

Elkem ASA

Second quarter results

2019

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Highlights 2nd quarter 2019

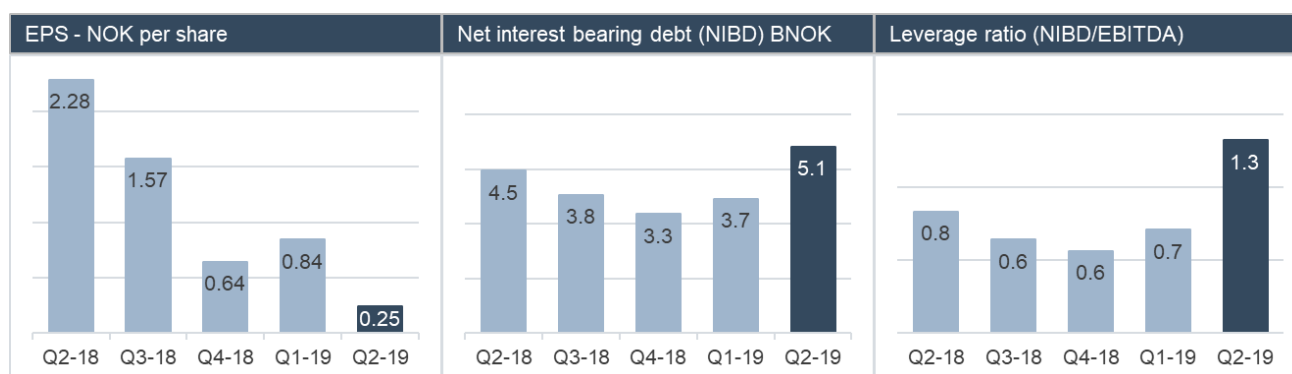
- Generally weak market conditions, particularly in automotive and construction
- Additional US tariffs on Chinese imports implemented from 10 May triggered a rapid decline in the Chinese silicones market
- Maintenance stop and delayed start-up in Silicones France had a negative financial impact of MNOK 185 in the quarter
- Consequently, the financial performance in the second quarter has been weaker than expected
- Total operating income was NOK 5,882 million in the second quarter, down 17% from a strong corresponding quarter last year
- EBITDA was NOK 647 million, down 67% from the second quarter 2018
- Earnings per share was NOK 0.25 in the quarter and NOK 1.09 YTD

Key figures

CONSOLIDATED KEY FIGURES

(NOK million, except where specified)	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
Total operating income	5,882	7,121	11,889	13,572	25,887
EBITDA	647	1,971	1,499	3,424	5,793
EBITDA margin (%)	11%	28%	13%	25%	22%
EBIT	300	1,655	815	2,805	4,522
Profit (loss) for the period ⁽¹⁾	143	1,327	633	2,049	3,337
Earning per share (EPS) (NOK per share)	0.25	2.28	1.09	3.53	5.74
Equity ratio (%)	44%	44%	44%	44%	44%
Net interest-bearing debt (NIBD)	5,110	4,458	5,110	4,458	3,264
Cash flow from operations	645	1,108	1,136	1,960	4,030
ROCE - annualised (%)	7%	42%	10%	36%	28%

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



Market downturn gives lower earnings

Elkem's result for the second quarter of 2019 was negatively impacted by a steep decline in silicones prices in China following the implementation of additional US tariffs. In addition, the upstream silicones plant in France had a delayed start up after the maintenance stop in April/May, which resulted in lower production and sales. The current market sentiment is weak, particularly in automotive and construction. The downturn in these markets largely explains the weaker earnings and outlook for the group.

Total operating income for the second quarter 2019 was NOK 5,882 million, which was down 17% compared to second quarter 2018. EBITDA amounted to NOK 647 million in the quarter, down from NOK 1,971 million in the corresponding quarter last year. Earnings per share (EPS) was NOK 0.25 in the quarter.

Prices for silicone products in China picked up in March after Chinese New Year but were hit by a new steep decline in May after the implementation of additional US tariffs. The tariffs created significant market uncertainty and Chinese customers decided to temporarily halt orders in May and June. The demand in China seems to be picking up again in July, but at low price levels. Prices for specialty silicones and foundry alloys were stable, but sales volumes have been negatively impacted by weak market conditions, particularly in automotive and construction. The production problems in France following the regular maintenance stop in April/May, has also negatively impacted the results in the quarter. The delayed start-up resulted in lower production and sales of upstream intermediaries and downstream specialty products. The negative financial impact of the maintenance stop, and subsequent delayed start-up, amounted to NOK 185 million.

The accelerated improvement programme, with a target of NOK 500 million, is progressing according to plan and the realised effects by end of second quarter amounted to NOK 148 million. Based on the weak market sentiment Elkem will further reinforce measures to reduce costs and improve working capital.

The group's equity as at 30 June 2019 amounted to NOK 12,637 million, which gave a ratio of equity to total assets of 44%. Net interest-bearing debt was NOK 5,110 million, which gave a ratio of net interest-bearing debt to EBITDA of 1.3 times. Elkem had cash and cash equivalents of NOK 5,365 million as at 30 June 2019. The financial position is strong.

The market sentiment continues to be weak which creates uncertainty going forward. This is also expected to affect demand for specialty products, particularly within silicones and foundry alloys. The demand for silicones in China is expected to pick up during third quarter.

EBITDA for the third quarter is expected to be in line with the second quarter.



Financial review

Group results

KEY FIGURES	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	5,882	7,121	11,889	13,572	25,887
EBITDA	647	1,971	1,499	3,424	5,793
EBIT	300	1,655	815	2,805	4,522
Other items	25	-153	176	-355	-380
Net financial items	-108	-78	-135	-197	-327
Profit (loss) before income tax	210	1,423	850	2,252	3,792
Tax	-58	-90	-201	-190	-425
Profit (loss) for the period	152	1,334	649	2,062	3,367

Quarter

Elkem group had a total operating income of NOK 5,882 million in 2Q-2019, down 17% from NOK 7,121 million in 2Q-2018. The reduction in operating income was primarily related to the Silicones division, explained by significantly lower sales prices for core silicone products, particularly in China.

The group's EBITDA for 2Q-2019 was NOK 647 million, down 67% from NOK 1,971 million in 2Q-2018. The EBITDA margin was 11% in the quarter, compared to 28% in 2Q-2018. The weak current market sentiment has impacted sales prices for Elkem's standard products and resulted in lower EBITDA for all divisions except Carbon. Prices for specialty products were stable, but sales volumes were down due to the weakness in e.g. automotive and construction. In addition, the Silicones division has been negatively impacted by production problems in the upstream silicones plant in France. A delayed start-up after the maintenance stop in April/May resulted in lower production and lost sales of upstream intermediaries and downstream specialities. The total costs for the maintenance stop and subsequent late start up was NOK 185 million.

EBIT for 2Q-2019 was NOK 300 million, down from NOK 1,655 million in 2Q-2018.

Other items include fair value changes, gains/losses on currency forward contracts and other income and expenses. Other items amounted to NOK 25 million in 2Q-2019. Net fair value changes of power contracts were NOK 39 million due to favourable power price changes in the quarter. This was partly offset by operating currency losses of NOK 18 million.

Net financial items were NOK -108 million in 2Q-2019, compared to NOK -78 million in 2Q-2018. Net interest expenses amounted to NOK 54 million, which is a reduction from NOK 83 million in 2Q-2018. Net interest expenses in 2Q-2019 included interest expenses on lease obligations in accordance with IFRS 16. Loss on foreign exchange amounted to NOK 49 million, mainly related to negative translation effects on group receivables in CNY.

Profit before income tax was NOK 210 million compared to NOK 1,423 million in 2Q-2018.

Tax expenses in 2Q-2019 were NOK 58 million, which gave a tax rate in the quarter of 28%. The tax rate was impacted by the weak result in France, where the production problems resulted in a loss before income tax. According to group policy, tax losses are not capitalised. The tax rate is expected to go down in the coming quarters.

Profit for the period was NOK 152 million, compared to NOK 1,334 million in 2Q-2018. Owners of the parent's share of profit was NOK 143 million, which gave earnings per share of NOK 0.25 in the second quarter 2019.

Year to date

The group's total operating income was NOK 11,889 million YTD 2019, down from NOK 13,572 million YTD 2018. EBITDA YTD 2019 amounted to NOK 1,499 million, significantly down from NOK 3,424 million YTD 2018, mainly due to lower sales prices driven by a weak sentiment in several industry sectors.

Cash flow

CASH FLOW FROM OPERATIONS	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
<i>NOK million</i>					
Operating profit (loss) before other items	300	1,655	815	2,805	4,522
Amortisation, depreciation and impairment	346	315	684	619	1,270
Changes in working capital	288	-569	119	-1,010	-712
Reinvestments	-301	-292	-484	-472	-1,064
Equity accounted investments	11	-0	3	19	14
Cash flow from operations	645	1,108	1,136	1,960	4,030
Other cash flow items	-2,094	-1,413	-2,846	637	1,268
Change in cash and cash equivalents	-1,449	-305	-1,711	2,597	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 645 million in 2Q-2019, compared to NOK 1,108 million in 2Q-2018. Lower cash flow was mainly explained by lower operating profit. The second quarter 2019 was positively impacted by lower working capital. Elkem has entered into new non-recourse factoring agreements of EUR 26 million. The agreements have released trade receivables of approx. NOK 250 million.

Reinvestments and strategic investments were according to plan in the second quarter. In 2Q-2019, reinvestments amounted to NOK 301 million, which was in line with Elkem's target to keep reinvestments within 80-90% of depreciation and amortisation. Strategic investments were included in other cash flow items and amounted to NOK 179 million in 2Q-2019, up from NOK 120 million in 2Q-2018. The strategic investments in the quarter were primarily related to specialisation projects in the Silicones division, furnace upgrades in the Silicon Materials division and upgrades and expansion projects in the Carbon division.

Cash and cash equivalents have decreased by NOK 1,449 million in the quarter, explained by the dividend payment of NOK 1,511 million. Total cash and cash equivalents amounted to NOK 5,365 million as at 30 June 2019.

Year to date

Cash flow from operations amounted to NOK 1,136 million YTD 2019, down from NOK 1,960 million YTD 2018, mainly explained by lower operating profit, which was partly offset by positive working capital changes in the second quarter 2019.

Financial position

FINANCIAL POSITION	2Q 2019	2Q 2018	FY 2018
Total equity (NOK million)	12,637	12,178	13,722
Equity ratio (%)	44%	44%	44%
EPS (NOK per share)	0.25	2.28	5.74
Net interest bearing debt (NOK million) ⁽¹⁾	5,110	4,458	3,264
Leverage ratio based on LTM EBITDA (ratio)	1.3	0.8	0.6

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

Quarter and year to date

Elkem's equity as at 30 June 2019 was NOK 12,637 million, down NOK 1,085 million from NOK 13,722 million as at 31 December 2018. The equity was reduced by dividend payment of NOK 1,511 million, which has been partly offset by profit for the period. The equity ratio as at 30 June 2019 was 44%.

Net-interest bearing debt as at 30 June 2019 was NOK 5,110 million, which is up from NOK 3,264 million as at 31 December 2018. Increased net-interest bearing debt was mainly explained by dividend payment and recognition of lease liabilities in accordance with IFRS 16. Elkem's leverage ratio was 1.3 times as at 30 June 2019, which was within the targeted range of 1.0 to 2.0 times.

Segments

Silicones

KEY FIGURES	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	2,790	3,898	5,573	7,107	13,059
EBITDA	333	1,357	769	2,139	3,535
EBITDA margin	12%	35%	14%	30%	27%
Sales volume (thousand mt)	82	90	162	172	314

Quarter

The Silicones division had total operating income of NOK 2,790 million in 2Q-2019, a reduction of 28% from NOK 3,898 million in 2Q-2018. Lower operating income was mainly due to lower sales prices for core silicone products, particularly in China and lower sales volumes of speciality products.

EBITDA for 2Q-2019 was NOK 333 million, a reduction of 75% from a very strong 2Q-2018. The EBITDA was negatively impacted by lower sales prices in China, which declined steeply from May after the implementation of additional US tariffs on imports from China. In addition, the result was negatively impacted by a delayed start up after the announced maintenance stop in France. The production problems impacted production and sales of upstream intermediates and downstream specialty products. Total loss related to the maintenance stop and subsequent late start up amounted to NOK 185 million.

Year to date

The Silicones division reported total operating income of NOK 5,573 million YTD 2019, compared to NOK 7,107 million YTD 2018, mainly explained by lower sales prices. The EBITDA is NOK 769 million YTD 2019 down 64% from NOK 2,139 million YTD 2018, impacted by lower sales prices and the production problems.

Silicon Materials

KEY FIGURES	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,606	1,755	3,260	3,442	6,590
EBITDA	162	309	346	650	1,116
EBITDA margin	10%	18%	11%	19%	17%
Sales volume (thousand mt) ¹⁾	62	65	123	128	237

1) Excluding Microsilica and quartz

Quarter

The Silicon Materials division had total operating income of NOK 1,606 million in 2Q-2019, which was down 8% from NOK 1,755 million in 2Q-2018. The sales volumes for silicon metal has been quite stable but sales prices for silicon metal were down. Average CRU price in EU for silicon 99 was down approx. 17% in second quarter 2019 compared to the corresponding quarter last year.

The EBITDA for Silicon Materials was NOK 162 million in 2Q-2019, down 48% from NOK 309 million in 2Q-2018. Lower EBITDA was explained by lower sales prices.

Year to date

The Silicon Materials division reported total operating income of NOK 3,260 million YTD 2019, down 5% from NOK 3,442 million YTD 2018. The division reported an EBITDA of NOK 346 million, which is 47% lower than YTD 2018, mainly due to lower sales prices.

Foundry Products

KEY FIGURES	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	1,195	1,305	2,461	2,629	5,082
EBITDA	81	263	260	569	931
EBITDA margin	7%	20%	11%	22%	18%
Sales volume (thousand mt) ¹⁾	68	68	139	140	275

1) Excluding Microsilica sales

Quarter

Total operating income for the Foundry Products division was NOK 1,195 million in 2Q-2019, down 8% from NOK 1,305 million in 2Q-2018. The operating income was negatively impacted by significantly lower sales prices for standard ferrosilicon. Prices for specialty foundry alloys were stable, but sales volumes were significantly down due to weakness in automotive.

Foundry Products reported EBITDA of NOK 81 million in 2Q-2019, down by 69% compared to NOK 263 million in the corresponding quarter last year. Lower EBITDA and EBITDA margin were due to lower ferrosilicon prices and lower sales of speciality foundry alloys.

Year to date

The Foundry Products division reported total operating income of NOK 2,461 million YTD 2019, down 6% from NOK 2,629 million YTD 2018. EBITDA amounted to NOK 260 million, down 54% from NOK 569 million YTD 2018, explained by lower ferrosilicon prices and lower sales of speciality products.

Carbon

KEY FIGURES	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
<i>MNOK except where indicated otherwise</i>					
Total operating income	481	445	946	887	1,892
EBITDA	86	80	169	155	335
EBITDA margin	18%	18%	18%	17%	18%
Sales volume (thousand mt)	69	72	134	142	289

Quarter

The Carbon division reported total operating income of NOK 481 million in 2Q-2019, which is up 8% from 2Q-2018. Sales prices have increased and compensated for higher raw material costs, while sales volumes have been quite stable.

EBITDA for 2Q-2019 was NOK 86 million, up from NOK 80 million in the corresponding quarter last year. The EBITDA margin in the second quarter was stable compared to second quarter last year.

Year to date

The Carbon division reported total operating income of NOK 946 million YTD 2019, an increase of 7% from NOK 887 million YTD 2018. EBITDA was NOK 169 million YTD 2019, compared to NOK 155 million YTD 2018. Higher sales prices YTD 2019 have compensated for higher raw material costs, which gave a stable EBITDA margin. Sales volumes were down YTD 2019 compared to YTD 2018, mainly due to maintenance/project stops during 1Q- 2019.

Outlook

A continued weak market sentiment creates uncertainty going forward.

The demand for silicones is expected to pick-up seasonally in China.

Silicon metal demand is expected to remain weak, primarily in the aluminium segment. There are signs of a recovery, but the impact is expected to be modest in the third quarter.

Ferrosilicon markets are expected to remain weak. Foundry alloys prices are stable, but sales volumes are expected to remain low.

Carbon is expected to remain stable, but potential metal production curtailments create downside risk regarding sales volumes.

The accelerated improvement programme develops according to plan and further measures will be implemented to counter the weak market sentiment.

On this basis the third quarter EBITDA is expected to be in line with second quarter.

Declaration by the Board of Directors

We confirm, to the best of our knowledge, that the unaudited, condensed half-year financial statements for the period 1 January to 30 June 2019 have been prepared in conformity with IAS 34 Interim Reporting and that the information in the financial statements provides a fair view of the enterprise and the group's assets, liabilities, financial position and overall results, and that the half-year report provides a fair overview of the information specified in section 5-6, fourth paragraph, of the Norwegian Securities Trading Act.

Elkem ASA

Oslo, 18 July 2019

Michael Koenig
Chairman

Zhigang Hao
Board member

Yougen Ge
Board member

Olivier de Clermont-Tonnerre
Board member

Dag Opedal
Board member

Anja Dotzenrath
Board member

Marianne E. Johnsen
Board member

Caroline Gregoire Sainte Marie
Board member

Marianne Færøyvik
Board member

Terje Andre Hanssen
Board member

Per Tronvoll
Board member

Helge Aasen
CEO

Condensed consolidated interim statement of comprehensive income

Amounts in NOK million	Second quarter		Year to date		Year
	2019	2018	2019	2018	2018
Profit (loss) for the period	152	1,334	649	2,062	3,367
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit pension plans	-	-	(0)	(0)	17
Tax effects on remeasurements of defined benefit pension plans	-	-	0	0	(6)
Change in fair value of equity instruments	-	-	11	-	2
Share of other comprehensive income (loss) from equity accounted companies	0	-	0	(0)	(0)
	0	-	11	(0)	14
Items that may be reclassified to profit or loss					
Currency translation differences	(116)	(80)	(162)	(268)	113
Hedging of net investment in foreign operations	(9)	39	70	91	(29)
Tax effects hedging of net investment in foreign operations	2	(9)	(15)	(21)	7
Cash flow hedges	(21)	482	(114)	749	697
Tax effects on cash flow hedges	5	(110)	25	(172)	(159)
Share of other comprehensive income (loss) from equity accounted companies	(6)	0	(13)	(0)	(8)
	(145)	322	(210)	379	621
Other comprehensive income, net of tax	(145)	322	(199)	379	634
Total comprehensive income	6	1,656	450	2,441	4,001
Attributable to:					
Non-controlling interests' share of comprehensive income	9	8	17	11	32
Owners of the parent's share of comprehensive income	(2)	1,648	433	2,429	3,969
Total comprehensive income	6	1,656	450	2,441	4,001

Condensed consolidated interim statement of financial position

Amounts in NOK million	Note	30 June 2019	30 June 2018	31 December 2018
ASSETS				
Property, plant and equipment	3	12,375	11,812	12,445
Right-of-use assets	4	544	-	-
Goodwill	5	337	332	342
Other intangible assets	5	701	897	922
Deferred tax assets		58	93	60
Investments in equity accounted companies		121	158	134
Derivatives	10	75	34	131
Other non-current assets		395	412	441
Total non-current assets		14,606	13,738	14,474
Inventories	6	5,286	4,733	5,467
Trade receivables		2,240	3,149	2,391
Derivatives	10	60	269	303
Other current assets		967	902	836
Restricted deposits	9	344	872	577
Cash and cash equivalents	9	5,365	4,306	7,082
Total current assets		14,261	14,231	16,656
TOTAL ASSETS		28,867	27,969	31,129
EQUITY AND LIABILITIES				
Paid-in capital	8	6,602	8,096	8,102
Retained earnings		5,953	3,980	5,520
Non-controlling interests		83	103	101
Total equity		12,637	12,178	13,722
Interest-bearing non-current liabilities	9	8,473	4,525	7,131
Deferred tax liabilities		176	244	207
Employee benefit obligations		564	541	563
Derivatives	10	167	233	450
Provisions and other non-current liabilities		198	290	232
Total non-current liabilities		9,579	5,833	8,583
Trade payables		2,680	2,875	2,731
Income tax payables		262	298	330
Interest-bearing current liabilities	9	1,220	2,747	2,052
Bills payable	9	1,125	2,364	1,740
Employee benefit obligations		569	524	671
Derivatives	10	21	36	79
Provisions and other current liabilities		773	1,113	1,221
Total current liabilities		6,651	9,957	8,824
TOTAL EQUITY AND LIABILITIES		28,867	27,969	31,129

Condensed consolidated interim statement of cash flows

Amounts in NOK million	Note	Second quarter		Year to date		Year
		2019	2018	2019	2018	2018
Operating profit (loss)		326	1,502	991	2,450	4,142
Amortisation, depreciation and impairment	3	346	315	684	619	1,270
Changes in working capital ¹⁾		288	(569)	119	(1,010)	(712)
Equity accounted companies		11	(0)	3	19	14
Changes in fair value commodity contracts		(35)	128	(199)	251	321
Changes in provisions, pension obligations and other		(84)	(41)	(481)	(65)	46
Interest payments received		10	13	21	21	41
Interest payments made		(68)	(67)	(133)	(241)	(390)
Income taxes paid		(172)	(35)	(351)	(107)	(272)
Cash flow from operating activities		622	1,245	654	1,937	4,460
Investments in property, plant and equipment and intangible assets		(546)	(404)	(735)	(805)	(1,916)
Acquisition of subsidiaries, net of cash acquired		-	0	-	(4,049)	(4,049)
Payment received on loan to related parties		-	-	-	1,303	1,303
Other investments / sales		9	(30)	12	(35)	(9)
Cash flow from investing activities		(538)	(433)	(723)	(3,587)	(4,671)
Dividends paid to non-controlling interests		(10)	(10)	(34)	(10)	(33)
Dividends paid to owner of the parent		(1,511)	-	(1,511)	-	-
Capital increase		-	0	-	5,171	5,171
Net changes in bills payable		(46)	165	(372)	(84)	6,643
Repayment of lease liabilities (IFRS 16)		(18)	-	(34)	-	-
New interest-bearing loans and borrowings		448	166	1,743	3,996	(5,586)
Net changes of short term loans from related parties		-	-	-	(241)	(445)
Repayment of interest-bearing loans and borrowings		(395)	(1,439)	(1,434)	(4,584)	(241)
Cash flow from financing activities		(1,533)	(1,117)	(1,642)	4,247	5,509
Change in Cash and cash equivalents		(1,449)	(305)	(1,711)	2,597	5,298
Currency exchange differences		(18)	(9)	(6)	(42)	33
Cash and cash equivalents opening balance		6,832	4,621	7,082	1,751	1,751
Cash and cash equivalents closing balance		5,365	4,306	5,365	4,306	7,082

1) Elkem entered into new non-recourse factoring agreements of EUR 26 million in 2Q-2019. The agreements have released trade receivables of approx. NOK 250 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 interests	Total
Balance 1 January 2019	8,102	5,520	13,622	101	13,722
Profit (loss) for the period	-	633	633	16	649
Other comprehensive income	-	(200)	(200)	1	(199)
Total comprehensive income	-	433	433	17	450
Share-based payment	11	-	11	-	11
Dividends to equity holders	(1,511)	-	(1,511)	(34)	(1,545)
Net book value 30 June 2019	6,602	5,953	12,554	83	12,637

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

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interests	Total
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)
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 second quarter of 2019 were approved at the meeting of the board of directors on 18 July 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 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 by the group in these interim financial statements are consistent with those of the financial year 2018, except for the adoption of new standards effective as of 1 January 2019. The group applies, for the first time, IFRS 16 Leases and a number of other amendments and interpretations. See note 4 Right-of-use assets for implementation effects.

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.

Second quarter 2019	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	2,759	1,201	1,132	428	208	-	5,728
Other revenue	8	6	2	2	43	-	59
Other operating income	21	47	17	2	6	-	94
Share of profit from equity accounted companies	-	-	-	-	1	-	1
Total operating income from external customers	2,788	1,254	1,151	432	257	-	5,882
Operating income from other segments	2	352	44	49	109	(555)	-
Total operating income	2,790	1,606	1,195	481	366	(555)	5,882
Operating expenses	(2,457)	(1,444)	(1,114)	(395)	(399)	573	(5,236)
EBITDA	333	162	81	86	(33)	17	647
Operating profit (loss) before other items (EBIT)	148	88	22	69	(44)	17	300

Second quarter 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	3,861	1,295	1,245	394	206	-	7,000
Other revenue	7	2	2	(2)	52	-	61
Other operating income	23	16	6	0	10	-	56
Share of profit from equity accounted companies	-	-	-	-	4	-	4
Total operating income from external customers	3,890	1,313	1,253	392	273	-	7,121
Operating income from other segments	8	442	52	53	70	(624)	-
Total operating income	3,898	1,755	1,305	445	342	(624)	7,121
Operating expenses	(2,541)	(1,445)	(1,042)	(366)	(381)	624	(5,150)
EBITDA	1,357	309	263	80	(38)	0	1,971
Operating profit (loss) before other items (EBIT)	1,190	237	208	64	(45)	0	1,655

Year to date 30 June 2019	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	5,490	2,439	2,333	845	439	-	11,545
Other revenue	15	13	9	3	88	-	128
Other operating income	65	92	32	3	13	-	206
Share of profit from equity accounted companies	0	-	-	-	9	-	9
Total operating income from external customers	5,570	2,544	2,374	851	550	-	11,889
Operating income from other segments	3	716	86	95	210	(1,110)	-
Total operating income	5,573	3,260	2,461	946	760	(1,110)	11,889
Operating expenses	(4,804)	(2,914)	(2,201)	(777)	(824)	1,130	(10,391)
EBITDA	769	346	260	169	(64)	19	1,499
Operating profit (loss) before other items (EBIT)	401	202	143	135	(87)	19	815

Year to date 30 June 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
Revenue from sale of goods	7,042	2,590	2,498	784	394	-	13,308
Other revenue	14	21	21	1	94	-	152
Other operating income	42	39	12	2	10	-	105
Share of profit from equity accounted companies	-	-	-	-	8	-	8
Total operating income from external customers	7,098	2,649	2,531	787	506	-	13,572
Operating income from other segments	9	792	98	100	153	(1,152)	-
Total operating income	7,107	3,442	2,629	887	659	(1,152)	13,572
Operating expenses	(4,968)	(2,791)	(2,060)	(732)	(746)	1,149	(10,148)
EBITDA	2,139	650	569	155	(87)	(3)	3,424
Operating profit (loss) before other items (EBIT)	1,811	510	464	124	(100)	(3)	2,805

Year 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Total
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)	-	18	-	18
Total operating income from external customers	13,046	5,113	4,902	1,692	1,134	-	25,887
Operating income from other 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

Note 3 Fixed assets

30 June 2019	Land and other property	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Opening balance	550	6,127	19,103	485	1,619	27,883
Additions	0	7	6	3	694	711
Transferred from CiP	10	84	390	25	(509)	-
Reclassification	(1)	(0)	2	0	3	4
Disposals	(0)	(5)	(218)	(2)	(1)	(226)
Exchange differences	(10)	(81)	(259)	(7)	(18)	(375)
Closing balance	549	6,132	19,025	504	1,789	27,998
Accumulated depreciation						
Opening balance	(111)	(2,198)	(10,213)	(334)		(12,856)
Addition	(9)	(86)	(479)	(16)		(590)
Reclassification	-	-	-	(0)		(0)
Disposals	0	3	197	2		202
Exchange differences	1	18	120	5		145
Closing balance	(118)	(2,264)	(10,376)	(342)		(13,100)
Impairment losses						
Opening balance	(13)	(377)	(2,116)	(0)	(75)	(2,582)
Addition	-	-	(0)	-	-	(0)
Disposals	0	0	8	0	-	8
Exchange differences	0	8	42	0	2	51
Closing balance	(13)	(370)	(2,066)	(0)	(74)	(2,523)
Net book value	418	3,498	6,583	161	1,715	12,375

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

31 December 2018	Land and other property	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Construction in progress	Total
Cost						
Opening balance	322	5,998	18,241	454	1,517	26,532
Additions	2	2	37	3	1,661	1,705
Transferred from CiP	217	173	1,111	34	(1,535)	-
Reclassification	2	2	(5)	1	(11)	(10)
Business combinations	-	-	7	-	-	7
Disposals	(4)	(63)	(317)	(7)	(47)	(438)
Exchange differences	11	14	30	(0)	33	87
Closing balance	550	6,127	19,103	485	1,619	27,883
Accumulated depreciation						
Opening balance	(101)	(2,060)	(9,467)	(306)		(11,934)
Addition	(10)	(168)	(947)	(31)		(1,156)
Reclassification	(2)	(2)	4	(1)		(0)
Disposals	3	31	233	5		273
Exchange differences	(1)	0	(36)	(2)		(38)
Closing balance	(111)	(2,198)	(10,213)	(334)		(12,856)
Impairment losses						
Opening balance	(15)	(391)	(2,134)	(0)	(108)	(2,647)
Addition	-	(0)	(5)	(0)	(3)	(8)
Disposals	1	15	35	0	35	86
Exchange differences	(0)	(1)	(12)	(0)	1	(13)
Closing balance	(13)	(377)	(2,116)	(0)	(75)	(2,582)
Net book value	425	3,551	6,774	152	1,544	12,445

Note 4 Right-of-use assets

30 June 2019	Land	Plant and buildings	Machinery, equipment and motor vehicles	Office and other equipment	Total
Cost					
Opening balance	-	-	-	-	-
IFRS 16 Opening balance	14	301	58	-	373
Additions	-	19	10	-	29
Reclassification	223	-	-	-	223
Exchange differences	(3)	(2)	(0)	-	(6)
Closing balance	234	317	67	-	619
Accumulated depreciation					
Opening balance	-	-	-	-	-
Addition	(3)	(24)	(13)	-	(40)
Reclassification	(37)	-	-	-	(37)
Exchange differences	1	0	1	-	2
Closing balance	(39)	(24)	(12)	-	(75)
Impairment losses					
Opening balance	-	-	-	-	-
Exchange differences	-	-	-	-	-
Closing balance	-	-	-	-	-
Net book value	196	293	55	-	544

IFRS 16 Leases

Accounting principle

Elkem has implemented IFRS 16 Leases with effect from 1 January 2019. IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

At the commencement date of a lease, a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) is recognised. In calculating the present value of the lease payments, Elkem uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determined. The incremental borrowing rate is based on the respective country's risk free rate for the term corresponding to the lease term, adjusted for own credit risk. Right-of-use assets are subject to impairment assessments as describe in note 2 significant accounting policies to the consolidated financial statements for the year ended 31 December 2018.

The interest expense on the lease liability and the depreciation expense on the right-of-use asset are separately recognised and presented as finance expenses and depreciations in the statement of income. Elkem applies the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, except that the right-of-use asset is depreciated from the commencement date to the earlier of the lease term and the remaining useful life of the right-of-use asset for assets where Elkem does not obtain ownership of the leased asset at the end of the lease term.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Elkem will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

Elkem has made the following accounting policy choices:

- Lease contracts for which the lease term ends within 12 months as of the date of initial application are not capitalised (short-term leases). Elkem's short term lease commitments are mainly related to rental of equipment in connection with maintenance and installation of new equipment.
- Lease contracts for which the underlying asset is of low value, meaning mainly office equipment and propane /gas tanks, are not capitalised.
- Lease of intangible assets are not capitalised.
- Right-of-use assets are presented separately in the statement of financial position, whereof lease liabilities are included in interest-bearing liabilities.
- Lease payments on contracts that are not capitalised are recognised as other operating expenses on a straight-line basis over the lease term.

In addition to the above accounting policy choices, Elkem elected to apply the following practical expedients related to the implementation of IFRS 16:

- Elkem has applied the simplified transition approach and has not restated comparative amounts for the year prior to first adoption.
- Right-of-use assets have been measured on transition date to an amount equal to the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).
- Elkem has elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. Elkem will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

Significant estimates

Elkem determine the lease term as the non-cancellable period of a lease, together with any periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and any periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Elkem's main renewal options relates to lease of office and production buildings including lease of land and it is reasonably certain that the renewal option will be used. Elkem reassesses the lease term if there is a

significant event or change in circumstances that is within its control and affects its ability to exercise, or not to exercise, the option to renew.

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.

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	-	372	187	559
Other intangible assets	922	-	(187)	735
Liabilities				
Interest-bearing non-current liabilities	7,131	299	-	7,430
Interest-bearing current liabilities	2,052	73	-	2,125

Consolidated statement of income

	Year to date 2019 IFRS 16	Impact IFRS 16	Year to date 2019 IAS 17
Other operating expenses	(1,166)	(34)	(1,200)
Amortisations and depreciations	(346)	40	(306)
Finance expenses	(71)	8	(63)

Cash flow from operating activities has increased and cash flow from financing activities has decreased correspondingly by NOK 34 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, is increased with additional NOK 8 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 5 Intangible assets

30 June 2019	Goodwill	Land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under construction	Total
Cost								
Opening balance	342	328	540	392	591	57	154	2,062
Additions	-	-	0	3	-	-	35	39
Transferred from CiP	-	-	2	6	43	-	(50)	-
Re-classification	-	(223)	2	(0)	(3)	(1)	(1)	(227)
Disposals	-	-	-	-	-	(0)	-	(0)
Exchange differences	(5)	(4)	(14)	(4)	(15)	(0)	(3)	(40)
Closing balance	337	100	530	397	615	55	135	1,833
Accumulated depreciation								
Opening balance		(87)	(392)	(272)	(364)	(24)		(1,139)
Addition		(0)	(13)	(15)	(22)	(2)		(53)
Re-classification		37	(1)	0	0	1		37
Disposals		-	-	-	-	0		0
Exchange differences		1	10	3	9	0		24
Closing balance		(49)	(397)	(284)	(377)	(25)		(1,131)
Impairment losses								
Opening balance	-	(1)	-	-	-	-	-	(1)
Addition	-	(1)	-	-	-	-	-	(1)
Exchange differences	-	0	-	-	-	-	-	0
Closing balance	-	(1)	-	-	-	-	-	(1)
Net book value	337	50	133	113	239	30	135	701

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

31 December 2018	Goodwill	Leasehold land and land use rights	Technology and licences	Software	Development	Other intangible	Intangible assets under constuction	Total
Cost								
Opening balance	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
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 6 Inventory

	30 June 2019	30 June 2018	31 December 2018
Raw materials	1,251	1,085	1,268
Semi-finished goods	467	415	510
Finished goods	3,095	2,793	3,236
Operating materials and spare parts	473	440	453
Total inventories	5,286	4,733	5,467
Provisions for write-down of inventories	(107)	(84)	(98)

Note 7 Other items

	Second quarter		Year to date		Year
	2019	2018	2019	2018	2018
Change in fair value commodity contracts ¹⁾	39	(130)	214	(244)	(319)
Ineffectiveness on cash flow hedges	-	6	(13)	6	19
Net foreign exchange gains (losses) - forward currency contracts	4	9	11	23	29
Operating foreign exchange gains (losses)	(18)	(5)	(35)	(13)	32
Other gains / losses	25	(120)	177	(228)	(240)
Dividend from interest in other companies	0	1	0	1	2
Change in fair value from shares in other companies	0	(0)	1	(1)	(2)
Gains (losses) disposal of subsidiaries	0	(0)	0	1	1
Other income	1	1	1	1	1
Expenses IPO	-	(3)	-	(95)	(96)
Other	(1)	(31)	(1)	(32)	(47)
Other expenses	(1)	(34)	(1)	(127)	(142)
Total other items	25	(153)	176	(355)	(380)

¹⁾ Mainly fair value changes of the 30-øring contract, see note 26 Financial assets and liabilities to the consolidated financial statements for the year ended 31 December 2018.

Note 8 Finance income and expenses

	Second quarter		Year to date		Year
	2019	2018	2019	2018	2018
Interest income on loans and receivables	12	13	23	21	41
Other financial income	0	0	0	1	1
Total finance income	12	13	23	22	42
Foreign exchange gains (losses)	(49)	10	(15)	(1)	19
Interest expenses on interest-bearing liabilities measured at amortised cost	(55)	(80)	(115)	(159)	(280)
Interest expenses from other items measured at amortised cost	(7)	(15)	(12)	(53)	(92)
Interest expenses on lease liabilities	(4)	-	(8)	-	-
Capitalised interest expenses	-	(2)	-	(0)	0
Unwinding of discounted liabilities	(1)	0	(2)	(1)	(5)
Interest on net pension liabilities	(2)	(2)	(4)	(3)	(10)
Other financial expenses	(2)	(2)	(2)	(2)	(2)
Total finance expenses	(71)	(101)	(143)	(218)	(388)
Net Finance income (expenses)	(108)	(78)	(135)	(197)	(327)

Note 9 Interest-bearing assets and liabilities

	30 June 2019	30 June 2018	31 December 2018
Non-current interest-bearing debt			
Loans from related parties	-	7	-
Financial leases	-	1	-
Lease liabilities	304	-	-
Loans from external part, other than bank	3,906	80	2,731
Bank financing	4,264	4,436	4,400
Total non-current interest-bearing debt	8,473	4,525	7,131
Current interest-bearing debt			
Loans from related parties	-	-	-
Financial lease	-	1	0
Lease liabilities	61	-	-
Loans from external parties, other than banks	261	179	195
Bank financing, current	874	2,546	1,834
Accrued interest	23	21	23
Total current interest-bearing debt	1,220	2,747	2,052
Current bills payable	1,125	2,364	1,740
Total interest-bearing liabilities including bills payable	10,819	9,636	10,923
Cash and cash equivalents	5,365	4,306	7,082
Current restricted deposits bills payable	339	858	569
Other current restricted deposits	5	14	8
Other non-current restricted deposits	96	93	97
Receivables from related parties	1	2	2
Loans to external parties	7	7	8
Accrued interest income	2	0	0
Total other interest-bearing assets	5,816	5,280	7,765
Total interest-bearing assets / (liabilities)	(5,003)	(4,356)	(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	30 June 2019	30 June 2018	31 December 2018
Guaranteed liabilities	1,023	2,856	1,988

Pledged liabilities	30 June 2019	30 June 2018	31 December 2018
Pledged liabilities	0	35	0
Pledged provisions	-	-	-

Note 10 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 energy for smelting when realised.

Derivatives as at 30 June 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	2,055	15	2	1	1	-	-
Embedded EUR derivatives	4,696	(134)	(28)	(7)	(2)	(0)	(19)
Power contracts ¹⁾	3,530	64	37	(19)	12	16	28
Platinum contracts	12	(0)	-	-	-	-	-
Total derivatives		(54)	11	(24)	11	16	9
EUR loan designed as cash flow hedging instrument		(233)	(16)	(4)	(4)	(4)	(5)
Total			(5)	(28)	7	12	3

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

Realised effects hedge accounting, recycled from OCI	Second quarter		Year to date		Full year
	2019	2018	2019	2018	2018
Realised effects from forward currency contracts, Revenue	(6)	(7)	(17)	(31)	(34)
Realised effects from embedded derivatives EUR, Revenue	(2)	(1)	(3)	(1)	(3)
Realised effects from EUR loans, Revenue	(2)	(1)	(2)	(1)	(3)
Realised effects from power contracts, Raw materials and energy for smelt	9	31	69	60	216
Total realised hedging effects recycled from OCI	(1)	22	47	26	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 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:

	<u>Outstanding</u>
As at 1 January 2019	581,310,343
As at 30 June 2019	581,310,343

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 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 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 30 June 2019 7,850,000 options are granted to members of the management and certain other key employees.

Note 12 Transactions with related parties

There are no significant changes in type and size of the related parties transactions in 2019. Related party transactions in Elkem remain the same as 31 December 2018. See note 33 Transactions with related parties to the consolidated financial statements for the year ended 31 December 2018, for more information.

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

Second quarter 2019	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							152
Income tax (expense) benefit							58
Finance expenses							71
Foreign exchange gains (losses)							49
Finance income							(12)
Share of profit from equity accounted financial investments							8
Other items							(25)
EBIT	148	88	22	69	(44)	17	300
Impairment losses							1
Amortisations and depreciations							346
EBITDA	333	162	81	86	(33)	17	647

Second quarter 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							1,334
Income tax (expense) benefit							90
Finance expenses							101
Foreign exchange gains (losses)							(10)
Finance income							(13)
Share of profit from equity accounted financial investments							1
Other items							153
EBIT	1,190	237	208	64	(45)	0	1,655
Impairment losses							5
Amortisations and depreciations							310
EBITDA	1,357	309	263	80	(38)	0	1,971

Year to date 30 June 2019	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							649
Income tax (expense) benefit							201
Finance expenses							143
Foreign exchange gains (losses)							15
Finance income							(23)
Share of profit from equity accounted financial investments							6
Other items							(176)
EBIT	401	202	143	135	(87)	19	815
Impairment losses							1
Amortisations and depreciations							683
EBITDA	769	346	260	169	(64)	19	1,499
<hr/>							
Year to date 30 June 2018	Silicones	Silicon Materials	Foundry Products	Carbon	Other	Eliminations	Elkem
Profit (loss) for the year							2,062
Income tax (expense) benefit							190
Finance expenses							218
Foreign exchange gains (losses)							1
Finance income							(22)
Share of profit from equity accounted financial investments							1
Other items							355
EBIT	1,811	510	464	124	(100)	(3)	2,805
Impairment losses							7
Amortisations and depreciations							612
EBITDA	2,139	650	569	155	(87)	(3)	3,424
<hr/>							
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

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

	Second quarter		Year to date		Year
	2019	2018	2019	2018	2018
Reinvestments	(301)	(292)	(484)	(472)	(1,064)
Strategic investments	(179)	(120)	(266)	(264)	(726)
Periodisations ¹⁾	(67)	8	15	(69)	(125)
Investments in property, plant and equipment and intangible assets	(546)	(404)	(735)	(805)	(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:

	Second quarter		Year to date		Year
	2019	2018	2019	2018	2018
Cash flow from operating activities	622	1,245	654	1,937	4,460
Income taxes paid	172	35	351	107	272
Interest payments made	68	67	133	241	390
Interest payments received	(10)	(13)	(21)	(21)	(41)
Changes in provisions, pension obligations and other	84	41	481	65	(46)
Changes in fair value commodity contracts	35	(128)	199	(251)	(321)
Other items	(25)	153	(176)	355	380
Reinvestments	(301)	(292)	(484)	(472)	(1,064)
Cash flow from operations	645	1,108	1,136	1,960	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, 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:

	30 June 2019	30 June 2018	31 December 2018
Inventories	5,286	4,733	5,467
Trade receivables	2,240	3,149	2,391
Bills receivable	(518)	(301)	(354)
Accounts receivable	1,722	2,848	2,037
Other current assets	967	902	836
Current interest-bearing receivables	-	-	-
Other current receivables to related parties interest free	(9)	(18)	(4)
Grants receivables	(193)	(73)	(148)
Tax receivables	(97)	(53)	(38)
Accrued interest	(1)	(1)	(0)
Other current assets included in working capital	666	757	645
Trade payables	2,680	2,875	2,731
Trade payables related to purchase of non-current assets	(261)	(354)	(307)
Accounts payable included in working capital	2,420	2,521	2,423
Employee benefit obligations	569	524	671
Provisions and other current liabilities	773	1,113	1,221
Current provisions	(138)	(165)	(141)
Liabilities to related parties	(91)	(204)	(328)
Other current liabilities included in working capital	544	744	752
Working capital	4,142	4,549	4,303
Property, plant and equipment	12,375	11,812	12,445
Right-of-use assets	544	-	-
Investments equity accounted companies	121	158	134
Trade payables and prepayments related to purchase of non-current assets	(258)	(311)	(251)
Capital employed	16,924	16,208	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.

	30 June 2019	30 June 2018	31 December 2018
Net interest-bearing assets / (liabilities)	(5,003)	(4,356)	(3,158)
Non-current interest-bearing assets	(105)	(101)	(106)
Accrued interest income	(2)	(0)	(0)
Net interest-bearing debt	(5,110)	(4,458)	(3,264)
EBITDA (LTM)	3,867	5,360	5,793
Leverage ratio	1.3	0.8	0.6