Practicing lawyer
- **Anne Kjølsest Ekerholdt** / Committee member / Practicing lawyer
- **Hao Zhigang** / Committee member / Chairman of the board of China National Bluestar

The work of the nomination committee

The nomination committee shall make recommendations to the general meeting for the election of shareholder elected board members and members of the nomination committee, and the remuneration to the members of the board of directors and the nomination committee. When nominating shareholders' representatives to the board of directors, the nomination committee presents relevant information about the candidates, together with an evaluation of their independence.

In connection with the nomination committee's work with proposing candidates, and to ensure that the candidates represent a broad group of the company's shareholders, the nomination committee are in contact with the board of directors, the CEO and major shareholders. Further, the nomination committee ensures that the board of directors is composed to comply with legal requirements and the corporate governance code.

The nomination committee will justify its proposal on each candidate separately. Information for how to propose candidates are available on Elkem's webpage.

No deviations from the Code.

8. Composition and independence of the board

The board of directors of Elkem comprise eight members, of which six of the board members, including the chairperson, are shareholder elected. The remaining two board members are elected by the company's employees. All of the shareholder elected board members are elected for the period until the annual general meeting in 2019, while the employee representatives are elected for the period until the general meeting in 2020.

As of 31 December 2018, the board of directors of Elkem comprise the following persons:

- **Michael Koenig** / Chairperson / Representing China National Bluestar
- **Olivier de Clermont-Tonnerre** / Board member / Representing China National Bluestar
- **Guihua Pei** / Board member / Representing China National Bluestar
- **Anja-Isabel Dotzenrath** / Board member / Independent
- **Dag Jakob Opedal** / Board member / Independent
- **Caroline Grégoire Sainte-Marie** / Board member / Independent
- **Marianne Færøyvik** / Board member / Employee representative
- **Terje Andre Hanssen** / Board member / Employee representative

The composition of the board of directors is considered to attend to the common interests of all shareholders and meet the company's need for expertise, capacity and diversity. Four of the board members are women, and none of the members of the company's executive management are members of the board of directors.

The board of directors is composed so that it can act independently of any special interests. The majority of the shareholder elected board members are independent of the executive management and material business connections of the company. Further, three out of the six shareholder elected board members are independent of the company's major shareholders.

Further information on each of the board members is presented at www.elkem.com. The annual report for 2018 also includes information of the expertise of the members of the board of directors, and information on their record of attendance at board meetings.

Members of the board of directors are encouraged to own shares in the company however, with caution not to let this encourage a short-term approach which is not in the best interests of the company and its shareholders over the longer term. As of 31 December 2018, the following board members owned shares in the company; Michael Koenig (68,965 shares), Olivier de Clermont-Tonnerre (15,517 shares), Caroline Grégoire Sainte-Marie (2,300 shares), Dag J. Opedal (40,000 shares) and Marianne Færøyvik (2,700 shares).

No deviations from the Code.

9. The work of the board of directors

The board of directors

The board of directors' work follows an annual plan, with particular focus on objectives, strategy and implementation. The plan is evaluated and approved around the beginning of each calendar year. The board of directors also annual evaluates its performance and expertise.

The board of directors has implemented instructions for the board of directors and the executive management, which are focused on determining allocation of internal responsibilities and duties. The objectives, responsibilities and functions of the board of directors and the CEO are in compliance with rules and standards applicable to the group and are described in the company's annual report. The board of directors have also implemented procedures to ensure that members of the board of directors and executive personnel make the company aware of any material interests that they may have in items to be considered by the board of directors. The board of directors will also be chaired by some other member of the board if the board is to consider matters of a material character in which the chairman of the board is, or has been, personally involved.

The board of directors reports on any transactions with related parties in the annual report.

The audit committee

The board of directors have established an audit committee which is a working committee for the board of directors, preparing matters and acting in an advisory capacity. The audit committee is responsible for overseeing financial reporting and disclosure, and assists the board of directors with assessments of the integrity of the company's financial statements, financial reporting processes and internal controls, risk management and performance of the external auditor.

The board of directors has issued instructions for the work of the audit committee, and the duties and composition of the committee are in compliance with the Norwegian Public Limited Liability Companies Act.

The members of the audit committee are elected by and amongst the members of the board of directors for a term of up to two years and comprise the following persons:

- **Dag J. Opedal** / Chairperson / Independent
- **Olivier de Clermont-Tonnerre** / Member / Representing China National Bluestar

The committee members have the overall competence required to fulfil their duties based on the organisation and operations of the group.

At least one member of the audit committee is competent in respect of finance and audit and independent of the business.

The remuneration committee

The board of directors has appointed a remuneration committee which comprise the following persons:

- **Michael Koenig** / Chairperson / Representing China National Bluestar
- **Anja-Isabel Dotzenrath** / Member / Independent
- **Caroline Grégoire Sainte-Marie** / Member / Independent

The remuneration committee is a preparatory and advisory committee for the board of directors in questions relating to the company's compensation of the executive management. The purpose of the remuneration committee is to ensure thorough and independent preparation of matters relating to compensation to the executive personnel. The remuneration committee puts forth a recommendation for the board of directors' guidelines for remuneration to senior executives in accordance with section 6-16a of the Norwegian Public Limited Liability Companies Act.

The members of the remuneration committee are elected by and amongst the members of the board of directors for a term of up to two years and are independent of the company's executive management.

The board of directors has issued instructions for the work of the remuneration committee.

No deviations from the Code.

10. Risk management and internal control

It is ultimately the responsibility of the board of directors to ensure that the company has sound and appropriate internal control systems and risk management systems reflecting the extent and nature of the company's activities. Sound risk management is an important tool to create trust and enhance value creation. Internal control should ensure effective operations and prudent management of significant risks that could prevent the group from attaining its targets. Elkem's internal controls and systems also cover the company's corporate values, ethical guidelines and principles of corporate social responsibility.

Elkem complies with all laws and regulations that apply to the group's business activities. The group's code of conduct describes the main principles for compliance and how the compliance function is organised.

The company has a comprehensive set of relevant corporate manuals and procedures, which provide detailed descriptions of procedures covering all aspects of managing the operational business. The procedures and manuals are continuously revised to reflect best practice derived from experience or adopted through regulations.

The board of directors conducts annual reviews of the company's most important areas of exposure to risk and such areas' internal control arrangements.

The board of directors describes the main features of the company's internal control and risk management systems connected to the company's financial reporting in the company's annual report. This covers the culture of control, risk assessment, controlling activities and information, communication and follow-up. The board of directors is obligated to ensure that it is updated on the company's financial situation, and to continuously evaluate whether the company's equity and liquidity are adequate in terms of the risk from, and scope of, the company's activities, and shall immediately take necessary actions if it is demonstrated at any time that the company's capital or liquidity is inadequate. The company focuses on frequent and relevant management reporting to the board of directors of both operational and financial matters with the purpose of ensuring that the board of directors has sufficient information for decision-making and is able to respond quickly to changing conditions. Board meetings are held regularly, and management reports are provided to the board on a monthly basis.

No deviations from the Code.

11. Remuneration of the board of directors

The remuneration of the board of directors is determined by the shareholders at the annual general meeting based on a proposal from the nomination committee. The level of remuneration of the board of directors shall reflect the board of directors' responsibility, expertise, the complexity of the company and its business, as well as time spent and the level of activity in both the board of directors and any board committees.

The remuneration of the board of directors is not linked to the company's performance and Elkem does not grant share options to its members of the board of directors.

The board members, or companies associated with board members, have not been engaged in specific assignments for the company in addition to their appointments as members of the board of directors.

The remunerations for the period from March 2018 until the annual general meeting in 2019 are as follows:

Board of directors:

- Chairperson and board members representing China National Bluestar: No compensation
- Independent shareholder elected board members: NOK 350,000
- Employee elected board members: NOK 170,000

Audit committee:

- Chairperson: NOK 125,000
- Member: No compensation

Remuneration committee:

- Leader: No compensation
- Members: NOK 80,000

The total compensation to members of the board of directors in 2018 is disclosed in note 12 to the consolidated financial statements.

No deviations from the Code.

12. Remuneration of executive personnel

The board of directors prepares guidelines for the remuneration of executive management which support Elkem's prevailing strategy and values. These guidelines include the main principles for the company's remuneration policy and contributes to aligning the interests of the shareholders and the executive management. The guidelines are communicated to the annual general meeting, and the board of director's statement will be presented in a separate appendix to the agenda for the general meeting.

Performance-related remuneration of the executive management in the form of share options, bonus programmes or similar are linked to value creation for shareholders or the company's profit over time. As of 31.12.2018 7,850,000 options are granted to members of the management and certain other key employees. 40 employees were included in the option program. Each option gives the option holder the right to subscribe or purchase one share in Elkem ASA 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. The options will expire two years after vesting, on 18 September 2021, 2022 and 2023, respectively.

No deviations from the Code.

13. Information and communications

Elkem is under an obligation to continuously provide its shareholders, Oslo Børs and the financial markets in general with timely and precise information about the company and its operations. Relevant information is given in the form of annual reports, quarterly reports, press releases, notices to the stock exchange and investor presentations in accordance with what is deemed appropriate from time to time. Elkem maintains an open and proactive policy for investor relations and has given regular presentations in connection with annual and quarterly results. The goal is that Elkem's information work shall be in accordance with best practice at all times and all communications with the shareholders shall be in compliance with the provisions of applicable laws and regulations and in consideration of the principle of equal treatment of the company's shareholders.

Investor contact/investor relations (IR) activities are conducted in accordance with the IR policy and by the IR team only. The IR team comprises the CEO, the CFO and the VP Finance and Investor relations.

The company publishes an annual, electronic financial calendar with an overview of dates for important events, such as the annual general meeting, interim financial reports, public presentations and payment of dividends, if applicable.

In addition to the board of directors' dialogue with the company's shareholders in the general meetings, the board of directors promotes suitable arrangements for shareholders to communicate with the company at other times. The board of directors have delegated this task to the IR team. Elkem has held regular roadshows in Oslo, London and other cities in connection with each of the quarterly presentations in 2018. In addition, Elkem had a capital market day on 22 November 2018. The plan is to arrange regular roadshows and a capital market day when it is considered expedient in order to keep the market up-to-date about the company's development, goals and strategies.

No deviations from the Code.

14. Take-overs

Elkem has one major shareholder controlling 58.2% of the shares as of 31 December 2018. The Company has not been subject to any takeover bids in 2018.

In the event of a takeover bid, the board of directors and executive management each have an individual responsibility to ensure that the company's shareholders are treated equally and that there are no unnecessary interruptions to the company's business activities. The board of directors has a particular responsibility in ensuring that the shareholders have sufficient information and time to assess the offer.

In the event of a take-over process, the board of directors shall abide by the principles of the Code, and also ensure that the following take place:

- the board of directors will not seek to hinder or obstruct any takeover offer for the company's operations or shares unless they have valid and particular reasons for doing so;
- the board of directors shall not exercise mandates or pass any resolutions with the intention of obstructing the takeover offer unless this is approved by the general meeting following announcement of the offer;
- the board of directors shall not undertake any actions intended to give shareholders or others an unreasonable advantage at the expense of other shareholders or the company;
- the board of directors shall not enter an agreement with any offeror that limits the company's ability to arrange other offers for the company's shares, unless it is self-evident that such an agreement is in the common interest of the company and its shareholders;
- the board of directors and executive management shall not institute measures with the intention of protecting the personal interests of its members at the expense of the interests of the shareholders; and
- the board of directors must be aware of the particular duty it has for ensuring that the values and interests of the shareholders are protected.

In the event of a take-over offer, the board of directors will, in addition to complying with relevant legislation and regulations, seek to comply with the recommendations in the Code. This includes obtaining a valuation from an independent expert. On this basis, the board of directors will make a recommendation as to whether or not the shareholders should accept the offer.

A takeover process gives rise to a particular duty of care to disclose information, where openness is an important tool for the board of directors to ensure equal treatment of all shareholders. The board of directors shall strive to ensure that neither inside information about the company, nor any other information that must be assumed to be relevant for shareholders in a bidding process, remains unpublished.

There are no other written guidelines for procedures to be followed in the event of a takeover offer. The company has not found it appropriate to draw up any explicit basic principles for Elkem's conduct in the event of a take-over offer, other than the actions described above. The board of directors otherwise concurs with what is stated in the Code regarding this issue.

No deviations from the Code.

15. Auditor

The board of directors is responsible for ensuring that the board and the audit committee are provided with sufficient insight into the work of the auditor. In this regard, the board of directors ensures that the auditor submits the main features of the plan for the audit of the company to the audit committee annually. Further, the board of directors invites the auditor to participate in board meeting(s) that deal with the annual accounts. At these meetings, the auditor (i) reports on any material changes in the company's accounting principles and key aspects of the audit, (ii) comments on any material estimated accounting figures, and (iii) reports all material matters on which there has been disagreement between the auditor and the executive management of the company.

Once a year, the board of directors reviews the company's internal control procedures with the auditor, including weaknesses identified by the auditor and proposals for improvement.

In order to ensure the auditor's independence of the company's executive management, the board of directors has established guidelines in respect of the use of the auditor by the management for services other than the audit.

No deviations from the Code.

The Board of Directors of Elkem ASA

Oslo, 6 March 2019



Michael König
Chairman of the Board



Anja Isabel Dotzenrath
Board member



Caroline Catherine Juliette Mazza
Board member



Dag Jakob Opedal
Board member



Guihua Pei
Board member



Marianne Færøyvik
Board member



Olivier Louis Marie Gerard Tillette
De Clermont Tonnerre
Board member



Terje Andre Hanssen
Board member



Helge Aasen
CEO

