

An abstract background featuring a dynamic, swirling pattern of blue and white, resembling liquid or smoke. In the lower-left corner, a pile of small, dark, spherical beads is visible. A bright yellow diagonal line cuts across the image from the bottom left towards the top right, separating the abstract pattern from the white text area.

RECSiLICON

ANNUAL REPORT
2016

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BOARD OF DIRECTORS



JENS ULLTVEIT-MOE

Chairman of the Board of Directors since November 2013, Mr. Ulltveit-Moe is currently CEO and Board member of Umoe Group, a company he established in 1984. Prior to Umoe, his career included McKinsey in New York and London, The Dutch SHV Group, and Knut Knutsen OAS. He has also served as Chairman of the Board for PGS, Kverneland, Sevan Marine and REC. Mr. Ulltveit-Moe has a Master degree in Business and Economics from the Norwegian School of Economics and Business Administration (NHH) and a Master degree in International Affairs from Colombia University.



INGER BERG ØRSTAVIK

Board member since November 2013, Ms. Ørstavik is an associate professor at the Department of Private Law, University of Oslo. She has previously been a partner with Advokatfirmaet Schjødt AS and a lawyer at the office of the Attorney General for Civil Affairs. She taught international human rights law at Fudan University in Shanghai, China. Ms. Ørstavik has a law degree from the University of Oslo, a LL.M. from Ruprecht-Karls-Universität in Heidelberg, Germany, and a Ph.D. from the University of Oslo in the areas of patent law and competition law.



RAGNHILD WIBORG

Member of the Board of Directors since May 2013, Ms. Wiborg has over 30 years experience in financial markets and an extensive network both within the international and Nordic business communities. She has working experience from, CEO of Wiborg Kapitalforvaltning, CIO of Odin Fund Management and different position in investmentbanks such as Pareto Securitie, ABG Sundal & Collier and First Chicago. She is member of the BoD in several listed companies; Borregaard ASA, Gränges AB, Intrum Justitia AB, IM Skaugen, Skandiabanken ASA and as well as Chairman of the board of EAMSolar ASA. Ms. Wiborg has a Bachelor of Science in Economics (Civilekonom) with a major in International Business from Stockholm School of Economics and Business Administration as well as master studies from Fundacao Getulio Vargas, Brasil and from Sorbonne University.



ESPEN KLITZING

Board member since November 2013, Mr. Klitzing is CFO of Umoe Group, Chairman of the Board of several Group companies and Alliance Venture Polaris AS, as well as a board member of DNB Life Insurance and the Stock Exchange Appeals Committee. Prior to Umoe he was a Principal at McKinsey & Company, CFO and Deputy CEO at Norges Bank Investment Management, CEO of Petrojarl ASA and Storebrand Life Insurance, and held various management positions in Storebrand Group. Mr. Klitzing holds a degree in Business and Economics (Siviløkonom) from the Norwegian School of Economics and Business Administration (NHH).



TERJE OSMUNDSEN

Board member since May 2016, Mr. Osmundsen is Senior Vice President, Business Development, in Scatec Solar ASA. Prior to Scatec Solar, Mr. Osmundsen was founder and editor-in-chief, Monday Morning Norway. He was CEO of Scandinavian University Press, Deputy Man.Dir. of Confederation of Business and Industry (NHO) and served in senior leadership positions Alcatel and Saga Petroleum. Earlier in his career, Terje was chief political adviser to the Prime Minister and Research Director, BI Norwegian Business School. Terje has a post-graduate degree in political science from University of Oslo and American University, and is currently non-executive Board member in the Waste-to-Fuel company Quantafuel AS and Board Chairman in Caritas Norway.

LETTER FROM THE CEO

Solar energy demand is expected to continue to grow in the long term as an important component of the continued proliferation of renewable energy across the world. Because costs have been reduced, and due to technical and efficiency advances within the industry, solar energy has become more competitive, which has in turn increased demand. From 2015 to 2016 there was a 25 percent increase in solar demand globally. Over the next few years solar installations are projected to steadily increase. Emerging markets will continue to make up a bigger share of overall demand, as the long term market outlook becomes increasingly geographically diversified and less reliant on the few historically dominant countries.

The vast majority of solar panels continue to be manufactured using polysilicon. As demand for panels is expected to increase, so will demand for polysilicon. On the supply side, there will be limited new polysilicon capacity added over the next three years. This means that demand for polysilicon should remain strong in the coming years.

REC Silicon remains the only polysilicon manufacturer in the world successfully utilizing FBR technology, which efficiently produces low-cost granular polysilicon. Further, the company's joint venture in Yulin, China will produce the highest quality, lowest cost granular polysilicon in the world. Through the strong cooperation between REC Silicon and joint venture partner, Shaanxi Non-Ferrous Tian Hong New Energy Co., Ltd., construction on the plant in Yulin has progressed substantially, and the schedule remains on track for a start-up during the second half of 2017.

Further, the comprehensive, year-long training of the fifty joint venture employees from China has been completed at REC Silicon's US plants, providing them with the necessary hands-on experience to operate the FBR technology.

Nonetheless, 2016 was a challenging year for REC Silicon. The effects of the solar trade war between the US and China continued to impact the company's ability to access the market for solar grade polysilicon in China. Although the company has continued to diversify its solar grade polysilicon customer base outside of China, China still accounts for approximately 80 percent of the global solar grade polysilicon market. Efforts towards a resolution of the trade war have continued throughout 2016, but the outcome remains uncertain, particularly with the new incoming administration in the US. Although the company will continue to work towards a resolution, for planning purposes, we have assumed that there will be no resolution in the near future.

"REC Silicon's employees once again demonstrated that they are the Company's most valuable asset. They have continuously adjusted and improved in the face of changing conditions."

On account of these dynamics, REC Silicon operated at reduced capacity for most of 2016, which we expect to continue throughout 2017. Significant cost cutting initiatives have been undertaken, and the company has adjusted the size of organization to a level where we can maintain our cost competitiveness at reduced capacity. Because of these efforts, REC Silicon was able to return to a positive EBITDA during Q4 2016 and has regained its cash cost advantage at reduced capacity.

The silicon gas market has continued to grow and REC Silicon had strong silicon gas sales throughout 2016. The effects on the company's sales from the port shut-down in 2015 as well as the forward sales that occurred have now dissipated. Further, the markets for all silicon gases are projected to continue to grow in the near term, with strong silicon gas sales projected during 2017.

The semiconductor market improved during 2016, as excessive inventories that pervaded that space for the last few years have now

been consumed. The outlook for the semiconductor market is positive, with moderate growth expected in the coming years.

Despite the challenges that the company was faced with, many improvements across the organization occurred during 2016. Safety and environmental compliance have remained a priority, with a reduction in lost time injuries from 2015. Efforts continue to prevent injuries and ensure environmental compliance across the organization, towards the company's ultimate goal of zero harm to employees, contractors, partners, customers, and the communities in which we operate. Improvements are also being implemented to reduce our emissions and minimize our carbon footprint.

Challenges faced during 2016 afforded opportunities to demonstrate operational excellence. Maintenance activities were completed that will allow the Moses Lake facility to operate for two more years without taking a significant outage. After being brought back online from the maintenance shutdown, Silane III achieved a new monthly production record during July. In December, Moses Lake achieved a record high for granular yield and finished the year above production targets.

In Butte, efforts have been implemented to make the polysilicon production process more efficient as well as to be better tailor its product offerings to meet customer needs. This new product mix should result in stronger sales going forward.

REC Silicon's employees once again demonstrated that they are the company's most valuable asset. They have continued to rise to the challenging circumstances that we have encountered over the last year. They have continuously adjusted and improved in the face of changing conditions without losing their focus on excellence and continuous improvement.



Tore Torvund
President and CEO

BOARD OF DIRECTORS' REPORT

2016 HIGHLIGHTS (COMPARED TO 2015)

- > EBITDA Loss of \$30.8 million
 - Compared to 2015 EBITDA Loss of \$13.0 million
 - Revenues of \$271.2 million (17.8% Decrease)
- > Polysilicon Sales Volumes of 13,067MT
 - Compared to 13,460MT in 2015 (2.9% Decrease)
 - Polysilicon Inventory Decrease of 2,345MT
 - Continued Discounts to Mitigate Impact of China/US Trade War
 - Solar Grade Polysilicon Price Decrease of 13.1%
 - Reduction of Chinese Feed in Tariffs (FiTs) at Mid-year Caused Disruption in Solar Grade Polysilicon Markets
- > Silicon Gas Sales Volumes of 2,734MT
 - Compared to 2015 Sales Volumes of 3,076MT (11.1% Decrease)
 - 6% Increase in Silane Gas Prices
- > Polysilicon Production Volumes of 10,729MT
 - Compared to 16,883MT in 2015 (36.5% Decrease)
 - Capacity Curtailments of FBR in Moses Lake due to China/US Trade War
- > Successful Implementation of Cost Reduction Initiatives
 - Reduction of Activity and Spending Levels to Match Production Capacity Utilized
 - Resulted in Q4'2016 FBR Cash Cost of \$11.2/kg at ~50% Capacity
 - Demonstrates Ability to Maintain Cost Leadership at Reduced Capacity Utilization
- > Expansion Initiatives
 - Yulin JV on Track for Start-up in Second Half of 2017
 - All Other Expansion Projects Deferred due to China/US Trade War
- > Impairment Charges of \$93.1 million
 - \$78.5 million a Result of Impairment Testing at September 30, 2016
 - \$14.6 million due to the Equipment Removed from Service
- > December 31, 2016 Cash Balance of \$65.8 million
 - Expect to Remain Near Cash Neutral in 2017
 - No Debt Maturities in 2017

GROUP PRESENTATION

Business Activities

REC Silicon ASA was established in Norway on December 3, 1996. The Company is headquartered in Fornebu, Norway.

REC Silicon is a global leader in silane-based, high-purity silicon materials, delivering high-purity polysilicon and silicon gases to the solar and electronics industries.

REC Silicon operates manufacturing facilities in Moses Lake, Washington and Butte, Montana in the USA. REC Silicon's subsidiaries include: REC Silicon Inc., REC Solar Grade Silicon LLC, and REC Advanced Silicon Materials LLC in the United States. REC Silicon's sales and marketing activities for sales of solar grade polysilicon, semiconductor grade silicon and silicon gases are carried out in China, Japan, Korea, Taiwan, Singapore, and in the United States. Ownership of the Group's joint venture operations are held in REC Silicon Pte. Ltd. in Singapore.

Financial highlights - Continuing Operations

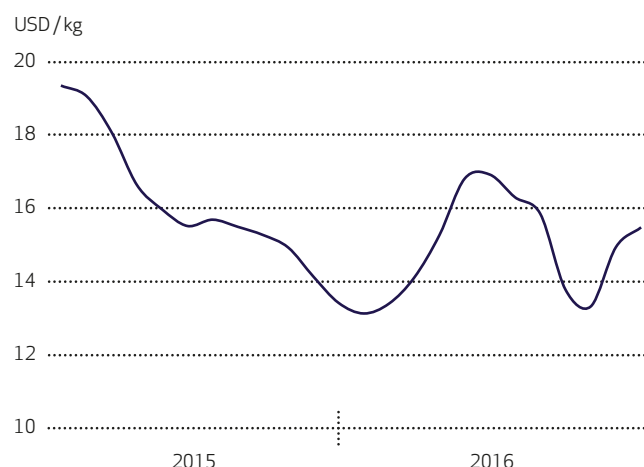
(USD IN MILLION)	2016	2015
Revenues	271.2	329.9
EBITDA	-30.8	-13.0
EBITDA margin	-11.3%	-4.0%
EBIT excluding impairment charges	-123.0	-147.2
Impairment charges	-93.1	-151.6
EBIT	-216.0	-298.8
EBIT margin	-79.7%	-90.6%
Polysilicon production in MT (Siemens and granular)	10,729	16,883
Polysilicon sales in MT (Siemens and granular)	13,067	13,460
Polysilicon (Multicrystalline Bricks) in MT	0	482
Silicon gas sales in MT	2,734	3,076

Markets

Industry analysts are estimating global photovoltaic (PV) installations in 2016 in a range of 73GW to 80GW compared to 58GW in 2015 (growth from 25.9 percent to 37.9 percent). China continues to be the largest market with an estimated 30.5GW installed representing 40 percent of the global PV market with 64 percent growth from 2015. However, PV markets are continuing to diversify geographically. The Americas is the second largest market with 17.6GW and 56 percent growth. Emerging markets in India (5.8GW) and Africa and the Middle East (2.3GW) continue to exhibit strong growth (93 percent and 64 percent respectively). (Market data taken from I.H.S. PV Demand Market Tracker – Q4 2016 Research)

A reduction in feed in tariffs (FiTs) in China at mid-year resulted in a significant reduction to demand for solar grade polysilicon and pushed average prices to a low near USD 13/kg in September 2016. Markets stabilized during the fourth quarter of 2016 and estimated average spot

Polysilicon spot price development



* Monthly spot price index GTM PV Pulse

prices ended the year in a range from USD 15/kg to USD 16/kg. However, REC Silicon continued to offer discounts to maintain sales volumes in order to maintain liquidity and to mitigate the impacts of restricted access to Chinese markets as a result of the solar trade war between China and the United States.

Price increases near year end 2016 indicate more balance between supply and demand. Accordingly, the Company estimates that inventories across the supply chain are at low levels and that demand for end use PV installation will translate into polysilicon demand.

In 2016, markets for semiconductor grade polysilicon began to exhibit signs of improvement. At year end, newer production capacity employing large diameter wafer technology was producing near full capacity utilization. Increasing capacity utilization accelerated the depletion of excess inventories and spot market opportunities expanded. However, the semiconductor grade polysilicon market continues to be dominated by longer term fixed sales contracts which limit spot market sales opportunities for REC Silicon. Customer inquiries for longer term contracts, the expiration of long term contracts for certain customers, and increased qualification efforts indicate the potential for strengthening demand in future periods. Recent investments in more efficient large diameter production capacity for semiconductor devices and public statements by semiconductor manufacturers also signaled growing confidence that capacity utilization will remain high.

Demand for silicon gases continued to grow due to the addition of flat panel display production capacity in China. The commissioning of production capacity employing new technologies continued to support demand for silicon gases in semiconductor applications. However, within the PV sector, volatility in end use demand, the credit worthiness of customers, and less demanding quality requirements continue to result in excess supply and reduce acceptable opportunities for shipments of REC Silicon's gas products.

Strategy and Objectives

REC Silicon's strategy is to maintain its position as a low cost leader and technological innovator in the silicon materials industry.

REC Silicon intends to improve its competitive position by:

- Minimizing the impact of the trade war between China and the US (Prioritize spending and develop market opportunities outside China)
- Focusing on cost control - match activity and spending to production (Demonstrate low cost capability at 50% FBR capacity utilization)
- Maximizing throughput for utilized assets
- Maintaining liquidity (retain cash)
- Focusing on continued quality improvements
- Optimizing semiconductor polysilicon product offerings

REPORT FOR 2016

Financial Statements

The Group reports its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Norwegian Accounting Act.

Revenues

Revenues decreased by 17.8 percent from USD 329.9 million in 2015 to USD 271.2 million in 2016.

Polysilicon sales volumes decreased by 2.9 percent to 13,067MT compared to 2015. Continued capacity curtailments in FBR production in Moses Lake in response to restrictions imposed by the solar trade war between China and the US continued to limit available sales opportunities for REC Silicon's products. During 2016, the FBR facility in Moses Lake was idle between February and May, operated near full capacity in July and August, and at approximately 50 percent of capacity during the remainder of the year. During 2015, the facility operated near full rates from January through June and at approximately 50 percent of capacity during the remainder of the year. Capacity curtailments were initiated to reduce excess polysilicon inventory and to retain cash. Polysilicon inventory decreased by 2,345MT in 2016.

REC Silicon's average annual selling prices for solar grade polysilicon decreased by 13.1 percent from 2015 to 2016. REC Silicon's prices were negatively impacted by price discounts offered to offset the effects of the trade war between China and the United States. In addition, changes to Chinese FiTs for PV installations accelerated PV demand into the first half and resulted in a sharp decrease in demand during the third quarter. In order to avoid inventory growth, supply chain participants reduced capacity utilization significantly which in-turn resulted in low demand and a drop in prices for solar grade polysilicon. At the end of 2016, spot prices began to stabilize as markets recovered and exited the year in a range from USD 15/kg to USD 16/kg.

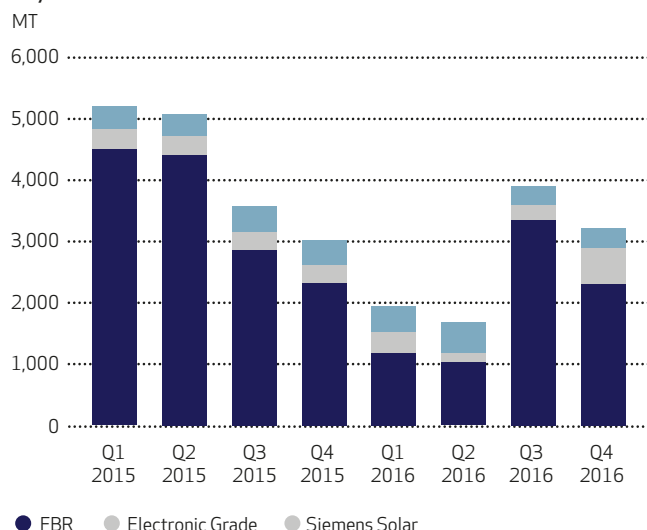
Silicon gas sales volumes were 2,734MT, an 11.1 percent decrease from 3,076MT in 2015. Average annual prices for silicon gases increased by 6 percent. Price increases in 2016 represent a recovery from 2015 when REC Silicon offered substantial discounts to obtain forward sales volumes and to protect market share compromised as a result of re-commissioned competitive capacity. Overall, demand for silicon gases remained strong, however, regional competitors continue to put downward pressure on pricing as they attempt to capture market share.

Operating Costs and Expenses

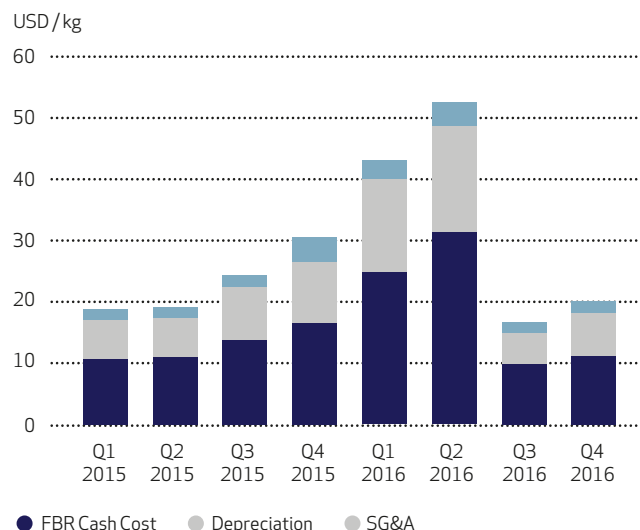
Capacity curtailments driven by the solar trade war between China and the United States resulted in high unit cost. The Group successfully implemented cost saving initiatives in November of 2016 to match activity and spending levels to production capacity utilization. These initiatives included a reduction in workforce of approximately 70 employees. As a result, FBR cash cost for the fourth quarter of 2016 was USD 11.2/kg. This compares with USD 15.3/kg for all of 2016 and represents an improvement compared to USD 12.1/kg in 2014 when the facility operated near full capacity.

Accordingly, production of granular solar grade polysilicon decreased to 7,863MT or a 44.2 percent decrease compared to 14,098MT for 2015. Total polysilicon production declined by 36.5 percent in 2016 to 10,729MT.

Polysilicon Production



FBR Cost



Earnings Before Financial Items and Income Taxes (EBIT)

EBIT for 2016 was a loss of USD 216.0 million and included impairment charges of USD 93.1 million. This represents an improvement compared to the EBIT loss of USD 298.8 million for 2015 which included impairment charges of USD 151.6 million. In addition, depreciation and amortization declined by USD 42.0 million to USD 92.2 million due to lower depreciable bases as a result of impairments recognized.

EBITDA for 2016 was a loss of USD 30.8 million compared to a loss of USD 13.0 million in 2015. The increased loss was primarily a result of low production levels resulting in high unit costs caused by the curtailments to FBR production at the Moses Lake facility discussed above. In addition, decreases to solar grade polysilicon prices discussed above further reduced margins on REC Silicon's solar grade polysilicon.

Impairment charges were a result of net carrying values in excess of the Group's estimated value in use determined using the net present value of the Group's future cash flows. Impairment testing was performed as a result of carrying values in excess of the Group's market capitalization, changes in solar grade polysilicon market conditions, and production curtailments due to uncertainty associated with the trade war between China and the United States. Impairment charges represent the write-down of fixed assets to reduce net carrying values of the Group's assets and liabilities to the estimated value in use. See note 7 to the consolidated financial statements and Risk Factors discussed below.

Financial Items

Net financial items changed to an expense of USD 29.2 million compared to income of USD 110.5 million in 2015. In 2016, net currency losses related primarily to USD denominated intercompany loans between the Company and the US subsidiaries was a loss of USD 13.5 million compared to a gain of USD 115.1 million in 2015. In addition, expense due to fair value adjustments to the convertible bonds was USD 3.9

million compared to income of USD 3.3 million in 2015. The underlying interest expense on the Company's long term debt increased by USD 2.3 million to USD 13.5 million primarily because of a decrease in capitalized borrowing costs. In addition, an NOK denominated bond (REC02) matured and was extinguished with a payment of USD 21.2 million in May 2016 resulting in lower interest expense.

Income Taxes

Income taxes were a benefit of USD 100.7 million in 2016 compared to a benefit of USD 127.3 million in 2015. The tax benefit for both years is primarily a result of taxable losses generated by operations in the United States. Losses during both years were increased by substantial impairment charges (USD 93.1 million in 2016 and USD 151.6 million in 2015). In 2015, losses were offset by USD 115.1 million in net currency gains which reduced the benefit recognized.

Profit and Loss

The loss from total operations was USD 147.4 million in 2016 compared to USD 62.6 million in 2015. The loss in 2015 included profit from discontinued operations of USD 0.2 million related to changes in estimates used to value assets and liabilities associated with operations which were sold or disposed of in prior years.

Cash Flow

Net cash inflows from operating activities were USD 3.8 million for 2016 compared to USD 1.6 million for 2015. In 2016, EBITDA was a loss of USD 30.8 million. This was offset by a decrease in working capital of approximately USD 42.7 million. Decreases in working capital consisted of a decrease in inventories of USD 37.4 million (2,345MT polysilicon inventory decrease), customer collections in excess of sales of USD 15.3 million, and USD 2.8 million decrease in other current assets and liabilities offset by USD 12.8 million decrease in accounts payable. In addition, the Group paid interest of USD 13.2 million and

received a refund of taxes previously paid in the United States of USD 2.8 million. The remaining cash inflows of USD 2.3 million were due to insurance proceeds, interest on municipal bonds, and the reimbursement of expenses incurred on behalf of the JV.

Net cash outflow from investing activities was USD 14.5 in 2016 compared to USD 48.2 million in 2015. Lower investing activities in 2016 was due to the Group's effort to spend only the capital necessary to maintain operations in a safe and reliable manner. As a result capital expenditures were USD 14.7 million in 2016. In 2015, the Group reported capital expenditures of USD 54.7 million. This was offset by receipts of USD 5.7 million due to the early redemption of municipal bonds and USD 0.8 million of restricted cash deposits.

Cash outflows from financing activities were USD 21.2 million in 2016 compared to a cash inflow of USD 53.1 million in 2015. During 2016, an NOK denominated bond (REC02) matured and was extinguished with a payment of USD 21.2 million. During 2015, the Company issued an additional 230 million shares of the Company's stock resulting in net proceeds of USD 42.7 million and sold a net NOK 100 million of the Company's bonds held in treasury resulting in net proceeds of USD 10.4 million.

The net currency exchange effect on cash balances for 2016 resulted in a gain of USD 2.2 million due to the impact of a weaker USD on cash deposits in NOK. During 2015, the currency exchange effect resulted in a loss of USD 7.4 million due to a stronger USD relative to the NOK.

In total, cash balances decreased by USD 29.7 million in 2016 to USD 65.8 million at December 31, 2016.

Balance Sheet and Liquidity

Shareholders' equity decreased to USD 782.0 million (73 percent equity ratio) at December 31, 2016 compared to USD 921.0 million (75 percent equity ratio) at December 31, 2015. This decrease was a result of the loss from operations of USD 147.4 million. In addition, other comprehensive income included net currency gains of USD 9.1 million offset by USD 0.9 million due to the remeasurement of defined benefit pension plans.

Net debt increased by USD 15.3 million to USD 101.5 million at December 31, 2016 from USD 86.3 million at December 31, 2015. This increase was primarily a result of the decline in cash balances of USD 29.7 million discussed above, USD 2.7 million increases to carrying values on NOK denominated debt due to a weaker USD, and USD 3.9 million income due to fair value adjustments on the USD convertible bond. These were offset by the extinguishment of REC02 in May of 2016 for USD 21.2 million. The remaining USD 0.2 million increase in net debt is due to the amortization of upfront fees.

Net debt includes convertible bonds at fair value. Including bonds at nominal value, nominal net debt was USD 120.3 million which represents an increase of USD 10.9 million from USD 109.4 million at December 31, 2016. See note 17 to the consolidated financial statements.

Technology, Research, and Development

REC Silicon's long-term competitive position is only sustainable with cost efficiency and industry leading product performance. REC Silicon therefore deploys significant resources for research and development activities designed to enhance quality, improve efficiency, and reduce production costs throughout the value chain.

Research to develop REC Silicon's proprietary FBR technology has resulted in improvements to efficiency and quality in the Moses Lake FBR facility. Research has been performed to determine operating parameters to maximize process efficiency and operational stability. These tests resulted in the development and installation of monitoring equipment in the FBR-A reactors to collect data to improve reactor control. Due to the partial curtailment of FBR production in Moses Lake, the process development facility is not currently operating. However, laboratory and theoretical work to improve our FBR technology is continuing.

Efforts in other areas are focused on improving analytical techniques, yield, and efficiency in both polysilicon and silicon gases. For Siemens, the focus is on product quality. In silane, the focus is on developing a scientific foundation to improve the efficiency of hydrogenation reactors.

Research and development expenditures were USD 5.5 million in 2016 compared to USD 8.1 million in 2015. In 2015, expenditures included USD 2.5 million associated with the development of FBR-B which were capitalized.

GOING CONCERN

The Board of Directors confirms that the Financial Statements have been prepared under the assumption that the Company is a going concern and that this assumption was realistic at the date of the accounts.

The Board of Directors also makes reference to the risk factors discussed in this report. Specifically, the sections on the Company's liquidity risk and the ongoing solar trade war between China and the United States which creates significant uncertainty for the Group, its customers, certain other competitors, and the industry as a whole.

REC SILICON ASA (NGAAP)

Financial Review

REC Silicon ASA (the Company) prepares its financial statements according to NGAAP. The Company is a holding company with corporate management and financial functions.

In 2016, REC Silicon ASA had a negative EBIT of NOK 14.6 million compared to a negative EBIT of NOK 17.2 million in 2015. The Company reported a net loss of NOK 199.7 compared to a net profit of NOK 1,459.4 million in 2015. Net profit in 2016 included NOK 133.1 million net currency losses related to USD denominated intercompany loans between the Company and its US subsidiaries (NOK 1,081.8 million gain in 2015), NOK 14.6 million of operating expense (NOK 17.2 million in 2015), and NOK 440.6 million in net interest income (NOK 393.5 million in 2015). In addition, the 2016 net loss includes NOK 492.2 million of

losses on financial assets due to the impairment of REC Silicon ASA's investment in its subsidiaries in the United States (See note M to the Financial Statements for REC Silicon ASA).

Total equity for the parent Company was NOK 7,097.7 million at December 31, 2016 compared to NOK 7,296.8 million at December 31, 2015. This decrease is a result of the net loss of NOK 199.7 million discussed above. The remaining change can be attributed to employee share option programs.

Allocation of the Net Profit for the Parent Company

The Board proposes that the net loss for the year of NOK 199.7 million be allocated to other equity.

Organization

REC Silicon ASA had one employee at the end of 2016.

Change of Control

The bond agreements and the indemnification loan have change of control provisions. If a shareholder or a group of shareholders gains control of more than 50 percent of the share capital, bondholders acquire a put option entitling them to cancel the commitments and declare all outstanding amounts and accrued unpaid interest due and payable. The bondholders in the convertible bond agreements will be entitled to convert their bonds into shares in REC Silicon ASA. More detailed information can be obtained from the bond trustee, Nordic Trustee ASA.

RISK FACTORS

The Group's activities expose it to a variety of financial risks, including currency risk, interest-rate risk, liquidity risk, credit risk, refinancing risk and others. See note 3 to the consolidated financial statements.

Market Risk

REC Silicon believes that there are significant uncertainties related to the market development going forward. This uncertainty relates primarily to supply and demand balance and its effect on polysilicon prices and the outcome of the trade war.

REC Silicon's access to polysilicon markets in China has been severely restricted by an import tariff imposed by the Chinese Ministry of Commerce (MOFCOM).

REC Silicon continues to work with the United States government, the Chinese government, affected companies, and industry organizations to obtain a favorable resolution. In addition, REC Silicon continues to focus on identifying sales opportunities outside of China to mitigate the impact of the trade war. Although there are several initiatives focused on advancing a resolution, the timing or outcome of any resolution remains uncertain.

Liquidity Risk

There are no debt maturities in 2017. See note 17 to the consolidated financial statements for information regarding the Company's debt and debt service obligations. At December 31, 2016 the Group had sufficient available cash to meet debt service and other anticipated

operating cash flow requirements. Management's estimates of future cash requirements for 2017 can be met from current working capital and cash flows generated by operations. See Note 31 Claims, Disputes, Contingent Liabilities and Contingent Assets.

Credit risk

Credit risk is primarily related to accounts receivable and guarantees provided for discontinued operations. In accounts receivable, sources of credit risk include geographic, industry and customer concentrations; and risks related to the collection. Policies and procedures are in place for managing credit risk, including obtaining securities where possible. Market and customer specific developments affect credit risk.

Currency risk

The Company's net cash flows from continuing operations are primarily in USD. Debt is denominated in USD and NOK. Accordingly, the Group's currency risk on a consolidated basis relates primarily to the sufficiency of net positive cash flows in USD to meet debt service requirements in NOK. The Group does not currently hold any hedging instruments to offset the risk of changes in exchange rates between the USD and NOK.

CORPORATE GOVERNANCE

Good corporate governance is essential to ensure that our business is run in a way that protects the long-term interest of all stakeholders. The Board of Directors has approved and implemented corporate governance principles endorsing and complying with the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. The Group's compliance with the Code of Practice is described in the report on Corporate Governance for 2016 which is included in this Annual Report.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Sustainability is at the core of REC Silicon's business model, and the Group acknowledges its responsibilities toward the environment, society, and the local communities in which it operates.

It is a Board responsibility to secure acceptable sustainability performance. To ensure compliance with policies, REC Silicon's management monitors performance through specific Key Performance Indicators (KPIs), reports results monthly and quarterly, and executes audits on all levels in the organization.

The Environment

REC Silicon's environment and climate policy commits the Group to maximize the positive contribution from its products and to minimize negative environmental impacts and reduce its carbon footprint.

To achieve these goals, REC Silicon includes environmental considerations in the design, manufacture, and delivery of its products. The Group sets clear objectives, monitors performance regularly, reports results, and audits to ensure continuous improvement. The Group's Pollution Prevention Plan and Process Safety Management Plan cover environmental risks in its operations and the annual, quarterly, monthly and weekly reporting includes emissions to air and water, as well as waste management.

	2016	2015	% CHANGE
Energy			
Direct energy consumption (GWh)	614	863	-29 %
Electricity (GWh)	903	981	-8 %
Total energy use (GWh)	1,517	1,844	-18 %
CO2 emissions			
Direct emissions (tCO ₂ -eq)	125,579	176,972	-29 %
Indirect emissions from electricity (tCO ₂ -eq)	294,969	209,582	41 %
Total CO2 emissions (tCO ₂ -eq)	420,548	386,554	9 %
Water			
Municipal water consumption (million m ³ /yr)	0.3	0.3	-10 %
Surface water consumption (million m ³ /yr)	2.2	2.2	0 %
Water consumption (million m ³ /yr)	2.5	2.6	-1 %
Waste water discharge (million m ³ /yr)	1.4	1.3	10 %
Waste			
Recycled waste (MT)	177	196	-10 %
Non-hazardous waste (MT)	12,795	23,001	-44 %
Hazardous waste (MT)	437	1,342	-67 %
Total waste (MT)	13,232	24,343	-46 %
Other figures			
Total number of permit breaches	7	3	133 %

The production of silicon materials is energy intensive. During 2016, the Group reduced production rates due to market restrictions caused by the trade war between China and the US. Reduced production resulted in a decrease in total energy consumption of 18 percent. Direct CO₂ emissions were reduced by 29 percent, while indirect emissions from electricity increased by 41 percent. Indirect CO₂ emissions are estimated using the Environmental Protection Agency's CO₂ emission factors for electricity. The EPA's CO₂ emission factor for grid sourced electricity for the Butte, Montana facility increased by 39 percent. This large increase explains the overall increase in CO₂ emissions of 9 percent even though the Group's electricity consumption declined compared to 2015.

Waste from the manufacturing processes is sorted and recycled with third-party waste management services. REC Silicon's production and maintenance cycles cause variations in waste generation. In 2016, the Group had a 46 percent decrease in total waste generation, with a reduction in recycled waste of 10 percent, a 44 percent decrease in non-hazardous waste, and a 67 percent decrease in hazardous waste.

Water use remained stable compared to 2015, while waste water discharge increased by 10 percent.

The Group registered seven environmental permit breaches in 2016 compared to three in 2015. There were no serious incidents or environmental releases in 2016.

Our Employees

Health and safety has the highest priority, and the Group believes that all accidents, injuries, and occupational illnesses are preventable. The target is zero incidents, zero injuries, and no harm to employees, contractors, partners, customers and communities.

REC Silicon had 560 employees as of December 31, 2016, down by 95 since 2015. This decrease is due to workforce reduction and employee attrition primarily as a result of the uncertainty caused by the trade war between China and the United States.

To achieve a world-class safety culture, REC Silicon's employees are involved in safety-focused continuous improvement efforts each day. This includes assessing all work activities to eliminate inherent risks as well as applying control measures. The Group has an extensive set of HSE procedures that are regularly monitored, safety departments at each facility, and employee-driven processes that audit and further

develop safety practices and protocols. All employees have the right and the responsibility to stop unsafe activities as needed.

Emphasis is placed on training employees and leadership in the Job Safety Analysis (JSA) method, which is applied to high-risk and nonstandard work activities. In 2016, the Group almost doubled both the number of Safe Job Analyses, and the number of Hazard Recognition audits, compared to 2015.

As a result of these efforts, the Group realized improvements in its safety performance. The number of lost time injuries (LTI) decreased by 33 percent, from 9 in 2015 to 6 in 2016, which in turn caused a 30 percent reduction in absence from work-related injuries.

Group compensation policy provides a benefit for paid time off (PTO) and does not separately identify sick days in compensating employees. Accordingly, average sickness rates have not been provided. The Group maintains a health and wellness program which facilitates healthy lifestyle choices and activities.

REC Silicon is committed to equal opportunity employment and practices. All employees and applicants are treated without regard to age, gender, sexual orientation, nationality, race, religion, disability, marital situation or any other protected status. REC Silicon's policies clearly state the Group's expectations, and provide examples of unwelcome behavior, and reporting and complaints procedures. Of the employees, 16 percent are women. In the management group, 30 percent are women, and 40 percent of the Board members are women.

Human Rights

The Group's Code of Conduct states that REC Silicon supports fundamental human rights and will abstain from participating in any business activities that may compromise human rights, including child labor and forced labor. The main risk of human rights violations is in the Group's overseas and extended supply chain. REC Silicon's major purchases are electricity, which is produced regionally, industrial gases, which are produced at an adjacent site, and Metallurgical Grade Silicon, which is purchased from both domestic and international sources.

Ethics and sustainability are part of REC Silicon's supply chain management process. The Group seeks to contract services, purchase materials, hire, and lease equipment in a manner that ensures that REC Silicon's own sustainability policies are met. The Group's standard terms and conditions require adherence to standards on human rights, freedom of association, child and forced labor, corruption, and occupational health and safety.

All strategic suppliers had contractual clauses or are subject to regulations regarding respect for human rights. During 2016 the Group completed one on-site audit and eight self-directed audits where suppliers were asked to document policies and performance related to human rights, labor rights, anti-corruption and environmental protection. There were no human rights violations reported in 2016 and no major

issues were uncovered during the audits. For 2017, REC Silicon has two on-site audits scheduled.

Anti-Corruption

REC Silicon sets high standards of integrity and believes that a sound business must be based on value-based management and clear guidelines on ethics and sustainability. The Code of Conduct, the Anti-Corruption Policy, and related procedures describe the behavior expected of our employees.

REC Silicon operates in a challenging business environment. The Code of Conduct and the Anti-Corruption Policy are backed by procedures that give practical guidance to help employees in their day-to-day work. Every employee is required to sign the Code of Conduct to acknowledge their commitment to adherence. New employees receive training on the Code of Conduct, including information about REC Silicon's Anti-Corruption policy and procedures.

REC Silicon investigates all potential integrity concerns and cooperates fully with the authorities. The Group takes every accusation of corruption seriously, performs thorough investigations, reports to the Board of Directors, and takes necessary action. No adverse action will be taken against an employee due to complaints submitted in good faith. Complaints can be made anonymously.

No incidents of corruption were reported in 2016.

Local Communities

REC Silicon and its employees together donated approximately USD 101 thousand to local communities, down from approximately USD 115 thousand in the previous year. Of that amount, REC Silicon's employees contributed 25 percent of the total through United Way payroll deductions. In addition, employees provided 1,450 volunteer hours to programs and charitable organizations in 2016. Most contributions were in the fields of emergency response assistance and youth/education.

REC Silicon provided donations and sponsored activities including Solar Races and Energy Science Days, a program that engages 1,300 students and dozens of REC Silicon employees annually. REC Silicon donated to many youth programs including Columbia Basin Youth Baseball, Montana Tech Athletics, Boys & Girls Club, and Special Olympics. REC Silicon employees also participated in three on-site blood drives, as well as donated toys and food to local drives.

OUTLOOK

Market Outlook

According to external sources, total PV installations for 2017 are estimated to be in a range from 68GW to 80GW. Due to the reduction of FiTs in China in July 2017, demand is expected to strengthen during the first half of 2017 as projects are accelerated to take advantage of higher tariff structures. Unlike 2016, low inventories across the supply chain are expected to result in less demand volatility during the second half of 2017. Increasing market diversity is expected to stabilize markets during the second half as installations in the Americas and India

increase to offset the decline in China. However, increases in polysilicon prices will continue to lag behind changes in demand due to substantial uncertainty.

Uncertainty caused by the trade war between China and the United States will continue to place downward pressure on prices realized by REC Silicon due to price discounts offered to penetrate markets outside of China. These geographic imbalances will persist until increases in polysilicon demand exceed polysilicon supply, pricing levels dictate additional curtailments of polysilicon manufacturing capacity, and/or the trade war is resolved.

Markets for semiconductor grade polysilicon are expected to continue to improve. Trade organizations and industry analysts continue to project steady increases in demand for wafers over the next few years. High wafer production capacity utilization is expected to result in demand growth of 4 to 5 percent in 2017. Spot market sales opportunities for REC Silicon semiconductor polysilicon are expected to increase as excess inventories are depleted and long term fixed sales contracts expire. REC Silicon will continue to benefit from sales opportunities in certain specialized products and applications. Demand during future periods is expected to be somewhat volatile as REC Silicon's customers balance inventory and long term purchase commitments with improving demand expectations.

Demand for silicon gases during 2017 is expected to remain strong. Within the PV segment, shipments of REC Silicon's gas products will continue to be limited by the credit worthiness and the financial condition of customers. Silane gas prices are expected to remain stable within each segment, however, average prices could decline due to efforts to maintain sales volumes and increase market share in PV applications.

Production Targets

Production targets for 2017 as well as the actual 2016 production results are summarized in the table below.

POLYSILICON PRODUCTION VOLUME MT	2016 ACTUAL	2017 TARGET
Granular	7 863	9 420
Semiconductor Grade	1 324	1 170
Siemens Solar	1 542	1 910
Total	10 729	12 500
Silicon Gas Sales Volume (MT)	2 734	3 200

Polysilicon production targets for 2017 are estimated at approximately 12,500MT and include operation of the FBR facility in Moses Lake at approximately fifty percent capacity utilization throughout 2017. This capacity curtailment was necessary because of restricted access to markets in China caused by the solar trade war between the China and the United States. The restart of curtailed capacity in Moses Lake is dependent upon a resolution to the China trade war or expansion of markets outside of China.

Production of semiconductor grade polysilicon and silicon gases is located at the manufacturing facility in Butte, Montana and will not be interrupted due to the partial curtailment of production in Moses Lake.

Increased sales volumes of silicon gases for 2017 reflect the absence of forward sales volumes which significantly impacted 2016 sales volumes as well as anticipated demand growth in flat panel display and semiconductor markets and increased penetration of crystalline PV cell markets.

Production and sales achieved during 2017 will be dependent on the development of market conditions and operational performance.

Cost Targets

REC Silicon targets FBR cash production costs of USD 11.0/kg for 2017. Cash cost targets reflect the impact of cost reduction initiatives successfully implemented during the fourth quarter of 2016. The Group has reduced activity and spending levels to match the operation of the Moses Lake FBR facility at reduced production rates to optimize inventory levels and meet lower demand for our solar grade polysilicon products caused by the China trade war.

CASH PRODUCTION COST	2016 ACTUAL	2017 TARGET
FBR Cash Cost (USD/kg)	\$15.3	\$11.0

Investment and Expansion

For 2017, additions to property, plant, and equipment are expected to be approximately USD 10 million and include only the capital necessary to maintain operations in a safe and reliable manner. All activities associated with all expansion projects have been halted due to market conditions.

Until market conditions improve, the Group will defer and delay capital spending when possible while maintaining safe operating conditions in order to maintain liquidity.

ADDITIONS TO PROPERTY, PLANT, AND EQUIPMENT (USD MILLIONS)	2016 ACTUAL	2017 TARGET
Maintenance	11	10
Expansion	1	0
Total Additions to Property, Plant, and Equipment	12	10

The Yulin JV is on track for startup during the second half of 2017. Detailed engineering is complete. Structural steel installation and procurement are nearing completion. Equipment is being installed and pipe fabrication is underway. JV employees have completed training in operating procedures at the Moses Lake and Butte facilities in preparation for plant commissioning in 2017. See notes 8 and 29 to the consolidated financial statements.

FORWARD LOOKING STATEMENTS

This report contains statements regarding the future in connection with the Group's growth initiatives, profit figures, outlook, strategies and objectives. In particular, the section "Outlook" contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties,

and many factors can lead to actual results and developments deviating substantially from what has been expressed or implied in such statements. These factors include the risk factors relating to REC Silicon's activities described in section "Risk Factors" above.

Fornebu, March 31, 2017
Board of Directors



Espen Klitzing
Member of the Board



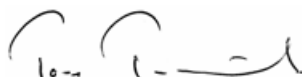
Jens Ulltveit-Moe
Chairman of the Board



Ragnhild Wiborg
Member of the Board



Terje Osmundsen
Member of the Board



Tore Torvund
President and CEO



Inger Berg Ørstavik
Member of the Board

STATEMENT OF COMPLIANCE

The Board of Directors and the Chief Executive Officer (CEO) have today considered and approved the report from the Board of Directors and CEO, the financial statements for the Group and for the parent company REC Silicon ASA (the Company) for the year ending December 31, 2016.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements as stated in the Norwegian Accounting Act that are applicable at December 31, 2016. The financial statements for the Company have been prepared in accordance with the Norwegian Accounting Act and Generally Accepted Accounting Principles in Norway that are applicable at December 31, 2016. The report from the Board of Directors and CEO, including the report on corporate governance, for the Group and the Company has been prepared in accordance with the Norwegian Accounting Act and the Norwegian Accounting Standard no. 16 applicable at December 31, 2016.

We confirm that, to the best of our knowledge:

- The financial statements for the Group and the Company for the year ending December 31, 2016 have been prepared in accordance with applicable accounting standards, and
- The information in the financial statements gives a true and fair view of the Group's and the Company's assets, liabilities, financial position, and results of operations for the year ending December 31, 2016, and
- The report from the Board of Directors for the year ending December 31, 2016 includes a fair review of:
 - The development, results of operations and position for the Group and the Company, and
 - The principal risks and uncertainties for the Group and the Company.

Fornebu, March 31, 2017
Board of Directors



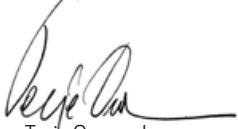
Espen Klitzing
Member of the Board



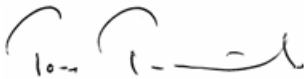
Jens Ulltveit-Moe
Chairman of the Board



Ragnhild Wiborg
Member of the Board



Terje Osmundsen
Member of the Board



Tore Torvund
President and CEO



Inger Berg Ørstavik
Member of the Board

BOARD OF DIRECTORS' REPORT ON CORPORATE GOVERNANCE

REC Silicon ASA (the "Company") and its subsidiaries (together REC Silicon Group/the Group), endorses the Norwegian Code of Practice for Corporate Governance (Code of Practice) issued by the Norwegian Corporate Governance Board. The latest amendments to the Code of Practice (last revised October 30, 2014) are also incorporated into the reporting requirements of the Accounting Act.

1. IMPLEMENTATION AND REPORTING ON CORPORATE GOVERNANCE

The Board has adopted the following report that explains how the Group meets the requirements of the Code of Practice and the Accounting Act. The application of the Code of Practice is based on the "comply or explain" principle and deviations from the code, if any, will be explained.

REC Silicon Group deviated from the recommendations in the Code of Practice on two sections in 2016. These deviations pertained to separate proxy voting for candidates to the Board (Section 6) and separate regulations for takeover bids (Section 14).

Corporate Values, Code of Conduct and Corporate Social Responsibility

REC Silicon's vision is to be a global leader in silane-based, high-purity silicon materials. The Group's objective is long-term value creation for its shareholders.

The Group believes sound business must be based on value-based management and clear guidelines on ethics and sustainability.

The Group's ethical values and corporate social responsibility are described in the Code of Conduct and other Group policies on sustainability. The Code of Conduct includes requirements for compliance with laws, ethical behavior and professional integrity for all employees and board members of the Company and its subsidiaries. The Code of Conduct is available on the Company's website at www.recsilicon.com.

In addition, the Group has adopted the following policies:

- Anti-Corruption policy
- Business conduct policy
- Safety and health policy
- Quality and improvement policy
- Environment and climate policy

The Corporate Governance principles, the Code of Conduct and the group policies have been adopted by the Board and are reviewed on a regular basis. Employees can access these policies and principles on the Group's internal website.

2. BUSINESS

The purpose of the Company is described in the Articles of Association § 3:

"The Company's purpose is development and sale of products and services related to renewable energy sources, and to perform other financial operations related to such. The Company may, through subscription of shares or in any other ways, including granting of loans, acquire interests in other companies with identical or similar purposes".

The Group believes the solar industry plays a key role as a long-term supplier of sustainable energy and its business is focused on the production of polysilicon and silicon gases for the solar and electronics industries. To make solar electricity competitive with traditional energy sources, the Group focuses on cost reduction and improvements to products. This should be achieved through introduction of new process and product technologies as well as continuous productivity improvement and technology development. The Group's strategies and business goals are presented in the annual report, quarterly reports, and at various investor meetings.

3. EQUITY AND DIVIDENDS

The Groups consolidated equity was USD 782.0 million on December 31, 2016, which represented 73 percent of total assets.

The Board considers the Group's capital structure appropriate for the current objectives, strategy, and risk profile. Reference is also made to the consolidated financial statements (note 3.3) regarding capital structure and financing and to the report of the Board of Directors.

The Group's ambition is to give its shareholders a high and stable return on their investment and to be competitive compared with alternative investment opportunities with comparable risk.

To support committed investments and productivity improvements, the Board's view so far has been that retained earnings should be put to use within the Company. Accordingly, there has been no distribution of dividends to the shareholders since the Company was publicly listed in 2006.

The Board of Directors did not propose any dividend payments for the financial year 2016.

The Board will continue to assess the capital structure based on the goals and strategies and the financial situation of the Company.

At the Annual General Meeting (AGM) on May 3, 2016, the Board was granted the following authorities:

- Authority to acquire treasury shares in the Company (up to a maximum of ten percent of the face value of the share capital)
- Authority to increase the share capital (up to ten percent of the existing share capital).

These authorities are restricted to defined purposes and each mandate was considered separately. They are valid until the AGM in 2017 or no later than 15 months from the date of the 2016 AGM.

For further information about the mandates given to the Board, reference is made to the minutes from REC Silicon's 2016 Annual General Meeting, which are available on the Company's website (www.recsilicon.com).

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

REC Silicon ASA has one class of shares and each share confers one voting right at the General Meetings. The Articles of Association contain no restrictions on voting rights. The Company seeks to conform to the principles for equal treatment of shareholders and is generally cautious in transactions with shareholders, members of the Board of Directors, Group Management, or other related parties.

The Group did not issue any additional shares or acquire any of its own shares in 2016.

The Board has adopted guidelines to ensure that they will be informed of possible interests of Board members or members of Group Management or close associates in any transaction or matter dealt with by the Board, as well as guidelines for handling of such situations. The Board must review and approve all transactions between the Group and Group Management or the Board of Directors.

REC Silicon ASA's offices are owned by the shareholder Umoe AS and leased to the Company. Umoe AS is controlled by Board Chairman Jens Ulltveit-Moe.

There were no agreements in 2016 between the Group and its shareholders, directors, Group Management or other related parties that could be described as a material transaction.

5. FREELY NEGOTIABLE SHARES

The Company is listed on the Oslo Børs. All shares are without any restrictions and are freely tradable.

6. GENERAL MEETINGS

The General Meeting is the Company's highest authority. All shareholders are guaranteed participation and the opportunity to exercise their rights. The Annual General Meeting (AGM) has adopted the Articles of Association, where the notice period, right to attend and agenda proposals are regulated. The Board, auditor, or shareholders representing at least 5 percent of the shares can call for Extraordinary General Meetings when deemed necessary.

According to the Articles of Association, the AGM is to be held by the end of June every year. The AGM is to be held in the municipality where the Company has its registered business address or in Oslo. The 2017 Annual General Meeting is scheduled for May 3, 2017 in Oslo.

The notice of the General Meeting and supporting documents are made available on the Company's website no later than three weeks prior to the date of the meeting. Shareholders may however request the documents by mail.

Efforts are made to ensure that proposed resolutions and supporting information are sufficiently detailed and comprehensive to allow the shareholders to form a view on all matters to be considered at the meeting. The notice includes information about shareholders' rights.

Shareholders wishing to participate at the General Meeting shall notify the Company within a specific time limit. The time limit cannot expire earlier than five days prior to the General Meeting. Shareholders who have not given notice within the time limit may be denied participation at the meeting. Shares must be registered by the fifth business day prior to the date of the meeting in order to exercise rights to attend and vote at the General Meeting. Registration of attendance may be done by mail, e-mail, or via the Company's website.

Separate voting on each candidate for election to the Board and nomination committee is offered at the general meeting.

Shareholders are entitled to request that specific matters be placed on the agenda of a general meeting by giving written notice to the Board within seven days prior to the time limit for notice of the general meeting together with a proposal for resolution and reasons why the matter is proposed for consideration. If the notice has already been distributed, a new notice shall be distributed if the time limit for notice to the general meeting has not expired.

Shareholders who cannot attend the General Meeting may vote by proxy. They may elect a proxy of their choice, and the Company also nominates a person that shareholders may elect as a proxy. Information about the

procedures shareholders must observe to participate and vote is given together with the notice of the meeting. A proxy form is prepared in a way that allows separate voting instructions to be given for each matter considered.

The Articles of Association allow the Board to accept written advance votes subject to the existence of a satisfactory method for verifying the identity of the shareholder. The Articles of Association also allow the Board to accept votes cast through electronic communication. So far, no satisfactory solutions for written advance votes and electronic voting have been established, but the Board will continue to evaluate any solutions that become available.

The Chairman of the Board, the Board members, the auditor, and the members of the Nomination Committee are normally present at the General Meeting. All Board members are encouraged to participate at the meeting.

The General Meeting is opened by the Chairman of the Board who nominates an independent chair for election to lead the meeting.

The minutes of General Meetings are made available on the Company's website shortly after the meeting is completed.

Deviation from the Code of Practice:

The Code recommends that separate proxy voting for candidates to the Board be available for shareholders who are unable to attend the AGM in person. However, it is not possible to vote separately on each candidate nominated to the Board by way of proxy because the composition of the Board must be in accordance with applicable legislation regarding gender representation and qualifications for committee assignments. The nomination committee's proposal is given with respect to such legislation. Should a situation arise where the composition of the Board might conflict with applicable legislation, the situation and consequences of electing a board contrary to legislation should be discussed at the General Meeting and shareholders should base their votes on the views discussed.

7. NOMINATION COMMITTEE

The Articles of Association provide for a Nomination Committee consisting of three members. The members are elected by the AGM for a term of two years and the general assembly appoints the chair of the Committee. The remuneration of the Nomination Committee is decided by the AGM. The Nomination Committee makes proposals to the AGM for members to be elected to the Nomination Committee.

The Nomination Committee presents recommendations to the General Meeting regarding election of shareholder-elected members to the Board and the remuneration for members of the Board. The Committee's recommendations provide relevant information on the candidates, and are based on consultations with the largest shareholder groups of the Company.

The Nomination Committee examines the annual report by the Board of Directors on the evaluation of its own work and takes its contents into consideration when making its recommendations on board composition. The Committee also consults with the CEO, the Chairman of the Board, the shareholder-elected Board members and the largest shareholders of the Company before submitting its proposals.

The Nomination Committee presents and provides the basis for the proposals by the Committee at the General Meeting and also reports on how its work has been carried out during the past year. The rules of procedure do not establish rules for rotation of the members of the Nomination Committee. The current members of the Nomination Committee are Mr. Rune Selmar (chair) (elected in 2014), Ms. Live Haukvik Aker (2015), and Ms. Karen Helene Ulltveit-Moe (2014). Ms. Karen Helene Ulltveit-Moe is the wife of largest shareholder and chair of the Board Mr. Jens Ulltveit-Moe. The remaining members of the Nomination Committee are independent of the Board of Directors and Group Management.

8. CORPORATE ASSEMBLY AND BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE

The Company does not have a corporate assembly.

The Board consists of between five and twelve directors (five directors as of December 31, 2016). Up to eight are elected by the shareholders. Board members elected by the shareholders are elected for a term of one year.

The directors are presented in the Annual Report with information about education and experience. Currently two of the five shareholder-elected members are women.

All members of the Board are independent of Group Management. A majority of the Board members are independent of material business contacts.

The following three Board members are independent of the Company's main shareholders:

- Ragnhild Wiborg
- Inger Berg Ørstavik
- Terje Osmundsen

The Board elects a Chairman according to the Articles of Association and the Public Limited Liability Companies Act § 6-1 (2).

Board members are encouraged to acquire shares with due consideration to the requirements of the Securities Trading Act and Company procedure for primary insiders. The Company assists Board members compliance with mandatory disclosure obligations. Primary insiders should abstain from short-term transactions in financial instruments, and that they should apply due care and diligence with regard to ownership periods.

9. WORK OF THE BOARD OF DIRECTORS

The Board has the ultimate responsibility for the management of the Company and the Group and for supervising management.

The Board has adopted an annual plan for work with respect to fixed items. Other items are added as required. The Board held twelve board meetings in 2016.

MEMBERS OF BOARD OF DIRECTORS	POSITION	BOARD MEMBER SINCE	UP FOR ELECTION	PARTICIPATION AT BOARD MEETINGS IN 2016
Jens Ulltveit-Moe	Chairman	2013	2017	11 of 12
Ragnhild Wiborg	Board member	2013	2017	12 of 12
Espen Klitzing	Board member	2013	2017	12 of 12
Inger Berg Ørstavik	Board member	2013	2017	12 of 12
Terje Osmundsen ¹⁾	Board member	2016	2017	6 of 12
Erik Løkke-Øwre ¹⁾	Former Board member	2013	NA	6 of 12

¹⁾ Terje Osmundsen and Erik Løkke-Øwre participated in all board meetings during the time they were members of the board.

The Board has adopted "Rules of procedures for the Board of Directors". The rules describe Board responsibilities, duties and administrative procedures as well as the tasks and duties of the Chief Executive Officer. The Board has also adopted a Chart of Authority regulating matters that are to be decided by the Board and matters that may be decided by Group Management. The Chart of Authority distinguishes between investment decisions, customer contracts, procurement contracts, compensation, and finance and is reviewed on an annual basis. The Board holds at least one meeting per year with the auditor and without any members of Group Management or administration present.

The Board engages a third party consultant to evaluate the performance of the Board of Directors. This evaluation is based upon interviews with members of the Board and members of management interacting with the Board. The evaluation is designed to measure Board performance in its entirety and be reflective of best practices in governance. The results of this evaluation are provided to the Chairman of the Board of Directors and incorporated in the work of the Board of Directors as appropriate.

The Board has established two committees: an Audit Committee and a Compensation Committee.

Audit Committee

The Audit Committee consists of two members of the Board both of which are independent of Group Management. The Committee collectively has the competence required in the Public Limited Liability Companies Act § 6-42. Both members are independent according to § 6-42 Public Limited Liability Companies Act, and both members have the required qualifications within accounting and auditing.

The Committee supports the Board with respect to the assessment and control of financial risk, financial reporting, auditing, control, and prepares discussions and resolutions for Board meetings. It has no decision-making authority. In addition, under the whistleblower procedure, complaints from employees and other concerned parties are received and followed up by the Committee. The Chief Financial Officer participates in the meetings of the Audit Committee. The Committee holds at least one meeting per year with the auditor and without the

Chief Financial Officer or any other members of the Group Management and administration present.

The Audit Committee held 8 meetings in 2016 and was in regular contact with the Company's auditor regarding audits of the statutory accounts. The Committee also assesses and monitors the auditor's independence, including non-audit services provided by the auditor.

The Committee makes recommendations to the Board with respect to appointment, retention and termination of the Group's auditor as well as the auditor's fees. The Committee reviews complaints regarding accounting, internal controls, and auditing matters.

The tasks and rules of procedure of the Audit Committee are further regulated in the Audit Committee Charter.

The audit committee members are currently Ms. Ragnhild Wiborg (chair) and Mr. Espen Klitzing.

Compensation Committee

The Compensation Committee consists of two members of the Board, which are independent of the executive management. The Committee supports the Board by preparing resolutions on the terms and conditions of employment for the Chief Executive Officer and the general principles and strategies for compensation of Group Management including bonus and share based compensation as well as other personnel matters. It also makes recommendations to the Board on employee share purchase programs.

The tasks and procedures of the Compensations Committee are further regulated in the Compensation Committee Charter.

The Compensation Committee members are currently Mr. Terje Osmundsen and Ms. Inger Ørstavik.

During 2016, the Compensation Committee met 4 times.

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Group's risk management system shall ensure that the Group has a systematic and uniform approach to risk management. The system defines roles, responsibilities, processes and procedures, standards, tools and documentation. Group Management sets the context in which risks are managed and supervises the risk management process.

Group Management performs separate risk evaluations based on a top-down approach. Risk assessments are presented to the Audit Committee and the Board of Directors. The Board performs a review of risks in connection with the approval of the annual budget.

Group Management generates a monthly report, which is provided to the Board of Directors as requested. This report includes operational reviews, HSE (Health, Safety and Environment) measures, financial highlights and key performance indicators. Prior to each Board meeting, the CEO prepares a report to the Board of Directors, which includes information from the monthly management report in addition to any items requested by Board members and items requiring action by the Board of Directors.

Because the Group operates internationally, it is required to comply with numerous national and international laws and regulations. All business activities and processes must be conducted in accordance with laws, and regulations.

To strengthen internal control, the Group has established an Anti-Corruption Policy and procedures, provided training to employees and managers, and performed a fraud risk assessment. Whistleblower complaints and other internal control activities are presented to the Audit Committee according to the Audit committee charter.

To ensure consistent financial reporting throughout the Group, financial information is reported through a computerized financial reporting system utilizing a common chart of accounts and procedures designed to ensure the consistency of information reported. Subsidiaries accumulate transactional information, period end balances, and performance statistics through ERP systems designed to meet the business requirements of each operation. Quarterly and year-end reporting processes are expanded to meet various supplementary requirements.

The quarterly and yearly reporting process and significant accounting and reporting issues are discussed with the Audit Committee in the presence of the external auditor.

The Group's financial risk management is described in the consolidated financial statements (note 3). Reference is also made to the Board of Directors' report that includes an analysis of the financial statements and the risk factors.

11. REMUNERATION OF THE BOARD OF DIRECTORS

The members of the Board receive remuneration in accordance with their individual roles. Board members who participate in the Audit Committee or the Compensation Committee receive additional compensation.

Board remuneration is not linked to Company performance and members are not granted share options.

Details on the remuneration of the Board of Directors are disclosed in the consolidated financial statements (note 16).

12. REMUNERATION OF THE GROUP MANAGEMENT

The Board determines remuneration of the Chief Executive Officer.

Group Management remuneration has been established according to guidelines from the Board. The Board presented its policy on the remuneration of Management at the AGM in May 2016. The general meeting approved the policy.

The Board of Directors statement regarding compensation of leading employees has been included in the consolidated financial statements (note 16).

The remuneration of the Group Management consists of a basic salary, relevant fringe benefits and membership in the Company's pension and insurance schemes. The remuneration also includes performance bonuses for selected individuals based on an annual performance-related compensation system. In addition, the Board has adopted an incentive program for retaining key personnel.

The performance bonuses are linked to the Group's financial performance and defined KPI's over time and includes incentives related to performance employees can influence. There are absolute limits for the performance-related remuneration, where maximum performance bonus payout for the management varies between 33-100 percent of the yearly fixed base salary.

The Board extends long-term incentive programs for keeping key personnel, whereby employees' entitlements are linked to the share price development of the Company's shares. Details on the features and awards made under this plan are disclosed in the consolidated financial statements (note 32).

At the AGM in 2016, the general assembly voted separately on the compensation to leading employees and the statement regarding long-term incentive plans.

Details on the remuneration of the Chief Executive Officer and other members of Group Management are disclosed in the consolidated financial statements (note 16).

13. INFORMATION AND COMMUNICATION

The Company treats its investors equally. Timely information is published simultaneously to all investors in accordance with applicable legislation and regulation in order to provide the best possible basis for evaluation of Company performance.

The Board has adopted an IR policy specifying, among other things, who is entitled to speak on behalf of the Company on various subjects and with guidelines for the Company's contact with shareholders other than through General Meetings.

Presentations that are open to the public are conducted in connection with quarterly reports and are made available through a webcast. The Chief Executive Officer and the Chief Financial Officer normally participate in quarterly presentations. The Investor Relations Officer participates at the quarterly presentations. Furthermore, the Company keeps an ongoing dialogue with its investors and makes presentations to analysts and investors through various conferences and events.

The Company observes a "Silent Period" extending from the last day of the quarter until operating results are released publicly. During this period, Group Management is not available for discussions with investors or analysts. Investor relations is available on a limited basis to provide material previously released and to facilitate the collection and distribution of consensus forecasts.

The Investor Relations (IR) function is in charge of coordinating the Company's communications to the market and to existing and potential investors of the Company. The Investor Relations Officer reports to the Chief Financial Officer.

The annual report is sent to shareholders on request. The annual and quarterly reports, Stock Exchange announcements, presentations, and the financial calendar are published on the Company's website.

Each year the Company publishes a financial calendar indicating the publication dates of interim reports and the date of the Annual General Meeting. The calendar is available on the Company's website at www.recsilicon.com.

14. TAKE-OVERS

The Company has no defense mechanism to prevent take-over bids. The Board is open to initiatives that are commercially and financially attractive for the shareholders. The Board assesses potential offers in accordance with applicable legislation and Code of Conduct requirements in due course.

Any transaction that effectively constitutes a disposal of a majority of the Company's activities will be decided by the General Meeting.

Deviation from the Code of Practice:

The Board has not established separate guidelines in the event of a take-over bid as recommended by the Code of Practice.

15. AUDITOR

The Company's external auditor is independent from the Company and elected by the AGM.

The auditor participates at Board meetings with respect to the Annual Financial Statements and provides comments related to the accounting principles and the Financial Statements. The auditor comments on any material changes in the Company's accounting principles, material estimates used to calculate accounting figures, and reports disagreements between the auditor and Group Management.

The auditor presents significant identified weaknesses and proposals for improvements of the internal control procedures annually to the Board with an annual confirmation that the auditor has satisfied the requirements for independence together with a summary of all services provided to the Group. The auditor meets with the Audit Committee and the Board once a year without the Chief Executive or any other member of the Group Management present.

The auditor participates in meetings of the Audit Committee and presents the main features of the audit plan to the Committee.

Remuneration of the auditor is approved by the AGM. The auditor provides a break-down between audit and non-audit services, and the AGM is given information about non-audit services provided by the auditor. The Board has issued guidelines regarding Group Management's use of the auditor for services other than audit.

The auditor participates at the AGM and presents the independent auditor's report.

FINANCIAL STATEMENTS

REC SILICON GROUP & REC SILICON ASA

REC SILICON GROUP

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

REC SILICON GROUP

(USD IN MILLION)	NOTES	2016	2015
ASSETS			
Non-current assets			
Intangible assets	6	17.3	21.9
Land and buildings	6	51.7	62.8
Machinery and production equipment	6	460.7	605.2
Other tangible assets	6	13.2	16.2
Assets under construction	6	69.7	65.8
Property, plant and equipment	6	595.2	750.0
Government grant assets	12, 21	89.7	110.8
Other non-current receivables	12	3.8	4.1
Deferred tax assets	18	134.7	34.5
Total non-current assets		840.7	921.2
Current assets			
Inventories	13	104.1	141.6
Trade and other receivables	12	55.3	70.3
Restricted bank accounts	14	4.0	3.7
Cash and cash equivalents	14	65.8	95.4
Total current assets		229.8	311.0
Total assets		1,070.6	1,232.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

REC SILICON GROUP

(USD IN MILLION)	NOTES	2016	2015
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid-in capital		3,158.0	3,158.0
Other equity and retained earnings		-2,376.0	-2,237.0
Total shareholders' equity		782.0	921.0
Non-current liabilities			
Retirement benefit obligations	19	18.1	18.2
Deferred tax liabilities	18	4.5	5.5
Investments in Associates	8	35.7	28.5
Non-current financial liabilities, interest bearing	17	144.1	138.8
Non-current prepayments, interest calculation	20	5.9	1.1
Other non-current liabilities, not interest bearing		0.2	0.2
Total non-current liabilities		208.6	192.3
Current liabilities			
Trade payables and other liabilities	20	53.8	72.5
Derivatives	11	1.5	1.4
Current financial liabilities, interest bearing	17	23.1	42.9
Current prepayments, interest calculation	20	1.6	2.0
Total current liabilities		80.0	118.9
Total liabilities		288.6	311.2
Total equity and liabilities		1,070.6	1,232.2

Fornebu, March 31, 2017
Board of Directors




Espen Klitzing
Member of the Board



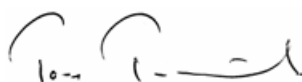
Jens Ulltveit-Moe
Chairman of the Board



Ragnhild Wiborg
Member of the Board



Terje Osmundsen
Member of the Board



Tore Torvund
President and CEO



Inger Berg Ørstavik
Member of the Board

CONSOLIDATED STATEMENT OF INCOME

REC SILICON GROUP

(USD IN MILLION)	NOTES	2016	2015
Revenues	5	271.2	329.9
Cost of materials		-60.0	-96.1
Changes in inventories		-29.0	12.0
Employee benefit expenses	24	-74.6	-89.5
Other operating expenses	22	-140.3	-169.2
Other income and expenses	23	2.0	-0.1
EBITDA ¹⁾		-30.8	-13.0
Depreciation	6	-90.3	-131.1
Amortization	6	-1.9	-3.1
Impairment	6, 7	-93.1	-151.6
Total depreciation, amortization and impairment		-185.3	-285.7
EBIT ¹⁾		-216.0	-298.8
Share of profit/loss of investments in associates	8	-2.9	-1.8
Financial income	25	1.7	3.4
Net financial expenses	25	-13.5	-11.2
Net currency gains/losses	25	-13.5	115.1
Fair value adjustment convertible bonds	25	-3.9	3.3
Net financial items		-29.2	110.5
Profit/loss before tax from continuing operations		-248.1	-190.1
Income tax expense/benefit from continuing operations	18	100.7	127.3
Profit/loss from continuing operations		-147.4	-62.8
Profit/loss from discontinued operations, net of tax	9	0.0	0.2
Profit/loss from total operations		-147.4	-62.6
Attributable to:			
Owners of REC Silicon ASA		-147.4	-62.6
Earnings per share (In USD)			
From total operations			
-basic	26	-0.06	-0.03
-diluted		-0.06	-0.03

¹⁾ For the definition of EBITDA, EBIT, and other alternative performance measures see note 2.25 Definition of Alternative Performance Measures

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

REC SILICON GROUP

(USD IN MILLION)	2016	2015
Profit/loss from total operations	-147.4	-62.6
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit plans	-0.9	-0.8
Currency translation effects	17.1	-132.3
Sum items that will not be reclassified to profit or loss	16.2	-133.1
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences		
- taken to equity	-7.9	19.6
Sum items that may be reclassified subsequently to profit or loss	-7.9	19.6
Total other comprehensive income	8.2	-113.6
Total comprehensive income	-139.1	-176.2
Total comprehensive income attributable to:		
Owners of REC Silicon ASA	-139.1	-176.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

REC SILICON GROUP

ATTRIBUTABLE TO EQUITY HOLDERS OF REC SILICON ASA

(USD IN MILLION)	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	TOTAL PAID-IN CAPITAL	OTHER EQUITY	COMPREHENSIVE INCOME	TOTAL EQUITY
Year 2015							
At January 1, 2015	377.1	2,696.4	41.8	3,115.3	174.0	-2,234.9	1,054.4
Equity share option plan	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Share issue	28.2	14.5	0.0	42.7	0.0	0.0	42.7
Total comprehensive income	0.0	0.0	0.0	0.0	0.0	-176.2	-176.2
At December 31, 2015	405.3	2,710.9	41.8	3,158.0	174.1	-2,411.1	921.0
Year 2016							
At January 1, 2016	405.3	2,710.9	41.8	3,158.0	174.1	-2,411.1	921.0
Equity share option plan	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Share issue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income	0.0	0.0	0.0	0.0	0.0	-139.1	-139.1
At December 31, 2016	405.3	2,710.9	41.8	3,158.0	174.3	-2,550.3	782.0

This table presents details of comprehensive income

(USD IN MILLION)	TRANSLATION DIFFERENCES THAT CAN BE TRANSFERRED TO PROFIT AND LOSS	ACQUISITION	RETAINED EARNINGS	TOTAL
Year 2015				
Accumulated at January 1, 2015	18.1	20.9	-2,273.9	-2,234.9
Profit/loss from total operations	0.0	0.0	-62.6	-62.6
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	0.0	0.0	-0.8	-0.8
Currency translation effects	0.0	0.0	-132.3	-132.3
Sum items that will not be reclassified to profit or loss	0.0	0.0	-133.1	-133.1
Items that may be reclassified to profit or loss:				
Currency translation differences taken to equity	24.7	0.0	0.0	24.7
Tax on currency translation differences taken to equity	-5.1	0.0	0.0	-5.1
Sum items that may be reclassified to profit or loss	19.6	0.0	0.0	19.6
Total other comprehensive income for the period	19.6	0.0	-133.1	-113.6
Total comprehensive income for the period	19.6	0.0	-195.7	-176.2
Accumulated at December 31, 2015	37.7	20.9	-2,469.7	-2,411.1
Year 2016				
Accumulated at January 1, 2016	37.7	20.9	-2,469.7	-2,411.1
Profit/loss from total operations	0.0	0.0	-147.4	-147.4
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	0.0	0.0	-0.9	-0.9
Currency translation effects	0.0	0.0	17.1	17.1
Sum items that will not be reclassified to profit or loss	0.0	0.0	16.2	16.2
Items that may be reclassified to profit or loss:				
Currency translation differences taken to equity	-8.7	0.0	0.0	-8.7
Tax on currency translation differences taken to equity	0.7	0.0	0.0	0.7
Sum items that may be reclassified to profit or loss	-7.9	0.0	0.0	-7.9
Total other comprehensive income for the period	-7.9	0.0	16.2	8.2
Total comprehensive income for the period	-7.9	0.0	-131.2	-139.1
Accumulated at December 31, 2016	29.8	20.9	-2,600.9	-2,550.2

CONSOLIDATED STATEMENT OF CASH FLOWS

TOTAL OPERATIONS

REC SILICON GROUP

(USD IN MILLION)	NOTES	2016	2015
Cash flows from operating activities			
Profit/loss before tax from total operations ¹⁾		-248.1	-189.9
Income taxes paid/received		0.0	-3.0
Depreciation, amortization and impairment	6, 7	185.3	285.7
Fair value adjustment convertible bond	25	3.9	-3.3
Equity accounted investments, impairment financial assets, gains/losses on sale	8	2.9	1.8
Gains/losses on disposal of discontinued operations	9	0.0	-0.2
Changes in receivables, prepayments from customers etc.	12	15.3	38.2
Changes in inventories	13	37.4	-13.4
Changes in payables, accrued and prepaid expenses	20	-12.8	-3.8
Changes in VAT and other public taxes and duties	20	0.0	2.5
Changes in derivatives	11	0.0	-0.3
Currency effects not cash flow or not related to operating activities ²⁾	25	13.2	-111.7
Other items ³⁾		6.8	-1.0
Net cash flow from operating activities		3.8	1.6
Cash flows from investing activities			
Proceeds from finance receivables and restricted cash	14	0.3	0.8
Payments finance receivables and restricted cash	14	-0.2	0.0
Proceeds from sale of property, plant and equipment and intangible assets	6	0.0	0.0
Payments for property, plant and equipment and intangible assets	6	-14.5	-54.7
Proceeds from investment in municipal bonds		0.0	5.7
Net cash flow from investing activities		-14.4	-48.2
Cash flows from financing activities			
Increase in equity	15	0.0	42.7
Payments of borrowings and up-front/waiver loan fees	17	-21.2	-6.7
Proceeds from borrowings	17	0.0	17.1
Net cash flow from financing activities		-21.2	53.1
Effect on cash and cash equivalents of changes in foreign exchange rates	25	2.2	-7.4
Net increase/decrease in cash and cash equivalents		-29.7	-1.0
Cash and cash equivalents at the beginning of the period		95.4	96.4
Cash and cash equivalents at the end of the period		65.8	95.4
¹⁾ Profit / loss before tax from total operations consists of			
Profit/loss before tax from continuing operations		-190.1	218.8
Profit/loss before tax from discontinued operations		0.2	-0.6
Profit/loss before tax from total operations		-189.9	218.2

²⁾ Net currency loss/gain in 2016 and 2015 are primarily related to changes in currency rates on intercompany loan balances between group members with different functional currencies

³⁾ In 2016, Other items includes recognition of USD 5.9 million of electricity refund and USD 0.6 million of expensing of upfront loan fees and amortization of interests

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REC SILICON GROUP

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS REC SILICON GROUP

1 GENERAL INFORMATION

REC Silicon ASA was established in Norway on December 3, 1996. The Company is headquartered in Fornebu, Norway.

Company and its subsidiaries (together, "REC Silicon Group" or "Group") have a presence in the international solar energy industry. Group operations are focused on the production of polysilicon and silicon gases for the solar and electronics industries.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fornebuveien 84, Lysaker.

These consolidated financial statements have been approved for issue by the Board of Directors on March 31, 2017 and are subject to approval by the Annual General Meeting scheduled for May 3, 2017.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

The financial statements are presented in USD, rounded to the nearest tenth of million, unless otherwise stated. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements and notes may not add up to the total of that row or column.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS), relevant interpretations, and the Norwegian Accounting Act. The consolidated financial statements have been prepared under the historical cost convention, as modified by impairment of some assets, the revaluation of derivative instruments, and convertible bonds measured at fair value as well as fair value adjustments of parts of the fixed interest rate bonds.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Actual outcomes may differ substantially. It also requires management to exercise judgment in applying the Group's accounting policies. Areas involving a high degree of judgment or complexity, and areas where assumptions and estimates have a significant impact are disclosed in note 4.

2.2 CONSOLIDATION

(A) Subsidiaries

Subsidiaries are entities controlled by the Group. The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date control is obtained until the date that control ceases.

All subsidiaries are owned 100 percent and there are no non-controlling interests.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

(B) Joint ventures

A joint venture is an arrangement where two or more parties have joint control. Joint control exists only when decisions require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for by the equity method of accounting.

(C) Associates

Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for by the equity method of accounting.

2.3 SEGMENT REPORTING

An operating segment is a distinguishable component of the Group that is engaged in providing products that are subject to similar risks and returns and corresponds to management reporting.

REC Silicon produces silicon gas and polysilicon for the photovoltaic and semiconductor industries. REC Silicon is comprised of the operating companies REC Solar Grade Silicon LLC (SGS) and REC Advanced Silicon Materials LLC (ASiMI) located in the United States. Management can elect to produce similar products from either facility (with some adjustments), common intermediate production materials are produced only at Moses Lake, and silane gas is transferred from the Butte facility to maximize efficiencies at both facilities. Accordingly, REC Silicon operations consist of only one operating segment.

Group Management is headed by the Chief Executive Officer (CEO), and the CEO makes decisions regarding the allocation of resources and performance assessment. Accordingly, the CEO is regarded as the chief operating decision maker.

2.4 FOREIGN CURRENCY TRANSLATION

(A) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's functional currency is NOK. Because operations are primarily in USD, the Group's reporting currency is USD. Accordingly, these consolidated financial statements are presented in USD.

(B) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates on the reporting date. Foreign exchange gains and losses resulting from the settlement or the translation of monetary assets and liabilities are recognized in the statement of income, except when deferred in equity as qualifying cash flow hedges, qualifying net investment hedges or as a part of a net investment.

(C) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate;
- (ii) Income and expenses for each statement of income are translated at average exchange rates for the reporting period (based on monthly average rates); and
- (iii) All resulting exchange differences from translation are recognized as a separate component of other comprehensive income (OCI).

On consolidation, exchange differences arising from the translation of the net investment in subsidiaries, including monetary items that are regarded as a part of the net investment, and borrowings and other currency instruments designated as hedges of such investments, are included in OCI. When a subsidiary is disposed of, exchange differences are recognized in the statement of income as part of the gain or loss on sale. At December 31, 2016 and 2015 the Group did not hold any instruments accounted for as net investment hedges. At December 31, 2016 and 2015, an intercompany loan to REC Silicon, Inc. of USD 132 million was regarded as a part of the net investment in REC Silicon Inc.

2.5 CURRENT/NON-CURRENT

Assets and liabilities are classified as current when they are expected to be realized or settled within 12 months after the reporting date.

2.6 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and un-reversed impairment losses. Cost includes expenditures that are directly attributable to the acquisition, construction or installation of the item. Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Costs are included in an asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and costs can be measured reliably.

Depreciation is calculated using the straight-line method based on the costs of the assets less any residual value over their estimated useful lives.

2.7 INTANGIBLE ASSETS

(A) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets. Goodwill is carried at cost less accumulated impairment losses. Goodwill related to equity accounted investments is included in the carrying value of investments. At December 31, 2016 and 2015 the Group had no goodwill.

(B) Other intangible assets

Other intangible assets that have finite useful lives are carried at cost less accumulated amortization and un-reversed impairment losses. Amortization is calculated using the straight-line method on the costs of assets over their estimated useful lives from the date they are available for use. The Group has no intangible assets with indefinite useful lives.

(C) Research and development

Research expenditures are recognized in expense as incurred. Development expenditures (relating to the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes or systems) are capitalized when it is probable that the project will be successful considering its commercial and technological feasibility. Costs expensed in prior reporting periods are not later capitalized. Other development expenditures are recognized in expense as incurred.

2.8 IMPAIRMENT OF ASSETS

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognized in the statement of income for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which cash inflows that are largely independent from the cash inflows from other assets can be identified (cash-generating units). Generally, any impairment is allocated to goodwill first, then proportionately to other non-current assets within a cash-generating unit. Assets other than goodwill that suffered

impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment includes losses associated with assets determined to have no future economic benefits and assets that are replaced prior to the end of their useful lives.

2.9 FINANCIAL ASSETS

Financial assets are classified in the following categories: at fair value through profit or loss, and loans and receivables. Classification depends on the purpose for which the financial assets were acquired and is determined at initial recognition.

For the years ended December 31, 2016 and 2015, the Group had no available-for-sale financial assets and no held-to-maturity financial assets.

For the years ended December 31, 2016 and 2015, the Group had only derivatives in the category financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortized cost, which for current receivables approximates historical cost.

Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

2.10 ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are recognized at fair value on the date a derivative contract is entered into and are subsequently measured for changes in fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative unless the Group has the intention and ability to settle the contracts net. The method of recognizing resulting gains or losses depends on whether the derivative is designated and qualifies as a hedging instrument and the nature of the item being hedged. Derivatives are categorized as held for trading unless they are designated and qualify as hedging instruments. The Group has an option contract as part of the indemnification agreements in connection with the REC Wafer Norway AS bankruptcy, see note 11.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. No embedded derivatives are separated

2.11 TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost, less impairment. An impairment of a trade receivable is recognized when there is objective evidence that the Group will not be able to collect all amounts. Balances are written off when collection efforts have been exhausted and the probability of recovery is unlikely.

2.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, demand deposits at banks, and money market funds with terms less than three months.

2.13 PAID-IN EQUITY CAPITAL

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of any income tax, from the proceeds.

2.14 BORROWINGS

Borrowings are recognized initially at fair value. Borrowings that are not maintained at fair value through profit or loss are recognized net of transaction costs and subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period the borrowings are outstanding using the effective interest method. Commitment fees for bank credit facilities are recognized as part of interest expenses as incurred.

A foreign currency convertible bond is not a compound financial instrument and is classified wholly as a liability in the financial statements. Convertible debts contain embedded derivatives in relation to the conversion option and are remeasured to market at reporting dates. The Group recognizes the changes in the fair value of the whole convertible bonds, and not just the embedded derivatives, through profit or loss as a part of financial income or expenses.

The Group applied fair value hedge accounting to parts of the fixed rate NOK bonds during prior periods. Any remaining adjustments to fair value are reflected in income as part of the effective interest of the bonds.

A financial liability is removed from the statement of financial position when the obligation is discharged, cancelled, or expires. Substantial modifications to the terms of existing financial liabilities or an exchange of debt instruments with an existing lender at substantially different terms are treated as extinguishments of the original liability. The difference between the carrying amount of a financial liability and the consideration paid to extinguish the liability is recognized in profit or loss.

2.15 INVENTORIES

Inventories are stated at the lower of cost or net realizable value (NRV).

Purchased inventories are stated at average cost less estimated obsolescence. Reserves for obsolescence include the write down of

items no longer required (held for disposal) and the estimated decline in NRV caused by slow moving items.

The cost of finished goods and work in progress inventories are determined on a first in, first out basis and consists of raw materials, direct labor, other direct costs, and related indirect overheads. Costs associated with abnormal waste or unused normal operating capacity are not included in inventories. NRV is the estimated sales price less incremental costs to complete and sell the item. Net adjustments to reduce inventory to the lower of cost or NRV are recognized in inventory changes in the statement of income.

2.16 INCOME TAX

Income tax expense (benefit) includes current and deferred tax. Income tax expense (benefit) is recognized in profit or loss except to the extent it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the estimated tax payable or receivable on the taxable income or loss for the year, and any adjustments to tax payable for previous years. Deferred tax includes the effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also includes the carry forward of unused net operating losses and credits.

Current and deferred tax amounts are determined using rates and laws that have been enacted or substantially enacted at the reporting date or are expected to apply when temporary differences reverse. Net deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deferred amounts can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

Utilization of net operating losses and tax credit carry forwards are subject to certain limitations under Section 382 and 383 of the Internal Revenue Code of the United States in the event of a change in the Company's ownership.

Changes in the value of convertible bonds are recognized in profit or loss giving rise to temporary differences. Any deferred tax assets on these fair value adjustments are recognized regardless of any probable taxable profits.

The Group reclassifies the currency effects on a loan regarded as part of a net investment (see note 2.4 (c)) and a related calculated income tax from profit or loss to OCI. The reclassification of income tax is made regardless of whether REC Silicon ASA reports a net tax expense/benefit and does not affect recognition of deferred tax assets or deferred tax liabilities in the statement of financial position.

2.17 PROVISIONS

Provisions for product warranties, onerous contracts, asset retirement obligations, restructuring costs, termination benefits, loss on financial guarantees, environmental restoration, and legal claims are recognized when: the Group has a present or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are discounted only when the effect is material and the distribution in time can be reliably estimated.

2.18 PENSION/POST RETIREMENT OBLIGATIONS

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity via other comprehensive income in the period in which they arise.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs.

Obligations for contributions to defined contribution pension plans are recognized as an expense during the period incurred.

2.19 REVENUE RECOGNITION

Revenues are primarily generated from sale of manufactured goods and represent the fair value of goods and services provided to customers less rebates, discounts and expected returns.

Revenue is recognized when the significant risks and rewards of ownership and control have been transferred, the price is fixed or determinable, collectability is reasonably assured, and the costs can be measured reliably. The Group generally recognizes revenues at the point of shipment.

2.20 LEASES

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Other leases are classified as operating leases. Operating leases consist primarily of agreements where the Group is entitled to the output of leased process gas facilities which cannot be separated from the underlying lease. Leases are evaluated at inception, based on the substance of the transaction. The evaluation of leases requires substantial judgment. The Group has no finance leases.

2.21 GOVERNMENT GRANTS

Government grants are recognized at their fair values when there is reasonable assurance that the grants will be received and that the

Group will comply with attached conditions. Government grants related to assets are presented in the statement of financial position as a reduction to the carrying amount of the assets and reduce depreciation in the statement of income. Government grants relating to income are deducted from related expenses.

Government grant assets are recognized for the unsettled portions of grants and are discounted if the effect of discounting is significant. Significant changes to estimates of timing of utilization or discount rates are recognized as a change in the grant asset and offset to production assets or expenses based on the classification at the inception of the grant.

2.22 DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that has been disposed of, abandoned, or is classified as held for sale and represents a separate major line of business or geographical area of operations.

Results from discontinued operations, including gains and losses on disposal, are reported separately as profit (loss) from discontinued operations in the statement of income. The consolidated statement of income for previous periods is re-presented with only external income and expenses included in discontinued operations beginning on loss of control or on assets and liabilities held for sale. Internal transactions continue to be eliminated on consolidation but are not re-presented in discontinued operations. Prior periods are not restated in the statement of financial position or in the statement of cash flows.

2.23 STATEMENT OF CASH FLOWS

The Group presents the statement of cash flows using the indirect method. Cash inflows and outflows are shown separately for investing and financing activities, while operating activities include both cash and non-cash line items. Interest received and paid are reported as a part of operating activities, except borrowing costs capitalized as part of the construction of a non-current asset that are included in investing activities, and payment of up-front and loan fees that are reported as part of financing activities.

Operating activities include all cash flow effects from derivatives. Currency gains and losses are recognized in the statement of income. Amounts related to borrowing (financing activities), non-current financial assets and investments (investing activities) and unrealized gains or losses on cash and cash equivalents held at the end of the periods are reclassified in a separate line item under operating activities.

Financing activities include prepayments received from customers on which interest is calculated.

The consolidated statement of cash flows presents changes in cash balances with respect to total operations (continuing and discontinued) and therefore does not reflect the performance of continuing operations during prior periods or the performance that is likely to be achieved in future periods.

2.24 ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

The Group adopted new and amended standards and interpretations issued by the IASB and approved by the EU that are relevant to its operations and effective for reporting periods beginning on or before January 1, 2015. The most relevant of these are:

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture was issued in September 2014 and is effective for periods beginning on or after January 1, 2016. Earlier application is permitted. Accounting Policies adopted by the Group are consistent with these amendments and adoption will not affect the accounting or disclosures of the Group.

Clarification to IAS 16 and 38 concerning acceptable methods of revenue based depreciation and amortization issued on May 12, 2014 and effective for periods beginning on or after January 1, 2016. Accounting Policies adopted by the Group are consistent with these amendments and adoption will not affect the accounting or disclosures of the Group.

New standards and interpretations not yet adopted

New standards, amendments to standards, and interpretations have been published, but are not effective at December 31, 2016 and have not been applied in preparing these financial statements. The most relevant of these are:

Amendments to IAS 12, issued January 2016 and effective January 2017, clarifies the circumstances under which a deferred tax asset can be recognized on an unrealized loss. The amendments also address a broader area of accounting for deferred tax assets in general, including a definition of future taxable profit used for the recognition test. The group is assessing the impact of these new amendments, however, the Group currently expects no material impact to amounts currently recognized in these financial statements and plans to adopt the new standard as of the effective date.

IFRS 9, issued in July 2014 and effective January 2018, presents revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment. The group is assessing the impact of IFRS 9 and plans to adopt the new standard as of the effective date.

IFRS 15, issued in May 2014, establishes a five step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for goods or services to a customer. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. IFRS 15 applies to periods beginning on or after 1 January 2018 with early adoption permitted. The group is assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date. The Group currently expects no impact to revenue recognition policies and procedures due to IFRS 15.

IFRS 16, issued in January 2016, establishes a balance sheet lease accounting model that will increase transparency and comparability beginning in 2019. The group is assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

Management intends to adopt new standards and interpretations at the effective dates provided the standards and interpretations are approved by the EU.

2.25 DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

An Alternative Performance Measure (APM) is a 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.

The Group has identified the following APMs used in reporting:

EBIT - Profit/loss from total operations excluding income tax expense/benefit, net financial items, and share of profit/loss from investments in associates.

EBIT Margin - EBIT divided by revenues.

EBITDA - EBIT excluding depreciation, amortization and impairment.

EBITDA Margin - EBITDA divided by revenues.

Net Debt - Carrying value of interest bearing debt instruments less cash and cash equivalents.

Nominal Net Debt - Contractual principal repayment values of interest bearing debt instruments less cash and cash equivalents.

FBR Cash Cost - Variable, direct, and indirect manufacturing costs excluding depreciation and amortization divided by units produced (excluding fines and powder). FBR Cash Cost does not include general and administrative costs.

Equity Ratio - Total shareholders' equity divided by total assets.

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks, including currency risk, interest-rate risk, liquidity risk, credit risk, refinancing risk and others.

The goals for the Group finance policy and the treasury operations are primarily to minimize the risk of financial distress, secure long term funding, manage currency risk of expected future net cash flows, and manage interest rate risk. The Company's finance policy sets the framework and limits for hedging activities in the Group. It defines risk management objectives, responsibilities and operational requirements.

The disclosures that are required regarding financial risks below focus on the risks that arise from financial instruments and how they have been managed. Derivative financial instruments may be used to reduce risks from commercial transactions; the existence of derivative financial instruments exposes the Company to additional risks.

(A) Currency risk

The Company operates internationally and is exposed to currency risk. At December 31, 2016, the Group's working capital is almost exclusively in USD, equity is in NOK, and debt is in NOK and USD. Currency risk arises from transactions in currencies other than the Group's reporting currency and long term liabilities denominated in NOK.

Net cash flow is defined as the consolidated external cash flows of the Group. The Group's policy provides the ability to hedge external net cash flows with a maximum time horizon of 24 months. The purpose is to reduce the currency risk of expected future net cash flows. The Company manages currency risk on an overall level.

At December 31, 2015 and 2016, the Group did not hold any derivative financial instruments related to mitigating currency risks.

(B) Credit risk

Credit risk is the risk of loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation and is primarily related to trade receivables. The Group maintains policies to ensure that credit is extended to customers with appropriate liquidity and credit histories in combination with requiring guarantees when appropriate.

(C) Liquidity risk

Liquidity risk is measured by subtracting the Group's liabilities from cash considering historic and anticipated operating results. Liquidity risk management requires maintaining sufficient available cash or access to capital markets to compensate for anticipated volatility in operating cash flows or to fund additional investments.

Liquidity risk is impacted by changes in market conditions, potential claims against the Company, and uncertainty associated with critical judgements used to arrive at accounting estimates.

In addition, the Company's access to capital markets may be impacted by overall market conditions. See notes 4, 17, and 30.

The Company's liquidity position at December 31, 2016 is considered sufficient to meet expected operating cash flow requirements and debt service obligations during 2017. Although the indemnification loan was callable in February 2016, this loan has not been called and is not expected to be called before 2018. The Company's tax filings for prior years continue to be under examination by the Norwegian Central Tax Office and the timing or impact of a ruling remain uncertain. In the event that conditions surrounding the call of the indemnity loan or the outcome of tax examinations are negative the liquidity risk for the Company will increase.

(D) Interest rate risk

Changes in market interest rates affect the fair value of assets and liabilities or the variability in cash payments. The Group is exposed to interest rate risk through funding and cash management activities, primarily in REC Silicon ASA. Cash in bank accounts and liabilities have primarily carried variable interest rates. The Company has borrowings through bonds, convertible bonds and indemnification loans.

Interest income and interest expense in the statement of income, as well as interest receipts and payments, are influenced by interest

rate changes for financial instruments that carry variable interest rates. See note 30 for interest rate sensitivity.

(E) Hedging of risk related to supply of raw material/commodities

When the Group is exposed to changes in the total costs from specific input factors it may hedge the associated risk. As of year-end 2016 and 2015, no hedges were in place, except certain forward energy purchase contracts.

3.2 FAIR VALUE ESTIMATION

Fair value estimation is discussed in note 30.

3.3 CAPITAL STRUCTURE AND FINANCING

In determining the appropriate capital structure for the Group, various factors have been considered. These include risks associated with the Group's business profile and the fact that the polysilicon production has high capital intensity.

The Group's goal is to maintain sufficient capital to implement business strategies and provide financial flexibility for expansion opportunities. Taking into account market volatility and risk related to future cash flows, the Group aims to maintain a sound and sustainable capital structure with a high ratio of equity funding.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

4.1 CRITICAL JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Management's judgments in applying the Group's accounting policies which have the most significant effect on the financial statements are discussed below and in the relevant notes.

(A) Deferred tax

According to current regulations and tax treaties between Norway and the USA, withholding tax of 15 percent applies to any dividend paid by the Group's operations in the USA to the parent company in Norway. The Company controls the distribution of future dividends from the US operations, and has determined that those profits will not be distributed in the foreseeable future. Consequently, the Group has not recognized deferred tax liability on undistributed earnings. See note 18.

(B) Functional currencies

The Group's presentation currency is USD and the Company's functional currency is NOK. The activities of the Group are primarily in the subsidiaries in the USA with USD as functional currency. Functional currency affects the reporting of currency gains and losses and exchange differences as well as hedging strategies and effects. Facts or circumstances may change in the future.

(C) Development expenditures

The Group conducts research and development activities and projects. Some costs incurred in the development phase of an intangible asset may be capitalized if the recognition criteria are fulfilled. Determining fulfillment of capitalization criteria represents a critical judgment that is made based upon the facts and circumstances of an individual project. During 2015 costs relating to the development of second generation Fluidized Bed Reactor (FBR-B) project have been capitalized. No such costs were capitalized in 2016. See note 28.

(D) Cash-generating units for impairment testing

For the 2016 and 2015 impairment test, the judgment that REC Silicon is one cash-generating unit is a critical and difficult judgment. See note 7.

(E) Environmental Liability

The Group's operations are subject to environmental laws and regulations. These laws and regulations and their interpretations are subject to change. Changes may require investment and/or increased costs to meet more stringent standards or to take remedial actions related to past activities.

4.2 KEY SOURCES OF ESTIMATION UNCERTAINTY – CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts included in or affecting the Group's financial statements and related disclosures must be estimated, requiring management to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared.

(A) Impairment

Changes in facts and in management's evaluations and assumptions may give rise to further impairment losses, or reversals. The estimated recoverable amounts of the Group's assets are sensitive to small changes to key assumptions (see note 7).

Financial assets are also periodically reviewed for impairment. Provisions for losses on trade receivables have been made based on an evaluation of individual accounts. Actual losses may turn out significantly different from the evaluations made based on the knowledge and assumptions at the time of approving the accounts.

(B) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required to determine the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. Provisions for anticipated tax audit issues are based on estimates of whether additional taxes will be due. If estimates change or actual outcomes differ from current estimates, current and deferred tax assets or liabilities will be adjusted accordingly.

Tax authorities in the various tax jurisdictions may challenge the calculation of taxes payable. These challenges may lead to changes in taxable income and result in changes to income tax expenses in the period of change. Management is required to estimate the probability and magnitude of potential tax adjustments. Estimates may change as additional information becomes available and may vary substantially from actual determinations.

The Company has received notices of reassessment from the Norwegian Central Tax office for large Enterprises regarding the deductibility of losses on loans and guarantees to subsidiaries and joint ventures. See note 31 for further information.

(C) Government grant asset

In 2010, REC Silicon recognized an asset for an Advanced Energy Manufacturing Tax Credit grant (AEMTC grant) related to the construction of the FBR and silicon gas plants in Moses Lake. Receipt of benefits under this program will be claimed as a credit on the US company's annual tax return and can be carried forward 20 years. All conditions associated with this grant have been met with the exception of the generation of US federal income tax in order to utilize the grant.

REC Silicon has estimated future taxable profits sufficient to utilize the AEMTC grant. Changes in the estimated or actual timing and amounts of future profits will affect the value of the government grant asset. See notes 12 and 21. Upon a change in ownership, the grant is subject to the same limitations as an income tax credit; amounts and timing of recognition could be adversely impacted. See Note 2.16.

(E) Contingent liabilities

See note 31.

5 SEGMENT INFORMATION

Revenues from customers constituting more than ten percent of total revenues from continuing operations

(USD IN MILLION)	2016	%	2015	%
Customer 1	47.5	18.1%	9.4	2.9%
Customer 2	44.2	16.8%	52.1	15.8%

Geographic distribution of external revenues for continuing operations based on customer location

(USD IN MILLION)	2016	%	2015	%
Taiwan	116.7	43.0%	52.9	16.1%
China	41.9	15.4%	102.9	31.2%
South Korea	38.4	14.2%	40.0	12.1%
Japan	32.8	12.1%	42.0	12.7%
USA	17.7	6.5%	19.8	6.0%
Europe	8.1	3.0%	13.1	4.0%
Singapore	5.9	2.2%	31.4	9.5%
Hong Kong	5.8	2.1%	25.0	7.6%
Other Asia	3.1	1.1%	1.4	0.4%
Other countries	0.8	0.3%	1.3	0.4%
Total external revenues	271.2	100.0%	329.9	100.0%

Customer location is based on the invoicing address. Customers may distribute the products to other countries.

Revenues by category

(USD IN MILLION)	2016	%	2015	%
Polysilicon	183.5	67.7%	228.4	69.2%
Silane gas	78.9	29.1%	91.2	27.6%
Other	8.8	3.2%	10.3	3.1%
Total revenues	271.2	100.0%	329.9	100.0%

Substantially all of the Group's non-current assets are located in the United States.

6 FIXED ASSETS

Property, plant and equipment

(USD IN MILLION)	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL
Carrying value at January 1, 2015	74.6	839.9	20.9	35.3	970.6
Net additions ¹⁾	7.2	11.9	2.2	30.3	51.5
Government grant ²⁾	-0.2	7.2	1.4	0.0	8.4
Depreciation and amortization	-3.8	-123.4	-3.9	0.0	-131.1
Impairment ³⁾	-14.9	-130.2	-4.4	0.0	-149.5
Carrying value at December 31, 2015	62.8	605.2	16.1	65.8	750.0
At December 31, 2015					
Historical cost	152.3	2,059.5	78.6	70.6	2,361.1
Accumulated depreciation/amortization/impairment	-89.5	-1,454.3	-62.4	-4.8	-1,611.1
Carrying value at December 31, 2015	62.8	605.2	16.1	65.8	750.0
Carrying value at January 1, 2016	62.8	605.2	16.2	65.8	750.0
Net additions ¹⁾	0.2	6.1	2.4	3.9	12.5
Government grant ²⁾	0.9	20.4	0.3	0.0	21.5
Disposals	0.0	-7.6	-0.1	0.0	-7.7
Depreciation and amortization	-3.1	-84.7	-2.6	0.0	-90.3
Impairment ³⁾	-9.1	-78.7	-3.0	0.0	-90.8
Carrying value at December 31, 2016	51.7	460.7	13.2	69.7	595.2
At December 31, 2016					
Historical cost	145.8	2,060.2	79.2	74.5	2,359.6
Accumulated depreciation/amortization/impairment	-94.1	-1,599.5	-66.0	-4.8	-1,764.4
Carrying value at December 31, 2016	51.7	460.7	13.2	69.7	595.2

¹⁾ Net additions include transfers from assets under construction.

²⁾ Amounts for government grants are adjustments to previously recognized grants.

³⁾ See note 7 for details of impairments.

Specification of useful lives and depreciation

At year-end 2016, estimated useful lives by asset class were as follows:

- Land and Buildings 0-31.5 years (weighted average approximately 18 years)
- Machinery and equipment 3-32 years (weighted average approximately 19 years)
- Other tangible fixed assets (weighted average approximately 17 years)

Assets under construction are not yet ready for their intended use and depreciation has not started.

Reviews of estimated useful lives of property, plant, and equipment for 2016 and 2015 resulted in only minor changes.

Intangible assets

(USD IN MILLION)	ASSETS UNDER DEVELOPMENT	OTHER	TOTAL
Carrying value at January 1, 2015	10.1	14.1	24.2
Internal Development	3.3	-0.4	2.9
Amortization	0.0	-3.1	-3.1
Impairment ²⁾	0.0	-2.1	-2.1
Carrying value at December 31, 2015	13.3	8.6	21.9
At December 31, 2015			
Historical cost	13.4	72.0	85.4
Accumulated amortization/impairment	-0.1	-63.4	-63.4
Carrying value at December 31, 2015	13.3	8.6	21.9
Carrying value at January 1, 2016	13.3	8.6	21.9
Internal Development	-0.2	0.0	-0.2
Government grants ¹⁾	0.0	-0.2	-0.2
Amortization	0.0	-1.9	-1.9
Impairment ²⁾	-1.4	-0.9	-2.3
Carrying value at December 31, 2016	11.7	5.6	17.3
At December 31, 2016			
Historical cost	13.2	66.7	79.9
Accumulated amortization/impairment	-1.5	-61.1	-62.6
Carrying value at December 31, 2016	11.7	5.6	17.3

¹⁾ Amounts for government grants are adjustments to previously recognized grants.

²⁾ See note 7 for details of impairments.

Intangible assets above have estimated useful lives, over which the assets are amortized on a straight-line basis. Intangible assets under development are not ready for their intended use, and consequently amortization has not started.

Intangible assets are primarily related to software (3-8 years) and FBR technology in REC Silicon (20 years).

Reviews of estimated useful lives of intangible assets for 2016 and 2015 resulted in only minor changes.

7 IMPAIRMENTS OF CASH-GENERATING UNITS

REC Silicon routinely monitors assets for indications that the carrying values of assets are no longer recoverable. If impairment indicators exist, impairment tests will be carried out to determine whether the carrying value of affected assets can be justified. If estimates conclude that asset values are no longer recoverable, the assets are written down to the recoverable amount which is the greater of fair value less cost to sell and value in use (discounted cash flows).

At the end of 2015, changes in the Company's market capitalization, changes in estimated future sales prices, and the curtailment of production capacity due to uncertainty associated with the trade dispute between the United States and China were determined to be impairment indicators and impairment testing was performed. The resulting value in use of approximately USD 893 million was less than the carrying value of REC Silicon and additional impairment charges were recognized. The carrying value of the Group's property plant and equipment (see note 6) were reduced and impairment charges of USD 148.0 million were recognized. Additional impairment charges of USD 3.6 million during 2015 represent assets that have been replaced or taken out of service before the end of their estimated useful lives.

During 2016, changes in solar grade polysilicon market conditions, production capacity curtailments due to uncertainty associated with the trade dispute between China and the United States, and carrying values in excess of the value of the Company's market capitalization were determined to be indicators of impairment. Impairment testing was performed at September 30, 2016 and resulted in the recognition of impairment expense of USD 78.5 million. In addition, impairment testing was performed at December 31, 2016. The resulting value in use was estimated to approximate the carrying value of REC Silicon. Consequently, no additional impairment or reversal of impairment was recognized at December 31, 2016. During 2016, impairment charges also included charges of USD 14.6 million representing assets that have been replaced or taken out of service before the end of their estimated useful lives.

Impairments for continuing operations are included in the line item "impairment" in the statement of income.

CASH-GENERATING UNITS

REC Silicon consists of a single cash-generating unit at December 31, 2016 and December 31, 2015.

REC Silicon produces and sells silicon gas and polysilicon for use in the electronics and solar industries. Silicon gas is a precursor material in the production of polysilicon and a portion is sold to external parties. The total available market for silicon gas is not sufficient to absorb all silicon gas produced by REC Silicon.

Therefore, management has determined that there is not an active market for the silicon gas that is used internally. Also, management can elect to produce and sell products from the Butte or Moses Lake production facilities (with some adjustments). Common intermediate production materials are produced at the Moses Lake facility only and distributed to Butte. Additionally, silicon gas is transferred between facilities to balance asset utilization to market requirements. Accordingly, management's judgment is that the cash inflows for the silicon gas and polysilicon producing assets cannot be determined individually and that they therefore constitute one CGU. Changes in the determination of cash generating units could result in additional impairment amounts.

BASIS FOR THE IMPAIRMENT TESTS

Recoverable amounts for the cash-generating units are based on value in use. Value in use has been estimated using discounted cash flows over a 5 year period with the last year used as a basis for estimating terminal value.

Future cash flows are estimated on the basis of the budget for the next year and the subsequent four forecast years. A terminal value is calculated from the estimated cash flows generated in the last forecast year. A growth rate of zero has been used during the terminal period for both years presented. EBITDA less capital expenditures and changes in working capital have been used to estimate future cash flows.

Future cash flows do not include the effects of improvements or enhancements to asset performance. However, assets under construction for which investment has been committed are included with estimated expenditures to complete and estimated cash flows from their operations.

The carrying amounts of cash-generating units include tangible fixed assets, intangible assets, and net working capital only.

DISCOUNT RATE

The discount rate applied is based on the Company's cost of capital which has been estimated using the weighted average of the required rates of return for the Company's equity and debt (WACC). The required rate of return for the Company's equity is estimated using the capital assets pricing model (CAPM). The required rate of return on debt is estimated on the basis of a risk free rate of return plus a credit risk premium derived from analysis of the debt costs and loading of public companies similar to REC Silicon. The discount rate is estimated on an after tax basis and adjusted to estimate the equivalent before tax discount rate using the Company's estimated before and after tax cash flows and evaluated for reasonableness. The discount rates used at December 31, 2016 and 2015 are reflected in the table below:

Discount rates (%)

	2016		2015	
	POST-TAX	PRE-TAX	POST-TAX	PRE-TAX
REC Silicon (USD)	12.4	16.6	12.0	16.6

KEY ASSUMPTIONS AND SENSITIVITIES

Key assumptions include future revenues (sales prices and sales volume), cost of major inputs, conversion costs and efficiency (production volume), and maintenance capital expenditures.

Price trends are difficult to predict in the current market environment and external views of anticipated market conditions differ widely. When possible, REC Silicon has used third party analyses to estimate product prices. When third party estimates are not available or vary widely, REC Silicon uses internal estimates based on experience and market intelligence to estimate market conditions and prices. Estimates of long term average solar grade polysilicon prices used in this analysis are at levels which management believes are sufficient to attract the capital necessary for new cost-effective polysilicon capacity to support supply chain expansion consistent with analysts' estimates of growth in end use demand for PV installations.

Production and sales volumes used in the analysis represent production rates at approximately 50 percent of capacity in the

FBR facility in Moses Lake, Washington throughout 2017. Estimates of future cash flows include the assumption that market conditions will support the restart of idled capacity in 2018. If the impact of the trade war continue and idled capacity is not restarted during 2018, additional impairment charges would be required. Costs have been estimated using contractual obligations, third party indexes when appropriate, and historical spending trends adjusted for inflation.

Capital expenditures have been estimated using past experience and an evaluation of anticipated replacement requirements of specific items of equipment (useful lives of fixed assets).

The table below presents the estimated change in impairment due to an isolated change in the key assumption for all years. Spending includes fixed manufacturing costs, selling general and administrative expenses, and capital expenditures in total. The estimates are based on the assumptions used in the December 31, 2016 impairment analysis.

KEY ASSUMPTION (USD IN MILLION)	CHANGE	ESTIMATED CHANGE IN IMPAIRMENT
Post-tax discount rate	+/-1% point	-51.3/+44.3
Sales prices	+/-2%	+/-85.3
Volume (production and sales)	+/-2%	+/-59.2
Spending	+/-2%	+/-33.1

8 EQUITY ACCOUNTED INVESTMENTS (ASSOCIATES AND JOINT VENTURES)

The Group has entered into a joint arrangement in China; Shaanxi Non-Ferrous Tian Hong REC Silicon Materials Co., Ltd. (Yulin JV). The Group has a 49 percent interest and joint control, therefore, it is a joint venture and is accounted for according to the equity method.

The Group's share of net assets does not reflect its 49 percent ownership interest in the Yulin JV due to differences in timing of equity contributions by the JV partners. REC Silicon has agreed to contribute additional equity to the joint venture of USD 15 million and USD 154 million in July 2017 which have not been included in the table above. REC Silicon expects to delay or cancel these contributions if the Company does not have sufficient liquidity when the equity contribution commitments are scheduled. If the Group elects not to make all or part of these equity contributions, its ownership interest in the JV may change. However, any change in ownership interest is uncertain and subject to negotiation with the Yulin JV and the other JV participant.

The following table presents a reconciliation of the Group's investment in the Yulin Joint Venture in China:

(USD IN MILLION)	2016	2015
Carrying value at January 1	-28.5	-22.4
Equity contributions	0.0	0.0
Amortization of basis difference in technology contributed	0.0	0.0
Share of joint venture profits/loss	-2.9	-1.8
Effects of changes in currency exchange rates	-4.3	-4.3
Carrying value at December 31	-35.7	-28.5

During both years presented, substantially all activities of the Yulin JV have been associated with the construction of a polysilicon plant in China. Accordingly, most expenditures have been capitalized in non-current assets.

The following table presents the major classification of assets and liabilities reflected on the Yulin JV's statement of financial position at December 31, 2016 and 2015:

(USD IN MILLION)	2016	2015
Non-current assets	704.0	395.8
Other Current assets	56.9	29.2
Cash and cash equivalents	4.0	19.4
Non-current liabilities	-313.2	-231.0
Current liabilities	-162.2	-25.0
Net Assets (100%)	289.5	188.5
REC Silicon's share of net assets	61.3	68.5
Adjusted for technology transfer	-97.0	-97.0
Carrying amount of REC's interest	-35.7	-28.5

9 DISCONTINUED OPERATIONS

There was no income or expense related to discontinued operations in 2016. Discontinued operations consisted of income of USD 0.2 million in 2015. These amounts were related to changes in estimates used to value assets and liabilities associated with operations which were sold or disposed of during prior years.

10 RELATED PARTY TRANSACTIONS

The Group has related party relationships with its subsidiaries, associates, joint ventures and with its Group Management and Board of Directors. On December 31, 2016 and 2015 Jens Ulltveit-Moe controlled 24.68 percent and 23.50 percent of the shares respectively, primarily through UMOE AS.

Transactions with subsidiaries have been eliminated on consolidation and are not reported as related party transactions in the consolidated financial statements for the Group.

REC Silicon ASA offices are owned by shareholder UMOE AS and leased to the Company at an annual cost of NOK 0.1 million.

KEY MANAGEMENT COMPENSATION, SHAREHOLDINGS, LOANS ETC.

Group Management and Board of Directors' compensation, ownership of REC Silicon ASA shares, options and bonds, loan agreements and guarantees are shown in note 16.

ASSOCIATES AND JOINT VENTURES

REC Silicon Inc. invoiced the Yulin JV USD 7.8 million USD and USD 5.5 million for engineering and project services in 2016 and 2015 respectively.

11 DERIVATIVE FINANCIAL INSTRUMENTS

Fair values and carrying amounts

(USD IN MILLION)	2016		2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Option contract	0.0	1.5	0.0	1.4
Total	0.0	1.5	0.0	1.4

Derivatives consist of an option contract which is a part of the indemnification agreement associated with the REC Wafer bankruptcy. Changes in estimated fair values have been reported as part of the profit/loss from discontinued operations on the statement of income. Change from 2015 to 2016 is due to currency exchange rate fluctuation.

Distribution of derivatives

(USD IN MILLION)	2016		2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Total non-current derivatives	0.0	0.0	0.0	0.0
Total current derivatives	0.0	1.5	0.0	1.4
Total derivatives	0.0	1.5	0.0	1.4

See note 3 for information on the Group's general policy for currency risk and interest rate risk.

12 RECEIVABLES AND GOVERNMENT GRANT ASSET

Trade and other receivables

(USD IN MILLION)	2016	2015
Trade receivables and accrued revenues	64.7	75.3
Provision for loss on trade receivables	-20.2	-18.7
Trade receivables - net	44.5	56.6
Prepaid costs	9.5	13.3
VAT and other public taxes and duties receivables	0.0	0.0
Other current receivables	1.3	0.4
Total Trade and other receivables	55.3	70.3

Specification of provision for loss on receivables

(USD IN MILLION)	2016	2015
At January 1	-18.7	-11.6
Change in provision for loss	-1.5	-7.0
At December 31	-20.2	-18.7

The government grant asset is related to REC Silicon's Advanced Energy Manufacturing Tax Credit grant. See notes 4.2 (C) and 21. Because this grant is not a contractual right to receive cash or another financial asset it is not regarded as a financial asset.

The Other non-current receivable relates to municipal bonds issued by a local taxing district in the United States which are secured by future property tax payments made by the company.

13 INVENTORIES

Inventories in the statement of financial position

(USD IN MILLION)	2016			2015		
	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS
Stock of raw materials	14.1	0.0	14.1	21.9	0.0	21.9
Spare parts	41.5	-13.9	27.6	42.5	-13.4	29.2
Work in progress	10.1	-1.4	8.7	11.8	-1.8	10.0
Finished goods	84.1	-30.3	53.8	125.8	-45.3	80.5
Total	149.8	-45.7	104.1	202.0	-60.5	141.6

Inventories have been written down to estimated net realizable values. Write-downs of materials and spare parts represent the estimated obsolescence related to items held in inventories at cost. Write-downs of work in progress and finished goods have been estimated by comparing the net realizable value of anticipated sales to the manufacturing costs of items held in inventory.

14 CASH AND CASH EQUIVALENTS AND RESTRICTED BANK ACCOUNTS

Cash and cash equivalents are primarily bank deposits.

Restricted bank accounts (not included as cash and cash equivalents)

(USD IN MILLION)	2016	2015
Restricted bank accounts non-current	0.0	0.0
Restricted bank accounts current	4.0	3.7
Total prepayments, interest calculation	4.0	3.7

At December 31, 2016 restricted bank accounts consisted of USD 3.8 million security for the indemnification loan and USD 0.2 million security for bank guarantees for REC Solar (a former subsidiary of the Company).

At December 31, 2015 restricted bank accounts consisted of USD 3.5 million security for the indemnification loan and USD 0.2 million security for bank guarantees for REC Solar (a former subsidiary of the Company).

15 SHAREHOLDER INFORMATION

The following shareholders held one percent or more of the total outstanding shares in REC Silicon ASA at December 31

NAME OF SHAREHOLDERS		2016		2015	
		NO. OF SHARES	OWNERSHIP	NO. OF SHARES	OWNERSHIP
UMOE AS AND RELATED ENTITIES ¹⁾		627,701,902	24.68 %	597,701,902	23.50 %
FOLKETRYGDFONDET		104,617,618	4.11 %	107,204,476	4.21 %
UBS AG	Nominee	86,464,715	3.40 %	0	0.00 %
SKANDINAVISKA ENSKILDA BANKEN AB		53,996,424	2.12 %	71,923,811	2.83 %
VERDIPAPIRFONDET DNB NORDIC TECHNO		42,393,251	1.67 %	18,788,486	0.74 %
MORGAN STANLEY & CO. INTERNATIONAL	Nominee	40,545,251	1.59 %	47,713	0.00 %
DEUTSCHE BANK AG	Nominee	39,294,647	1.54 %	1,427,653	0.06 %
STATE STREET BANK AND TRUST COMP	Nominee	33,571,675	1.32 %	136,777,956	5.38 %
VERDIPAPIRFONDET DNB NORGE (IV)		32,542,258	1.28 %	18,503,258	0.73 %
SWEDBANK GENERATOR		28,000,000	1.10 %	0	0.00 %
CLEARSTREAM BANKING S.A.	Nominee	27,813,322	1.09 %	50,111,542	1.97 %
DNB LIVSFORSIKRING ASA		27,613,778	1.09 %	9,048,926	0.36 %
THE BANK OF NEW YORK MELLON N.V.	Nominee	27,181,912	1.07 %	38,268,067	1.50 %
SKAGEN VEKST		21,000,000	0.83 %	35,182,178	1.38 %
SKAGEN KON-TIKI		0	0.00 %	93,675,416	3.68 %
EQUITY TRI-PARTY		0	0.00 %	43,373,968	1.71 %
JP MORGAN CHASE BANK, NA	Nominee	0	0.00 %	42,444,507	1.67 %

¹⁾ Includes 53.9 million shares held on forward contracts on December 31, 2016 and 2015, respectively.

The list of shareholdings above is based on the VPS shareholder register at December 31, 2016 and 2015. Actual shareholding may deviate due to the use of nominee accounts, share lending, forward contracts or other contractual arrangements.

At December 31, 2016, REC Silicon ASA had 26,339 shareholders (26,233 at December 31, 2015). The total number of outstanding shares was 2,543,818,785 at December 31, 2016 and 2015, each with a par value of NOK 1.

At the Annual General Meeting on May 3, 2016, the Board was authorized to increase the share capital with up to NOK 254,000,000, which was approximately 10% of the share capital at that time, through one or more increases in the share capital. The Annual General meeting also authorized the Board to acquire treasury shares in the Company (up to a maximum of ten percent of the nominal value of the existing share capital). Both authorizations were valid until the 2017 Annual General Meeting, but in any event not longer than 15 months.

16 MANAGEMENT AND BOARD OF DIRECTORS' COMPENSATION, LOANS, SHARES, BONDS

Salary and other compensation to the Group's Board of Directors and Management for 2016 and 2015 are described below. With regard to the determination of salary and other compensation for leading employees for 2017, the Board of Directors will propose guidelines at the 2017 Annual General Meeting that include factors mentioned below.

The competencies, performance and dedication of the Group's employees are critical success factors for the short term and long term value creation of REC. Hence, key compensation goals are to support attraction, development, and retention of the right talent, reward past achievements, and incentivize strong performance, world class operating capabilities, and practice of our Core Values. Compensation packages should be put together to support these goals.

Fixed base salary levels are determined locally and reflect market conditions for corresponding positions and qualifications in similar businesses. However, due to the Company's financial performance, fixed based salary levels did not increase during 2016.

Performance bonuses are considered and provided for selected individuals whose achievement of performance objectives can be measured through clearly defined results parameters (KPIs). KPIs should include both financial performance targets as well as individual performance targets tied to the individual's area of responsibility. Maximum performance bonus payouts are defined on an individual basis in a range from 15 percent to 20 percent of yearly fixed base salary. Maximum performance bonus payouts for REC Silicon management varies between 33 percent and 100 percent of the yearly fixed base salary. The Company did not meet the financial performance targets during 2016 which were a necessary condition for a bonus payout under the 2016 bonus plans. Accordingly, no bonuses were paid to any employee for 2016.

The Group offers supplementary pension and personnel insurance to employees in accordance with local standards.

In addition to the above mentioned compensation components, the Group offers housing allowances, car allowances, cell phones, and a limited number of other benefits to selected employees.

The Group also provides a synthetic option program whereby employee entitlements are linked to the share price development of the Company's shares. The program is expected to be a six year program, where the first three years is a lock up period and the next three years will be the period over which the incentive payments will become payable, provided always that the share price is above the strike price. The strike price will be set at the time of grant to the market price at such time + 10%. There will be a maximum gain in each calendar year for each employee under the program, equal to the base salary for the employee for the calendar year. The entitlements under the program will be lost if the employee's employment is terminated. Total benefits offered under the program are subject to limitations.

The Board of Directors has implemented incentive programs during previous periods whereby employee entitlements are linked to the share price development of the Company's shares. See note 32 for details of share based compensation programs.

Compensation of the Group Management for 2016

(AMOUNTS IN USD)

NAME	BASE SALARY	BONUS EARNED AND MAX %	SHARE BASED PAYMENT	PENSION BENEFITS	OTHER TAXABLE BENEFITS
Tore Torvund President and CEO	765,000	0 100%	41,495	97,538	85,309
James A. May II CFO	254,744	0 40%	4,618	18,440	20,916
Katherine Schultz Executive Legal Officer	209,625	0 40%	3,110	15,908	270
Total 2016	1,229,369	0	49,223	131,885	106,495

Compensation of the Group Management for 2015

(AMOUNTS IN USD)

NAME	BASE SALARY	BONUS EARNED AND MAX %	SHARE BASED PAYMENT	PENSION BENEFITS	OTHER TAXABLE BENEFITS
Tore Torvund President & CEO	793,269	247,777 100%	75,265	103,531	79,095
James A. May II CFO	263,775	35,384 33%	9,283	17,364	1,137
Francine Sullivan CLO	333,492	69,272 40%	26,674	18,550	6,494
Kurt Levens VP Business Development	468,999	94,034 50%	40,506	18,550	717
Total 2015	1,859,535	446,467	151,728	157,995	87,442

All amounts are exclusive of social security tax. There were no payments and benefits from the Group for services outside their functions as Group Management. Base salary represents the amount, including holiday pay that was paid in the year.

Bonus amounts represent bonuses earned during each year and are normally paid and reported as taxable income for the employee in the subsequent year.

Pension benefits include benefits earned with respect to defined benefit plans and contributions related to defined contribution plans.

Other taxable benefits include company car / coverage of automobile expenses / vehicle allowance, telephone and Internet service, newspapers, health club memberships, reimbursement of home-office related expenses, cash in lieu of paid time off, and certain other benefits. The benefits vary, and the amounts in the table are the amounts that are taxable based on rules and regulations in the relevant tax jurisdictions.

At December 31, 2016 and 2015, members of the Group Management have contracts that entitle them to severance benefits beyond the normal notice period if employment is terminated by the Group. These severance payments are equal to six months of salary for Mr. Torvund and three months of salary for Mr. May, Ms. Schultz, Ms. Sullivan, and Mr. Levens.

Compensation of the Board of Directors paid in 2016

(AMOUNTS IN USD)

NAME	BOARD COMPENSATION	COMPENSATION FOR COMMITTEES
Jens Ullveit-Moe	59,533	0
Espen Klitzing	35,720	5,953
Ragnhild Wiborg	35,720	5,953
Inger Berg Ørstavik	35,720	5,953
Erik Løkke-Øvre	35,720	5,953
Total period May 6, 2015 – May 3, 2016	202,413	23,812

Compensation of the Board of Directors paid in 2015

(AMOUNTS IN USD)

NAME	BOARD COMPENSATION	COMPENSATION FOR COMMITTEES
Jens Ullveit-Moe	61,928	0
Espen Klitzing	37,157	6,193
Ragnhild Wiborg	37,157	6,193
Inger Berg Ørstavik	37,157	6,193
Erik Løkke-Øvre	37,157	6,193
Total period May 12, 2014 – May 6, 2015	210,556	24,772

Annual compensation rates in NOK for the Board of Directors are identical for both years presented.

LOANS AND GUARANTEES FOR GROUP MANAGEMENT, BOARD OF DIRECTORS AND SHAREHOLDERS

At December 31, 2016 and 2015 there were no outstanding loans or guarantees to members of Group Management, Board members or shareholders or their closely related parties.

SHAREHOLDINGS, OPTIONS AND BONDS

The number of shares and options owned by members of the Board of Directors and the Group Management, including their closely related parties, are shown in the table below. The table includes those that were members at December 31, 2016 or 2015.

NAME	OPTIONS		SHARES	
	2016	2015	2016	2015
Tore Tovund	4,236,177	3,494,384	931,486	731,486
James A. May II	1,215,670	809,252	2,242,043	742,043
Katherine Schultz	670,524	NA	0	NA
Francine Sullivan	NA	1,427,787	NA	85,000
Kurt Levens	NA	1,966,812	NA	4,395
Jens Ulltveit-Moe	0	0	627,701,902	597,701,902
Espen Klitzing	0	0	450,000	200,000
Ragnhild Wiborg	0	0	10,000	10,000
Terje Osmundsen	0	NA	515,000	NA

Refer to note 32 for details of the share option program.

Details of options outstanding at December 31, 2016

NAME	TOTAL NUMBER	2016 PROGRAM		2015 PROGRAM		2014 PROGRAM		2011 PROGRAM	
		NUMBER	STRIKE PRICE (NOK)	NUMBER	STRIKE PRICE (NOK)	NUMBER	STRIKE PRICE (NOK)	NUMBER	STRIKE PRICE (NOK)
Tore Torvund	4,236,177	1,220,478	1.92	1,226,515	2.30	1,280,620	3.50	508,564	10.09
James A. May II	1,215,670	406,418	1.92	408,428	2.30	400,824	3.50	0	10.09
Katherine Schultz	670,524	334,435	1.92	336,089	2.30	0	3.50	0	10.09

REC bonds

At December 31, 2016 and 2015 Karen Helene Ulltveit-Moe, who is a related party to Jens Ulltveit-Moe (Chairman of the Board), was holder of NOK 1 million nominal value of REC03.

17 BORROWINGS

Financial liabilities, interest bearing

(USD IN MILLION)	2016	2015
Non-current financial liabilities, interest bearing		
NOK Bond	52.3	50.9
Up-front loan fees etc ¹⁾	0.0	-0.1
USD Convertible bond	91.8	88.0
Total non-current financial liabilities, interest bearing	144.1	138.8
Current financial liabilities, interest bearing		
Indemnification Loan (NOK)	23.2	22.7
NOK Bond	0.0	20.3
Up-front loan fees etc ¹⁾	-0.1	-0.1
Total current financial liabilities, interest bearing	23.1	42.9

¹⁾ Amortized as part of effective interest.

The indemnification loan is related to the bankruptcy of a former subsidiary in 2012. At December 31, 2016 the indemnification loan is NOK 200 million (USD 23.2 million) and can only be called if certain conditions are met. Once the loan is called, outstanding amounts will bear interest at a rate of NIBOR plus 0.5%. Although the indemnification loan was callable in February 2016, this loan has not been called as of the issue date of these financials and is not expected to be called before 2018.

At December 31, 2016 none of the interest bearing liabilities contain financial covenants. However, there are cross default clauses between all the loan agreements above certain threshold amounts.

During 2015, the Company entered into transactions to issue NOK 155 million of REC03 Bonds and to repurchase NOK 55 million of the REC02 bonds. The net proceeds of these transactions was USD 10.3 million. Subsequent to this transaction, the Company holds

NOK 457.5 million of its own REC03 bonds. There were no debt maturities during 2016.

The USD convertible bond matures in September of 2018 and has a conversion strike price of USD 0.62 per share. The Company has the right to convert the bond into ordinary shares at any time on or after April 11, 2017 provided the value of the underlying shares on at least 20 of 30 trading days exceeds 150 percent of the principle amount of the outstanding bonds.

The NOK bonds, the indemnification loan, and the USD convertible bond are all senior. All the bond agreements have negative pledge clauses with certain threshold amounts. The NOK bonds are guaranteed by the Company and its material subsidiaries.

At December 31, 2016 and 2015, the Company had complied with all financial covenants and other restrictions in the loan agreements.

The following are the contractual maturities of financial liabilities including estimated interest.

AT DECEMBER 31, 2016 (USD IN MILLION)	CARRYING AMOUNT	MATURITY ANALYSIS - CONTRACTUAL PAYMENTS TO BE MADE						
		TOTAL	MAR 2017	MAY 2017	JUN 2017	SEP 2017	DEC 2017	2018
Unamortized upfront fees (NOK)	-0.1							
NOK Bonds (NOK)	52.3	63.2	0.0	5.2	0.0	0.0	0.0	58.0
USD Convertible Bond (USD)	91.8	122.5	1.8	0.0	1.8	1.8	1.8	115.4
Indemnification Loan (NOK)	23.2	23.2	0.0	0.0	0.0	0.0	0.0	23.2
Total	167.3	208.9	1.8	5.2	1.8	1.8	1.8	196.6

AT DECEMBER 31, 2015 (USD IN MILLION)	CARRYING AMOUNT	MATURITY ANALYSIS - CONTRACTUAL PAYMENTS TO BE MADE				
		TOTAL		2016	2017	2018
Unamortized upfront fees (NOK)	-0.2					
NOK Bonds (NOK)	71.2	87.8		26.0	5.1	56.8
USD Convertible Bond (USD)	88.0	129.7		7.2	7.2	115.4
Indemnification Loan (NOK)	22.7	22.7		22.7	0.0	0.0
Total	181.7	240.2		55.8	12.2	172.1

The differences between carrying amounts and total expected payments in the tables above are due primarily to discounting. Interest payments are estimated using the interest rates at December 31, 2016 and 2015. All cash flows are undiscounted. Amounts in other currencies than USD are translated at the exchange rates at December 31, 2016 and 2015, respectively.

The nominal interest rates and currency distribution (notional amounts) at December 31, 2016 were as follows

	INTEREST RATE (%)		CURRENCY	AMOUNTS IN MILLION CURRENCY	BORROWER
NOK BOND REC03	9.75	Fixed	NOK	455.5	REC Silicon ASA
USD Convertible bond	6.50	Fixed	USD	110.0	REC Silicon ASA
Indemnification loans	2.00	Variable	NOK	200.0	REC Silicon ASA

The nominal interest rates and currency distribution (notional amounts) at December 31, 2015 were as follows

	INTEREST RATE (%)		CURRENCY	AMOUNTS IN MILLION CURRENCY	BORROWER
NOK BOND REC02	5.93	Variable	NOK	179.5	REC Silicon ASA
NOK BOND REC03	9.75	Fixed	NOK	455.5	REC Silicon ASA
USD Convertible bond	6.50	Fixed	USD	110.0	REC Silicon ASA
Indemnification loans	2.00	Variable	NOK	200.0	REC Silicon ASA

18 INCOME TAX EXPENSE AND DEFERRED TAX ASSETS AND LIABILITIES

Recognized income tax expense

(USD IN MILLION)	2016	2015
Current income tax expense (-)/benefit (+)	0.6	-0.1
Deferred tax expense (-)/benefit (+)	100.1	127.3
Total income tax expense (-)/benefit (+) in the statement of income from continuing operations	100.7	127.3

Relationship of income tax expense/benefit to profit/loss from continuing operations

(USD IN MILLION)	2016	2015
Profit/loss before tax from continuing operations	-248.1	-190.1
Tax calculated at domestic tax rates applicable to profits /losses in the respective countries	91.7	82.3
Effects of changes in tax rates and use of another tax rate for parts of profits /losses	-12.6	-27.4
Associated companies	-0.5	-0.3
Tax credits, expenses deductible only for tax, and income not subject to tax	0.0	0.1
Results not taxable (Singapore)	0.0	-5.2
Expenses not deductible for tax purposes	-0.1	-0.3
Effects of not recognized deferred tax assets, including reversal of previous years	21.2	75.5
Tax losses, tax credits + temp diff for which no def tax has been rec. this year	1.1	0.0
Adjustment of prior year's income taxes	0.0	2.5
Total income tax expense (-) / benefit (+) in the statement of income from continuing operations	100.7	127.3
Effective tax rate	41 %	67 %

The income tax calculation for the Group is primarily based on corporate income tax rates of 35 percent in the USA and 25 percent in Norway.

The tax benefit in both 2016 and 2015 is primarily related to losses in REC Silicon in the United States.

Income tax for REC Silicon in the USA is based on nominal 35 percent federal tax rate plus estimated blended state taxes. The effective tax rate for REC Silicon in the USA was 36.0 percent in 2016 and 34.8 percent in 2015.

Income tax assets and liabilities in the statement of financial position

(USD IN MILLION)	2016	2015
Current tax assets	0.6	0.0
Current tax liabilities	0.0	0.0
Net current tax assets (+) / liabilities (-)	0.6	0.0
Deferred tax assets	134.7	34.5
Deferred tax liabilities	4.5	5.5
Net deferred tax assets (+) / liabilities (-)	130.2	29.0

Deferred tax assets and liabilities, based on classification as current and non-current are as follows

(USD IN MILLION)	2016	2015
Deferred tax assets		
Deferred tax asset to be recovered after 12 months	191.6	35.4
Deferred tax asset to be recovered within 12 months	6.1	0.0
Offset deferred tax assets and liabilities	-63.0	-0.9
Total	134.7	34.5
Deferred tax liabilities		
Deferred tax liability to be settled after 12 months	67.5	6.4
Deferred tax liability to be settled within 12 months	0.0	0.0
Offset deferred tax assets and liabilities	-63.0	-0.9
Total	4.5	5.5
Net deferred tax asset	130.2	29.0

Tax losses and tax credit carry-forwards are presented as deferred tax assets to be recovered after 12 months in the table above.

The following are the major deferred tax liabilities (-) and assets (+) recognized by the Group and movements during 2016

(USD IN MILLION)	BALANCE JAN 1, 2016	RECOGNIZED IN INCOME	RECOGNIZED IN OCI/EQUITY	TRANSLATION DIFFERENCE	BALANCE DEC 31, 2015
Total non current assets	-241.6	71.3	0.0	-1.6	-171.9
Total current assets	10.4	-11.4	0.0	0.0	-1.0
Total non current liabilities	11.7	-18.9	0.5	0.6	-6.1
Total current liabilities	9.6	19.6	0.0	0.1	29.4
Tax losses and tax credits carry-forward recognized ¹⁾	238.9	39.5	0.0	1.4	279.9
Total	29.0	100.1	0.5	0.6	130.2

The following are the major deferred tax liabilities (-) and assets (+) recognized by the Group and movements during 2015

(USD IN MILLION)	BALANCE JAN 1, 2016	RECOGNIZED IN INCOME	RECOGNIZED IN OCI/EQUITY	TRANSLATION DIFFERENCE	BALANCE DEC 31, 2016
Total non current assets	-345.9	94.6	0.0	9.7	-241.6
Total current assets	7.4	3.1	0.0	0.0	10.4
Total non current liabilities	60.8	-49.7	0.4	0.2	11.7
Total current liabilities	3.8	6.4	0.0	-0.6	9.6
Tax losses and tax credits carry-forward recognized ¹⁾	179.9	67.4	0.0	-8.4	238.9
Total	-94.1	121.7	0.4	0.9	29.0

¹⁾ Tax losses and tax credit carry-forwards recognized at December 31, 2016 related to REC Silicon in the USA were USD 207.3 million and USD 72.6 million related to REC Silicon ASA. Tax losses and tax credit carry-forwards recognized at December 31, 2015 related to REC Silicon in the USA were USD 179.8 million and USD 59.0 million related to REC Silicon ASA.

Accumulated income taxes recognized to equity at December 31

(USD IN MILLION)	2016	2015
Effect of transition to IAS 39 at January 1, 2005	2.3	2.3
Effect of actuarial gains and losses	-2.1	-2.1
Effect of conversion of convertible bonds	-61.0	-61.0
Effect of costs for capital increase	8.5	8.5
Effect of translation differences on loans as part of net investment	11.6	12.3
Total deferred tax	-40.7	-40.0
Current tax - effect of costs for capital increase	13.1	13.1
Total	-27.6	-26.9

The following main deferred tax assets have not been recognized at December 31

(USD IN MILLION)	2016	2015
Total non current assets		
Tax losses carry forward - not recognized	293.0	306.3
Total	293.0	306.3

Distribution of the deferred tax assets that have not been recognized at December 31

(USD IN MILLION)	2016	2015
REC Silicon ASA and related eliminations (Norway)	97.5	107.7
REC Solar AS and related eliminations (Norway)	195.5	198.5
Total	293.0	306.3

At December 31, 2016, the deferred tax asset recognized by the Group was USD 134.7 million which consisted of USD 99.3 million for REC Silicon, Inc. in the United States and USD 35.4 million due to the income deferred on the sale of technology to the JV (See note 8 Adjustment for Technology Transfer). The deferred tax asset in the United States was generated due to net operating losses on a tax basis (which will expire between 2032 and 2036), the accelerated reversal of book to tax differences for depreciation caused by the recognition of impairment (financial statement only), and other taxable temporary differences which are expected to reverse on a more definite schedule. The use of this portion of the deferred tax asset is dependent upon the generation of future income of approximately USD 490 million before the net operating loss period expires between 2032 and 2036.

For REC Silicon ASA, tax losses carried forward and other deferred tax assets have not recognized due to requirements in IAS 12 for convincing evidence of the available of future taxable income to offset prior tax losses. There is no expiry date for tax losses in Norway. The decrease in deferred tax assets not recognized is primarily due to the use of tax loss carry forwards to offset taxable income caused by currency gains on intercompany USD loans held by the Company and translation differences caused by changes in currency rates.

Refer to note 31 contingent liabilities for discussion of notices of reassessment from the Central Tax office for large Enterprises.

At December 31, 2015 accumulated undistributed earnings for the Company's ownership share in the REC Silicon Inc. and its subsidiaries in the United States was approximately USD 131 million. At December 31, 2016 REC Silicon Inc. and its subsidiaries had accumulated net losses of approximately USD 48 million. A 15 percent withholding tax would apply to any dividends paid from the USA. See notes 2.16 and 4.1(A).

19 RETIREMENT BENEFIT OBLIGATIONS AND EXPENSES

The cost of defined pension benefit plans is expensed in the period that the employee renders services and becomes eligible to receive benefits. The cost of defined contribution plans is expensed as contributions become payable.

REC Silicon has an employer-sponsored defined contribution retirement plan (401 (k)) for employees in the United States. The REC Silicon subsidiary REC Advanced Silicon Materials LLC (ASiMI) in the United States had defined benefit plans at the time it was acquired in 2005. At that time, these plans were frozen and no future benefits are accruing to the members of the plans. Previous pension rights remain unchanged and are fully vested. The tables below for defined benefit plans are related to Advanced Silicon Materials LLC only.

REC Silicon maintains a defined contribution plan for its employee in Norway.

For defined benefit plans, the plan assets and the projected benefit obligations were measured at December 31, 2016 and 2015. An independent actuary performed actuarial calculations. The present value of the projected defined benefit obligation, and the related current service cost, were measured using the projected unit credit method.

Defined benefit plans

(USD IN MILLION)	TOTAL OPERATIONS	
	2016	2015
Gross retirement benefit obligations at January 1	38.9	38.2
Interest cost on pension obligations	1.6	1.4
Remeasurements recognized through OCI	0.8	0.8
Benefits paid, paid-up policies and disability obligation	-1.6	-1.5
Gross retirement benefit obligations at December 31	39.7	38.9
Fair values of plan assets at January 1	20.7	19.8
Actual return on plan assets	0.2	0.3
Pension premiums	2.2	2.1
Benefits paid, paid-up policies and disability reserve	-1.5	-1.5
Fair value of plan assets at December 31	21.6	20.7
Funded status at December 31	18.1	18.2
Net retirement benefit obligations at December 31	18.1	18.2

The plan assets relate to one of three ASiMI plans, and are currently invested in stable value funds.

Retirement benefit obligations in the statement of financial position

(USD IN MILLION)	TOTAL OPERATIONS	
	2016	2015
Net retirement benefit obligations at January 1	18.2	18.4
Net periodic benefit costs including net interest	0.7	0.7
Remeasurements recognized through OCI	1.4	1.2
Pension premiums and benefits paid	-2.2	-2.1
Net retirement benefit obligations at December 31	18.1	18.2

The amounts recognized in the statement of income are as follows

(USD IN MILLION)	TOTAL OPERATIONS	
	2016	2015
Total benefit plans	0.0	0.0
Contribution plans including employer's social security tax	3.0	3.3
Total pension expenses (see note 24)	3.0	3.3
Net interest expense	0.7	0.6

Remeasurements of the net defined benefit liability recognized through Other Comprehensive Income (gains (-)/losses (+))

(USD IN MILLION)	2016	2015
Experience adjustments	0.2	0.2
Effects of changes in assumptions	0.6	0.5
Total remeasurements (gains (-)/losses (+)) on gross retirement benefit obligations	0.8	0.7
Return on plan assets, excluding amounts included in interest	0.6	0.5
Total remeasurements (gains (-)/losses (+)) recognized through Other Comprehensive Income	1.4	1.2

During 2016 the effects of changes in assumptions were due to a decrease in discount rate and changes in demographic assumptions for the ASiMI plans.

The cumulative remeasurement loss recognized to equity through other comprehensive income was USD 11.8 million before income taxes at December 31, 2016. Of this, a loss of USD 18.4 million was related to ASiMI (excluding translation difference).

At December 31, 2016, the mortality table was updated from the Adjusted RP-2014 base rates with projection scale MP-2015 to the Adjusted RP-2014 base rates with projection scale MP-2016. Adjusted RP-2014 means that RP-2014 was adjusted to 2006 by removing improvement based on MP-2014 and then used as the base table as of 2006.

The principal actuarial assumptions used to determine retirement benefit obligations at December 31

	2016	2015
Discount rate	3.96	4.17
Future salary increases	NA	NA
Future pension increases	NA	NA
Future increase in social security base amount	NA	NA
Future turnover	NA	NA

The assumptions used to determine the benefit cost for the year are determined at the beginning of the year. The expected return for the ASiMI plans equals the discount rate.

The expected remaining service life (average, in years) of the defined benefit obligation for the ASiMI plans are approximately 10.6 at December 31, 2016 and 10.9 at December 31, 2015. Pension premiums of USD 1.2 million are expected to be paid during 2017 to the ASiMI defined benefit plans.

For the ASiMI benefit plans, a one percentage point increase (decrease) in discount rate is estimated to decrease (increase) the pension obligation by approximately USD -4.9 (6.1) million at December 31, 2016.

20 TRADE PAYABLES, PROVISIONS AND OTHER LIABILITIES

Non-financial liabilities, interest calculation

(USD IN MILLION)	2016	2015
Non-current prepayments - interest calculation	5.9	1.1
Current portion of prepayments interest calculation	1.6	2.0
Total prepayments, interest calculation	7.5	3.2

Trade payables and other liabilities

(USD IN MILLION)	2016	2015
Trade and other payables	16.8	26.7
Accrued costs for capex - external	0.0	0.0
VAT and other public taxes and duties payables	26.5	29.3
Accrued operating costs - external	5.2	10.8
Accrued finance costs - external	3.8	3.9
Other non-interest bearing liabilities	1.5	1.8
Trade payables and other liabilities	53.8	72.5

Estimated fair values of the Group's guarantees, indemnification loans and option contract related to the REC Wafer bankruptcy are not reported as provisions, but included in other line items in the statement of financial position.

21 GOVERNMENT GRANTS

(USD IN MILLION)	2016	2015
Recognized in the statement of financial position - grants related to assets for continuing operations	-21.1	-5.9

¹⁾ Negative amounts for government grants related to assets are adjustments to previously recognized grants.

The grant relates to an Advanced Energy Manufacturing Tax Credit grant (AEMTC grant) in the USA. See note 4.2(C).

Changes in grants related to assets for continuing operations in 2016 and 2015 are due to a changes in the estimated present value of the AEMTC grant due to changes in the estimated timing of utilization and in discount rates.

22 OTHER OPERATING EXPENSES

(USD IN MILLION)	2016	2015
Freight, postage and transportation	6.5	7.3
Energy and water	37.9	46.3
Lease expenses	23.1	23.2
Total operating, service and maintenance costs	44.4	48.1
Consultancy and auditor fees	21.6	32.6
Own work capitalized on fixed assets	-0.8	-2.7
IT and telecommunications costs	4.3	5.1
Travel and entertainment costs	2.9	2.5
Insurance costs	4.9	5.4
Loss on receivables ¹⁾	1.5	7.0
Other operating costs ²⁾	-6.1	-5.6
Other operating expenses	140.3	169.2

¹⁾ Loss on receivables, see note 12

²⁾ Other Operating Costs include the reimbursement of expenses incurred on behalf of the JV. See note 10.

Auditor's remuneration (continuing operations)

(USD IN MILLION)	2016	2015
Statutory Audit (only relating to statutory auditor)	0.7	0.8
Other assurance services (only relating to statutory auditor)	0.0	0.0
Tax advisory services (only relating to statutory auditor)	0.3	0.3
Other non-audit services (only relating to statutory auditor)	0.1	0.1
Total auditors remuneration	1.0	1.2

23 OTHER INCOME AND EXPENSES

(USD IN MILLION)	2016	2015
Restructuring cost and employee termination benefits	-1.6	-0.5
Loss on disposal of non-current assets	-7.7	0.0
Change in property tax estimate from previous period	2.2	0.0
Refund of electricity from previous period	5.9	0.0
Insurance proceeds related to equipment damaged by July 1 fire	3.8	0.0
Other	-0.7	0.3
Total other income and expenses	2.0	-0.1

During both 2016 and 2015 the Group incurred employee termination costs related to a headcount reductions.

Loss on disposal of non-current assets is primarily related to equipment damaged by a fire on July 1 2016 at the Moses Lake facility. This is partially offset by USD 3.8 million of insurance proceeds.

During the second quarter of 2016, REC Advanced Silicon Materials LLC (ASiMI) located in Butte, Montana received a refund of USD 6.6 million representing electricity costs paid in prior years due to rate increases incorrectly implemented by its utility provider in 2010. USD 5.9 million was classified as other income with the remainder, USD 0.7 million, classified as interest income. (See notes 25 and 31)

24 EMPLOYEE BENEFITS

(USD IN MILLION)	2016	2015
Salaries	56.9	64.3
Bonus	-0.1	5.4
Share option expense	0.1	0.1
Social security tax	4.0	4.4
Pension cost (incl. social security tax)	3.0	3.3
Other employee related costs	10.7	11.9
Employee benefit expenses	74.6	89.5

The average number of permanent employees during 2016 was 611. The average number of permanent employees during 2015 was 711.

There were no loans or guarantees provided to employees at December 31, 2016 or 2015.

25 FINANCIAL INCOME AND EXPENSES

(USD IN MILLION)	2016	2015
Interest income from financial assets not at fair value through profit or loss	1.4	0.9
Calculated interest income	0.3	2.5
Total income from financial assets not at fair value through profit or loss	1.7	3.4
Interest expenses for the convertible bonds (fair value through profit or loss)	-7.2	-7.2
Interest expenses for the NOK Bonds REC03 (partially fair value through profit or loss)	-5.6	-4.5
Interest expenses for financial liabilities not at fair value through profit or loss	-0.5	-2.0
Expensing of up-front fees and costs	-0.1	-0.2
Calculated interest expenses	-0.2	-0.4
Capitalization of borrowing costs	0.9	3.7
Other expenses from financial assets and liabilities	-0.8	-0.7
Net financial expenses	-13.5	-11.2
Net currency gains/losses	-13.5	115.1
Total net gains/losses derivatives and fair value hedge (excluding interest)	0.0	0.0
Fair value through profit or loss - convertible bonds (excluding interest)	-3.9	3.3
Total fair value through profit or loss	-3.9	3.3
Net financial items	-29.2	110.5

Interest income in 2016 includes interest on bank accounts of USD 0.4 million, municipal bonds of USD 0.2, and interest portion of electricity refund of USD 0.7 million, (see note 23).

Calculated interest is interest calculated on prepayments (See note 20).

Borrowing costs eligible for capitalization were capitalized at a rate of 7.3% for both 2016 and 2015.

Net currency losses in 2016 are primarily related to changes in currency rates on intercompany loan balances between group members with different functional currencies. These losses reflect the weakening of the USD and are partially offset by currency gains associated with the USD convertible bonds.

Net currency gains in 2015 are primarily related to changes in currency rates on intercompany loan balances between group members with different functional currencies. These gains reflect the strengthening of the USD and are partially offset by currency losses associated with the USD convertible bonds.

Estimated fair values are shown in the table below.

USD convertible bond

(USD IN MILLION)	AT ISSUE	DEC 31, 2016	DEC 31, 2015	CHANGE TOP/L 2016	CHANGE TOP/L 2015
Nominal value	110.0	110.0	110.0		
Value of the total loan	110.0	91.8	88.0	3.9	-3.3
	Fair value adjustment excluding currency			3.9	-3.3

Estimated fair value excludes accrued interest. Increase (decrease) in fair value is recognized as an expense (income) in the statement of income.

ADDITIONAL INFORMATION TO THE STATEMENT OF CASH FLOWS ON INTEREST, UP-FRONT FEES, AND OTHER COSTS PAID.

Interest paid is approximately USD 12.5 million in 2016 and USD 12.6 million in 2015.

26 EARNINGS PER SHARE

BASIC

Basic earnings per share (EPS) is calculated by dividing the profit/loss attributable to equity holders of the Company by the weighted average number of ordinary shares issued during the year, excluding treasury shares.

	2016	2015
Profit/loss from continuing operations (USD IN MILLION)	-147.4	-62.8
Profit/loss from total operations (USD IN MILLION)	-147.4	-62.6
Weighted average number of ordinary shares in issue (IN MILLION)	2,544	2,420
Basic earnings per share from continuing operations (USD per share)	-0.06	-0.03
Basic earnings per share from total operations (USD per share)	-0.06	-0.03

DILUTED

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares from the convertible bonds and employee share options. Earnings are adjusted to reverse interest expense, currency gains or losses, changes in fair value and the related tax amounts of the convertible bonds. The calculation is made individually for each of the convertible bonds. If the effect increases EPS from continuing operations, it is anti-dilutive, and is then not included in diluted EPS.

The calculation shows that the convertible bonds and the share options are anti-dilutive for 2016 and 2015. Consequently, dilutive EPS equals basic EPS for both years.

27 DIVIDENDS PER SHARE

The Board of Directors did not propose any dividend payments for the financial year 2016 or 2015.

28 RESEARCH AND DEVELOPMENT

(USD IN MILLION)	2016	2015
Research and development expense	5.5	5.6
Development capitalized	0.0	2.5
Total research and development	5.5	8.1

Research and development activities consist of improvements to current production processes and equipment as well as activities designed to enhance quality, improve efficiency, and reduce production cost.

REC Silicon's program for producing higher grade FBR polysilicon has resulted in the development of the next generation FBR-B technology. Research and development expenditures capitalized during 2015 are associated with the commercialization of FBR-B technology.

Efforts in other areas are focused on improving yield and productivity of the Siemens process, improvements to energy efficiency and productivity in silicon gas processes. Efforts to improve analytical capabilities continue to show progress and concentrate on polysilicon and silicon gases.

29 COMMITMENTS, GUARANTEES, PLEDGES

Purchase obligations consist of significant items for which the Group is contractually obligated to purchase from third parties at December 31, 2016 and 2015. Operating lease payments show contractual minimum future payments.

In cases where contracts can be terminated or reduced, the reduced amount has been included as estimated payments in the first period subsequent to the reporting period. Consequently, the amounts presented in the table represent the estimated unavoidable portion of the Group's expected future costs related to purchase obligations and lease payments. It does not reflect the Group's expected future cash outflows.

Purchase obligations and operating lease payments are undiscounted and exclude the payment of amounts recognized for other assets, liabilities, and investments.

Contractual purchase obligations and minimum operating lease payments at December 31, 2016

(USD IN MILLION)	TOTAL FUTURE PAYMENTS	2017	2018	2019	2020	2021	AFTER 2021
Purchase of goods and services	54.8	50.3	0.2	0.2	1.2	1.5	1.5
Minimum operating lease payments	68.6	19.9	19.8	13.8	8.8	2.1	4.2
Total purchase obligations and minimum operating lease payments	123.4	70.2	19.9	13.9	10.0	3.6	5.7

Purchase obligations consist primarily of long term contracts for Metallurgical Grade Silicon. Operating leases consist primarily of agreements for facilities that provide hydrogen and nitrogen used in production processes.

REC Silicon has entered into a joint venture in China (See Note 8). REC Silicon has agreed to contribute additional equity to the joint venture of USD 15 million and USD 154 million in July 2017 which have not been included in the table above. REC Silicon expects to delay or cancel these contributions if the Company does not have sufficient liquidity when the equity contribution commitments are scheduled.

GUARANTEES AND PLEDGES

Bank guarantees at December 31, 2016 amounted to USD 4.7 million related to purchases of energy, performance guarantees (REC Solar), and salary related liabilities. Restricted cash balances related to guarantees were USD 3.8 million (see note 14).

Bank guarantees at December 31, 2015 amounted to USD 4.8 million related to purchases of energy, performance guarantees (REC Solar), and salary related liabilities. Restricted cash balances related to guarantees were USD 3.7 million (see note 14).

The Group provided parent company guarantees for the REC Solar Group related to the performance of solar panels and systems and the sale of REC ScanModule AB. The Group has been provided with offsetting guarantees by REC Solar Holdings AS. The guarantees are valid for relevant warranty periods and are limited by warranties provided on solar panels and systems. Parent company guarantees for REC Solar were USD 54.7 million at December 31, 2016 and 2015. The guarantees will decrease from 2022 to 2039 when they will expire in their entirety.

The Company has provided guarantees and indemnification agreements in connection with the bankruptcy of a former subsidiary. See notes 9, 11, 17 and 30.

30 OTHER INFORMATION FINANCIAL INSTRUMENTS

FAIR VALUES OF FINANCIAL INSTRUMENTS

The estimated fair values of the Group's financial instruments are based on market prices and the valuation methods described below.

Financial instruments recognized at fair values (partially or in whole)

(USD IN MILLION)	2016		2015	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Convertible bonds - fair value whole instrument	0.0	91.8	0.0	88.0
Derivatives option related to REC Wafer bankruptcy	0.0	1.5	0.0	1.4

Determining the categorization of fair value measurements in accordance with IFRS 13 involves judgment.

Level 2

USD Convertible bonds: The Group accounts for these instruments at fair value. The convertible bonds are not listed on any exchange but are traded in limited markets. Quotations published by Bloomberg and actual trades are used to estimate fair value during the year. At year-end the value is adjusted to the tax assessment value published by Norges Fondsmeglerforbund. This value is an estimate of fair value.

Norwegian bonds: The fair value adjustments recognized in the financial statements were due to fair value hedge from the fixed swap interest rate to the floating NIBOR rate. In November 2013 the hedging designation was revoked and the hedged part of the bonds is no longer adjusted to their fair values (see note 17).
Derivative instruments purchased from banks: The fair value estimates are based on contractual cash flows and traded prices for input components. The fair values are compared to estimates by external parties; primarily banks.

Level 3

Option contract is part of the indemnification agreements in connection with the REC Wafer Norway AS bankruptcy, and the estimated fair value is subject to change. The change in estimated fair value has been reported as part of the net gain on disposal of discontinued operations, see note 9. There are no anticipated cash flows associated with this option until estimated maturity, the earliest of which was in February 2016. The option contract has not been settled as of the issue date of these financial statements. The option price is dependent on the share price of the Company and dividend payout from the REC Wafer Norway AS's bankruptcy estate. At yearend 2015, this option had matured and the associated liability amounts became fixed with respect to changes in the Company's share price. A ten percent change to the dividend payout from REC Wafer Norway AS's bankruptcy estate would result in a corresponding change of NOK 1 million (USD 0.2 million at year end 2016) in the fair value of the liability.

Other financial liabilities and assets

The NOK bonds are traded on the Oslo Stock Exchange. Although trading is limited, market values of the bonds are estimated using trades near year-end and Norges Fondsmeglerforbund (level 2 in the fair value hierarchy).

(USD IN MILLION)	2016			2015		
	NOMINAL VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE	NOMINAL VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
REC02	0.0	0.0	0.0	20.4	20.3	20.2
REC03	52.8	52.3	49.0	51.7	50.9	48.4

For all remaining financial assets and liabilities the carry amounts represent a reasonable approximation of fair value.

CREDIT RISK

The maximum credit risks related to financial assets are estimated in the table below

(USD IN MILLION)	2016		2015	
	CARRYING AMOUNT	MAX. EXPOSURE	CARRYING AMOUNT	MAX. EXPOSURE
Cash and bank (incl. restricted bank accounts)	69.7	69.7	99.1	99.1
Trade receivables and accrued revenues	44.5	44.5	56.6	56.6
Other non-current and current receivables	1.9	1.9	0.4	0.4
Finance receivables and short-term loans	3.8	3.8	4.1	4.1
Total	120.0	120.0	160.2	160.2

The bank guarantees, parent company guarantees, and indemnification agreements (see note 29) expose the Group to credit risk. The fair values of bank and parent company guarantees are estimated at zero. The maximum amount of the indemnification agreements is NOK 270 million and has been recognized in liabilities for NOK 212.7 million (USD 24.7 million) at December 31, 2016.

Shared characteristics that identify each concentration of trade receivables at December 31

GEOGRAPHICAL	2016	2015	SECTOR	2016	2015	INDUSTRY	2016	2015
China	28 %	32 %	Manufacturing	77 %	75 %	Solar	59 %	67 %
Taiwan	22 %	9 %	Wholesale	19 %	23 %	Electronic	38 %	31 %
Hong Kong	21 %	22 %	Other	4 %	2 %	Other	4 %	2 %
Other Asia	14 %	27 %						
Japan	9 %	2 %						
Europe	1 %	4 %						
North America	4 %	4 %						
Total	100 %	100 %		100 %	100 %		100 %	100 %

The table above is calculated with respect to gross trade receivables only. The provision for loss on trade receivables is almost exclusively concentrated in China and to customers in the solar industry.

Continuing operations are dependent on a small number of customers. In 2016, four customers represented approximately 50 percent of revenue (seven customers in 2015). Six customers represented approximately 50 percent of total trade receivables at December 31, 2016 (seven customers at December 31, 2015).

Generally, a more challenging and competitive market environment increases credit risk due to financially weaker customers and extended payment terms. Amounts overdue but not impaired between 90 and 365 days were associated with five customers for 2016 and four customers for 2015.

Analysis of aging of receivables at December 31, 2016

AGING OF RECEIVABLES THAT ARE NOT IMPAIRED							
(USD IN MILLION)	TOTAL CARRYING AMOUNT	NOT DUE	PAST DUE				IMPAIRED
			< 30 DAYS	>30<90 DAYS	>90<365 DAYS	>365 DAYS	
Trade receivables	64.7	40.2	3.1	1.0	0.2	0.0	20.2
Provision for loss on trade recivables	-20.2	0.0	0.0	0.0	0.0	0.0	-20.2
Other non-current and current receivables	1.3	1.3	0.0	0.0	0.0	0.0	0.0
Total receivables	45.8	41.5	3.1	1.0	0.2	0.0	0.0
Prepaid Costs	9.5						
Total trade and other receivables	55.3						

Analysis of aging of receivables at December 31, 2015

AGING OF RECEIVABLES THAT ARE NOT IMPAIRED							
(USD IN MILLION)	TOTAL CARRYING AMOUNT	NOT DUE	PAST DUE				IMPAIRED
			< 30 DAYS	>30<90 DAYS	>90<365 DAYS	>365 DAYS	
Trade receivables	75.3	42.4	5.3	5.4	3.5	0.0	18.7
Provision for loss on trade recivables	-18.7	0.0	0.0	0.0	0.0	0.0	-18.7
Other non-current and current receivables	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Total receivables	57.0	42.8	5.3	5.4	3.5	0.0	0.0
Prepaid Costs	13.3						
Total trade and other receivables	70.3						

At December 31, 2016 approximately 23 percent of not due trade receivables were secured by bank guarantees. At December 31, 2015, approximately 12 percent of the not due receivables were secured by bank guarantees.

SENSITIVITIES

Convertible USD bond – sensitivity to changes in the Company's share price

At December 31, 2016 it is estimated that a ten percent increase in the Company's share price will increase the estimated fair value of the USD convertible bond by USD 0.1 million. It is estimated that a ten percent decrease in share price will decrease the estimated fair value of the convertible bond by USD 0.3 million. At December 31, 2015 the estimate was USD 0.4 million for both a ten percent increase and decrease.

Interest rate sensitivity

A change in interest rates will affect interest payments on variable interest rate liabilities, cash, and restricted cash. The net effect of a one percentage point increase (decrease) in interest rates is estimated to affect profit or loss for the year by USD -0.7 (0.7) million

calculated on outstanding amounts at December 31, 2016. The same calculation at December 31, 2015 was USD -0.5 (0.5) million.

A one percentage point increase (decrease) in market interest rates is estimated to change the net estimated fair values of the bonds with an effect to profit or loss by USD 2.0 (-2.0) million at December 31, 2016. The same calculation at December 31, 2015 including derivatives was USD 3.7 (-3.8) million.

Exchange rate sensitivity

The tables below show the estimated impact of a 10 percent increase or decrease in foreign currencies rates compared to functional currencies for each entity. The amounts are calculated in the table below are for REC ASA at period end and do not reflect fluctuations during the year.

The exchange rate sensitivity for financial assets in USD relates to the Company's loans to REC Silicon of which a portion is regarded as a net investment and consequently recognized to equity through other comprehensive income. The sensitivity of financial liabilities relates to the convertible bonds.

Exchange rate sensitivity on financial instruments at December 31

(USD IN MILLION)	CHANGE + 10% COMPARED TO FUNCTIONAL CURRENCIES	
	2016	2015
Financial assets	91.0	86.7
Financial liabilities	-11.0	-11.0
Total	80.0	75.7
Of which to equity		
USD receivables as part of net investment	13.2	13.2
Rest is to profit or loss	66.8	62.5

As described in note 3.1(A), the Group's currency risk on a consolidated basis relates primarily to the sufficiency of net cash flows in USD to meet debt service requirements in NOK. The Company currently holds NOK 451 million in NOK bonds with a carrying value of USD 52.3 million. A 10 percent increase or decrease in the NOK/USD exchange rate would result in a decrease of USD 4.8 million or increase of USD 5.8 million in the carrying values of these bonds in USD.

31 CLAIMS, DISPUTES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group is involved in legal disputes in the ordinary course of business. Provisions are recognized for the expected outcomes in accordance with applicable accounting rules. Provisions are based on Group Management's estimate of likely outcomes based on prior experience, the source, and the facts and circumstances of a claim. The final outcomes of such disputes and litigation are subject to significant uncertainty and actual outcomes may vary from provisions recognized. Provisions are adjusted to reflect the most recent facts and circumstances.

PROPERTY TAXES

REC Silicon has appealed property taxes in Grant County, Washington (USA). The 2012 assessment year is currently subject to an appeal currently pending in the Thurston County Superior Court. REC Silicon has received a Notice of Change of Value from Grant County for the 2013, 2014, and 2015 assessment years and has also appealed these valuations. REC Silicon received a Notice of Change of Value from Grant County for the 2016 assessment year and agreed with the valuation.

REC Silicon has contested Grant County's valuations of taxable property. For years presented, there was no difference between expenses recognized and amounts claimed by Grant County; the total provision in the statement of financial position is USD 24.5 million at December 31, 2016 and USD 26.3 million at December 31, 2015. Under relevant law and previous agreements, REC Silicon is required to pay only the undisputed amounts and a portion of the disputed amounts while the appeals are pending; accordingly, payments made in 2016 for 2015 property taxes totaled USD 4.0 million and payments made in 2015 for 2014 property taxes totaled USD 4.2 million.

INCOME TAXES

The Company has received notices of reassessment from the Norwegian Central Tax office for large Enterprises (CTO) regarding the tax returns for fiscal years 2009 through 2011. The CTO has questioned the deductibility of losses on loans to REC ScanModule AB in 2009 and losses on loans and guarantees to Sovello GmbH in 2009 and 2010. In addition, the CTO has questioned the deductibility on losses on loans to REC Wafer Norway AS, REC Solar AS, and REC ScanCell AS in 2011. These losses amounted to NOK 7.8 billion in total (at 28 percent the tax would be approximately NOK 2.2 billion; USD 255 million at December 31, 2016).

The Company has opposed the notices by filing legal assessments of the cases and presented supporting documentation. A decision has not been communicated by the CTO. Should the CTO make a decision denying the deductibility of the losses, any re-assessed tax is generally due two weeks after the decision, whether or not such decision is appealed. If this occurs, the Company believes that the amounts should be adjusted for group contributions and carry back of tax losses, reducing the potential tax effect (excluding any interest) to approximately NOK 230 million (USD 27 million at December 31, 2016).

The Company believes the losses are tax deductible and has made no provision for potential tax liabilities.

In 2015, REC Silicon received a notice from the Norwegian Central Tax Office (CTO) regarding 2013 tax returns for REC Solar AS and REC Silicon ASA related to the valuation of REC Solar ASA when it was sold in October of 2013. In February of 2017, REC Silicon received notice from the CTO that its investigation was complete and that the tax position asserted by REC Silicon was affirmed. No adjustments to tax attributes recognized by the Company is required by the resolution of this claim.

CHINA/USA TRADE WAR

REC Silicon's access to polysilicon markets in China has been severely restricted by an import tariff imposed by the Chinese Ministry of Commerce (MOFCOM).

REC Silicon continues to work with the US government, the Chinese government, affected companies, and industry organizations to obtain a favorable resolution. In addition, REC Silicon continues to focus on identifying sales opportunities outside of China to mitigate the impact of the trade war. Although there are several initiatives focused on advancing a resolution, the timing or outcome of any resolution remains uncertain.

32 SHARE-BASED COMPENSATION

The Group has share option programs from 2008 to 2011 for management and key personnel. Each program spans six years with a lock up period in the first three years. Options can be exercised in the remaining years, with four exercising periods per year. These periods start after presentation of the quarterly financial results and last 14 days. Any unexercised options are forfeited upon termination of employment.

Each program has a profit cap of one to two years fixed base salary. The number of share options awarded is limited to a maximum profit in each calendar year relative to the employee's annual fixed base salary effective at January 1 in the year of exercise. The profit is calculated as the difference between the exercise price and the market price at the time of exercise.

In 2015, the 2009 option plan expired. In 2016, the 2010 program expired. At December 31, 2016 only the 2011 program remains which will expire in 2017.

During 2014, 2015, and 2016 REC Silicon granted 8,000,000 share options to certain key employees each year. These programs are for six years. The first three years are a lock-up period. The

vesting of the options for eligible employees will take place in equal parts in the fourth, fifth and sixth years of each program, on each June 30 of each year. The options were granted at a strike price of NOK 3.50 in 2014, NOK 2.30 for 2015 and NOK 1.92 for 2016.

These option programs are synthetic programs; the options will be settled in cash. Cash payments due to an eligible employee following any disbursement date is limited to a maximum amount in each calendar year equal to the employee's base annual salary effective January 1st in the year of the disbursement. Any unexercised options are forfeited upon termination of employment.

Fair values were estimated using the Black-Scholes option price model. Expected volatility was based on historical volatility and no dividends were expected in the periods. Expected lifetime and vesting periods were set at the time of allocation based on expectations that employees would exercise options early due to the structure of the programs, including the annual profit cap, and the volatility of the Company's share price. Fair values for options are expensed over the estimated vesting periods. Due to the low share price compared to the exercise prices, the expected vesting periods have increased from approximately three years to approximately six years.

OPTIONS OUTSTANDING AT DECEMBER 31, 2016

REC Silicon excluding REC Solar

PROGRAM	EXERCISE PRICE (NOK)	NO. OPTIONS	TOTAL FAIR VALUE (USD MILLION)	TOTAL EXPENSED (USD MILLION)	REMAINING TO BE EXPENSED (USD MILLION)	REMAINING CONTRACTUAL LIFE (YEAR)
2011	10.09	1,999,188	0.4	0.4	0.0	0.6
2014 ¹⁾	3.50	7,686,975	0.4	0.2	0.2	3.5
2015	2.30	8,000,000	0.7	0.2	0.5	4.5
2016	1.92	8,000,000	0.4	0.1	0.4	5.5
Total		25,686,163	1.9	0.9	1.1	

¹⁾ In 2015, 313 025 Options have been terminated.

The amount recognized in the statement of income from continuing operations for share based compensation was an expense of USD 0.1 million in 2016 and USD 0.1 million in 2015.

BALANCE SHEET (NGAAP)

REC SILICON ASA

AT DECEMBER 31 (NOK IN MILLION)	NOTES	2016	2015
ASSETS			
Non-current assets			
Equipment and intangible assets	B	0.3	0.3
Investments in subsidiaries	C	608.5	838.5
Non-current receivables from subsidiaries	D	7,666.0	7,634.1
Restricted bank accounts non-current	E	31.1	30.9
Total non-current assets		8,305.9	8,503.8
Current assets			
Other receivables		2.4	3.2
Restricted bank accounts current	E	1.6	1.6
Total current receivables		4.0	4.8
Cash and cash equivalents	E	434.3	632.3
Total current assets		438.3	637.1
Total assets		8,744.2	9,140.9

BALANCE SHEET (NGAAP)

REC SILICON ASA

AT DECEMBER 31 (NOK IN MILLION)	NOTES	2016	2015
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	G	2,543.8	2,543.8
Share premium reserve	G	1,959.8	1,959.8
Total paid-in capital	G	4,503.6	4,503.6
Other equity and retained earnings	G	2,594.1	2,793.2
Total shareholders' equity	G	7,097.7	7,296.8
Non-current liabilities			
Interest-bearing liabilities	F	1,398.2	1,415.7
Total non-current liabilities		1,398.2	1,415.7
Current liabilities			
Trade payables		0.1	0.3
Social security, VAT and other taxes		0.1	0.1
Interest-bearing liabilities	F	200.0	378.3
Derivatives	L	12.7	12.7
Other current liabilities		35.3	37.0
Total current liabilities		248.3	428.4
Total liabilities		1,646.5	1,844.1
Total equity and liabilities		8,744.2	9,140.9

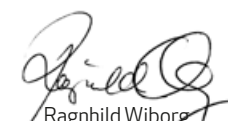
Fornebu, March 31, 2017
Board of Directors



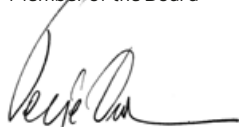
Espen Klitzing
Member of the Board



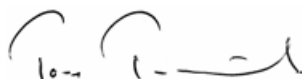
Jens Ulltveit-Moe
Chairman of the Board



Ragnhild Wiborg
Member of the Board



Terje Osmundsen
Member of the Board



Tore Torvund
President and CEO



Inger Berg Ørstavik
Member of the Board

INCOME STATEMENT (NGAAP)

REC SILICON ASA

YEAR ENDED DECEMBER 31 (NOK IN MILLION)	NOTES	2016	2015
Revenues		0.0	0.0
Employee benefit expenses	H	-3.7	-3.9
Other operating expenses	J	-10.9	-13.2
Depreciation	B	-0.1	-0.1
EBIT		-14.6	-17.2
Interest income, internal	K	549.7	501.8
Interest income, external	K	3.3	3.2
Interest expense, external	K	-112.4	-111.5
Other financial expenses	K	-0.4	-0.4
Net currency gains/losses	K	-133.1	1,081.8
Impairment and gains/losses on financial instruments	L	0.0	1.7
Losses on financial assets	M	-492.2	0.0
Net financial items		-185.1	1,476.6
Profit/loss before income tax		-199.7	1,459.4
Income tax expenses	I	0.0	0.0
Profit/loss for the year		-199.7	1,459.4
Profit/loss for the year is distributed as follows			
Other equity	G	-199.7	1,459.4
Total distributed		-199.7	1,459.4

STATEMENT OF CASH FLOWS (NGAAP)

REC SILICON ASA

YEAR ENDED DECEMBER 31 (NOK IN MILLION)	2016	2015
Cash flows from operating activities		
Profit/loss before tax	-199.7	1,459.4
Tax paid/received	0.0	0.0
Depreciation, amortization and impairment	0.1	0.1
Writedowns and losses on financial instruments	0.0	0.6
Impairment loss financial assets ¹⁾	492.2	0.0
Changes in receivables	0.8	3.2
Changes in payables	-1.8	10.2
Changes in VAT and other public taxes and duties	0.0	-0.2
Changes in derivatives	0.0	-2.3
Currency effects not cash flow or not related to operating activities ²⁾	126.3	-1,063.0
Other items ³⁾	4.5	5.2
Net cash flow from operating activities	422.3	413.2
Cash flow from investing activities		
Investment in equity in subsidiaries	-0.4	0.0
Investment in loan to subsidiaries	-440.1	-345.5
Payment to /Proceeds from finance receivables and restricted cash	-0.2	5.9
Payments for property, plant, equipment and intangible assets	0.0	0.0
Net cash flow from investing activities	-440.8	-339.6
Cash flow from financing activities		
Increase in equity	0.0	348.7
Payments of borrowings and up-front/waiver loan fees	-179.5	-55.0
Proceeds from borrowings	0.0	139.8
Net cash flow from financing activities	-179.5	433.4
Net increase/decrease in cash and cash equivalents	-198.0	507.0
Cash and cash equivalents at the beginning of the period	632.3	125.3
Cash and cash equivalents at the end of the period	434.3	632.3

¹⁾ Impairment losses financial assets. See note M.

²⁾ Currency gains and losses are primarily related to interest bearing liability in US Dollar (USD convertible bond) and loans to subsidiaries. See note D and F.

³⁾ Other items consist primarily of the expensing of up-front loan fees and amortization of interests

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NOTES TO THE FINANCIAL STATEMENTS

REC SILICON ASA

A SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND GENERAL INFORMATION

REC Silicon ASA (the Company) is a holding company with corporate management and financial functions.

The financial statements have been prepared in compliance with the Norwegian Accounting Act and Norwegian generally accepted accounting principles (NGAAP) in effect at December 31, 2016. The functional and reporting currency of the Company is Norwegian Krone (NOK). The reporting currency used in the consolidated financial statements is US Dollar (USD). The consolidated financial statements of the Group have been prepared in accordance with IFRS. The Company's accounting principles are similar to the accounting principles for the Group unless otherwise noted. Financial statement disclosures for the Company that are substantially different from the disclosures for the Group are shown below. See notes to the consolidated financial statements.

Group contributions and dividends that are subject to approval by the Annual General Meeting are recognized according to IFRS in the consolidated financial statements at the time of approval. For the Company's financial statements according to NGAAP, these are recognized in the fiscal year they relate to. Group contributions to subsidiaries are recognized as investment in shares in subsidiaries, net of tax.

Subsidiaries, jointly controlled entities, and associates are carried at the lower of cost or estimated recoverable amount in the Company's consolidated financial statements. In the consolidated financial statements, these are consolidated or accounted for using the equity method.

In the consolidated financial statements, the convertible USD bond loans issued in 2013 have been measured at fair value. In the Company's financial statements, they are measured at amortized cost.

In the Company's financial statements, payments expected to be made during the next 12 months on non-current financial assets or liabilities are not reclassified to current financial assets or liabilities. In the consolidated financial statements these are reclassified.

The financial statements are presented in NOK, rounded to the nearest tenth of million unless otherwise stated. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements may not add up to the total of that row or column.

The financial statements of the Company have been approved for issue by the Board of Directors on March 31, 2017 and are subject to approval by the Annual General Meeting scheduled for May 3, 2017.

B EQUIPMENT AND INTANGIBLE ASSETS

(NOK IN MILLION)	2016	2015
Cost at January 1	0.7	0.7
Additions	0.0	0.0
Disposal	0.0	0.0
Cost at December 31	0.7	0.7
Accumulated depreciation January 1	-0.1	0.0
Depreciation for the year	-0.1	-0.1
Accumulated depreciation December 31	-0.1	-0.1
Accumulated impairment January 1	-0.3	-0.3
Impairment for the year	0.0	0.0
Disposal impairment	0.0	0.0
Accumulated impairment December 31	-0.3	-0.3
Carrying value at December 31	0.3	0.3

Equipment and intangible assets consists of office equipment and furniture.

C SHARES IN SUBSIDIARIES

COMPANY	OWNERSHIP/VOTING RIGHT	BUSINESS OFFICE	DECEMBER 31 (NOK IN MILLION)	
			2016	2015
REC Silicon AS	100%	Bærum	607.5	837.5
REC Solar AS	100%	Bærum	1.0	1.0
Total			608.5	838.5

In 2016 the Company increased the equity in REC Silicon AS with NOK 440 thousand. Simultaneously REC Silicon AS increased the share capital and ownership with USD 75 thousand in REC Silicon Pte. Ltd.

In 2016 the Company has impaired the shares in REC Silicon AS with NOK 231 million, see note M.

SUB-SUBSIDIARIES	OWNERSHIP/VOTING RIGHT	BUSINESS OFFICE
REC Solar AS subsidiaries		
Gitzeli Solar Energy Production S.A.	100%	Greece
REC Greece S.A.	100%	Greece
REC Silicon AS subsidiaries		
REC Silicon Inc	100%	Moses Lake, USA
REC Solar Grade Silicon LLC	100%	Moses Lake, USA
REC Advanced Silicon Materials LLC	100%	Butte, USA
REC Silicon Pte Ltd	100%	Singapore

At December 31, 2016, REC Solar AS's subsidiaries were under liquidation.

D RECEIVABLES FROM SUBSIDIARIES

Non-current interest bearing receivables from subsidiaries are USD loans to the subsidiaries in USA (REC Silicon Inc. and REC Solar Grade Silicon LLC) of with USD 889.3 million at December 31, 2016 and USD 866.6 million at December 31, 2015. In 2016 the company has impaired these receivables by USD 30.3 million, see note M.

E CASH AND CASH EQUIVALENTS AND RESTRICTED BANK ACCOUNTS

Cash and cash equivalents consist of bank deposits.

Restricted bank accounts (not included as cash and cash equivalents)

(NOK IN MILLION)	2016	2015
Non-current	31.1	30.9
Current	1.6	1.6
Total restricted bank accounts	32.7	32.5

At December 31, 2016 current restricted bank accounts included NOK 0.1 million to secure employees' tax deductions in REC Silicon ASA (0.2 million at December 31, 2015).

See note 14 to the consolidated financial statements for a description of restricted bank accounts.

F INTEREST BEARING LIABILITIES

(NOK IN MILLION)	2016	2015
NOK bonds	451.0	627.0
Up-front loan fees etc (amortized as part of effective interest)	-1.0	-2.0
USD convertible bond	948.2	969.0
Indemnification loan	200.0	200.0
Total interest bearing liabilities	1,598.2	1,794.0

See note 17 to the consolidated financial statements for details of the Company's interest bearing liabilities.

G EQUITY

(NOK IN MILLION)	SHARE CAPITAL	SHARE PREMIUM	OTHER EQUITY AND RETAINED EARNINGS	TOTAL
Equity at January 1, 2015	2,313.8	1,841.1	1,332.9	5,487.8
Share option program	0.0	0.0	0.9	0.9
Share issues	230.0	118.7	0.0	348.7
Profit for the year	0.0	0.0	1,459.4	1,459.4
Equity at December 31, 2015	2,543.8	1,959.8	2,793.2	7,296.8
Share option program	0.0	0.0	0.6	0.6
Loss for the year	0.0	0.0	-199.7	-199.7
Equity at December 31, 2016	2,543.8	1,959.8	2,594.1	7,097.7

Share capital at December 31, 2016 and 2015 was 2,543,818,785 shares at par value of NOK 1. There is one class of shares, and all shares have the same voting rights. See note 15 to the consolidated financial statements for more information.

In 2015 the Company increased equity through share issues of 230 million shares at a price of NOK 1.55 per share. The net proceeds were NOK 348.7 million after deduction of costs of NOK 7.8 million.

H EMPLOYEE BENEFITS

Employee benefit expenses

(NOK IN MILLION)	2016	2015
Payroll	-3.1	-3.3
Bonus	0.0	-0.1
Social security tax	-0.4	-0.5
Pension expense including social security tax	-0.1	-0.1
Other employee related costs	0.0	0.0
Employee benefit expenses	-3.7	-3.9

The average number of employees measured in man-years was 1 during 2016 and 2015. There were no loans or guarantees to employees at December 31, 2016 and 2015.

Payroll includes compensation to Board of Directors. For compensation and shareholdings for Group management and Board of Directors see note 16 to the consolidated financial statements.

PENSION PLANS

At December 31, 2016 the Company maintained a defined contribution pension plan for employees that fulfill the requirements of Norwegian law: "Lov om obligatorisk tjenestepensjon".

SHARE OPTION PROGRAMS

See note 32 to the consolidated financial statements for details of the share option programs.

At December 31, 2016 there was one previous employee of the Company that had share options remaining. At December 31, there were 605,632 share options outstanding from the 2011 program.

At December 31, 2014 the accumulated share option expense recognized by the Company was NOK 4 million and there was no remaining expense to be recognized. At December 31, 2016, the accumulated amount recognized to equity was NOK 15.6 million and NOK 15 million at December 31, 2015. At December 31, 2016 there was NOK 0.2 million remaining to be recognized to equity by the Company relating to 1.4 million options outstanding for employees in the US subsidiaries.

The difference between the amounts recognized to equity and the expense are share options offered by the Company to employees in subsidiaries that are recognized as additions to the cost of shares in subsidiaries.

I INCOME TAXES

(NOK IN MILLION)	2016	2015
Current income tax benefit (+) / expense (-) for the year	0.0	0.0
Total deferred tax benefit (+) / expense (-) for the year	0.0	0.0
Total income tax benefit (+) / expense (-) for the year in the income statement	0.0	0.0

Relationships between income tax expense/benefit to profit/loss before taxes

(NOK IN MILLION)	2016	2015
Profit/loss before tax	-199.7	1,459.4
Tax calculated at domestic tax rate of 25 percent (27% in 2015)	49.9	-394.0
Effect of change in tax rate on gross temporary differences	-35.1	-75.9
Expenses not deductible for tax (permanent differences) ¹⁾	-123.0	0.0
Recognition of previously not recognized deferred tax assets	108.2	469.9
Total income tax benefit (+) / expense (-) for the year in the income statement	0.0	0.0
Effective tax rate	0 %	0 %

¹⁾ Impairment loss financial assets.

Current income tax

(NOK IN MILLION)	2016	2015
Profit/loss before taxes	-199.7	1,459.4
Impairments and losses on shares and loans - permanent difference	492.2	0.0
Other permanent differences	0.0	0.0
Changes in temporary differences	121.1	-1,022.5
Utilization (-) / increase (+) of tax losses carried forward	-413.7	-436.9
Basis for current tax in the income statement	0.0	0.0
Estimated 25 percent current income tax (27% in 2015)	0.0	0.0
Current income tax benefit (+) / expense (-) in the income statement	0.0	0.0
Basis for current tax in the income statement	0.0	0.0
Cost for capital increase, recognized to equity	0.0	-7.8
Tax loss carried forward	0.0	7.8
Basis for current tax in the balance sheet	0.0	0.0
Current tax asset (+) / liability (-)	0.0	0.0

Specification of temporary differences and tax losses, deferred tax assets and liabilities

(NOK IN MILLION)	2016	2015
Fixed assets	-4.6	-6.5
Up-front fees	1.0	2.0
Interest bearing liabilities	-205.5	-209.7
Derivatives	-12.7	-12.7
Net unrealized gains on non-current foreign exchange receivables and liabilities	2,260.9	2,387.2
Other	-80.0	-80.0
Tax losses carried forward	-5,462.7	-5,876.6
Total temporary differences and tax loss carried forward	-3,503.6	-3,796.3
Tax percentage	24 %	25 %
Deferred tax assets (-) / liabilities (+)	-840.9	-949.1
Deferred tax assets not recognized	-840.9	949.1
Deferred tax assets (-) / liabilities (+) in the balance sheet	0.0	0.0
Change in deferred tax assets (-) / liabilities (+) in the balance sheet	0.0	0.0
Of which actuarial gains and loss, recognized to equity	0.0	0.0
Total deferred tax benefit (-) / expense (+) for the year	0.0	0.0

J OTHER OPERATING EXPENSES

Specification of other operating expenses

(NOK IN MILLION)	2016	2015
Operating lease expenses	-0.2	-0.2
Audit remuneration	-1.0	-2.8
Consultancy fee	-3.8	-4.3
Insurance	-1.7	-1.5
Other operating expenses	-4.2	-4.5
Total Other operating expenses	-10.9	-13.2

Audit remuneration

(NOK IN MILLION)	2016	2015
Statutory audit	-1.0	-2.1
Other non-audit services	0.0	-0.7
Total auditor's remuneration expensed	-1.0	-2.8

Future payment obligations

The future aggregate minimum payment obligations are as follows

(NOK IN MILLION)	2016			2015		
	OPERATING LEASE	OTHER	TOTAL	OPERATING LEASE	OTHER	TOTAL
No later than 1 year	0.1	0.6	0.6	0.1	0.6	0.7
Later than 1 year but not later than 5 years	0.0	0.0	0.0	0.1	0.0	0.1
Later than 5 years	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.1	0.6	0.6	0.2	0.6	0.8

K INTEREST, CURRENCY, DERIVATIVES

INTEREST INCOME AND EXPENSES

The Company conducts financing for the Group. See note 17 to the consolidated financial statements of the Group. Interest income increased in 2016 compared to 2015 due to changes in currency exchange rates for the USD compared to NOK and increases to Group internal loans. External interest expenses are lower in 2016 compared to 2015 due to reduction in interest bearing liabilities (repaid the NOK bond REC 02 during 2016). Interest expenses include expensing of upfront fees, see note 25 to the consolidated financial statements.

CURRENCY GAINS AND LOSSES

Net currency gains/losses are related primarily to USD loans to subsidiaries which are partially offset by currency effects on USD interest bearing liabilities.

DERIVATIVES

The indemnification option contract was the only derivative instrument held by the Company. The overview of derivatives in note 11 to the consolidated financial statement is therefore representative for the Company for the periods presented.

See notes 3 and 11 to the consolidated financial statements for a description, purpose, and accounting policies for derivatives.

L WRITEDOWNS AND GAINS/LOSSES ON FINANCIAL INSTRUMENTS

(NOK IN MILLION)	2016	2015
Gain/loss in connections with the bankruptcy of REC Wafer Norway	0.0	1.7
Net writedowns and gains/losses on financial instruments	0.0	1.7

The gain/loss in connection with the bankruptcy of REC Wafer Norway AS relates to estimated values of liabilities taken by the Company and losses on receivables, see note O below. In 2015 adjustments to these estimated liabilities were made.

M IMPAIRMENT OF FINANCIAL ASSETS

At December 31, 2016

	(NOK IN MILLION)			(USD IN MILLION)		
	AT COST	IMPAIRMENT	CARRYING VALUE	PAR VALUE	IMPAIRMENT	CARRYING VALUE
Shares in REC Silicon AS	838.5	-231.0	607.5			
Loan to subsidiaries in USA	7,927.2	-261.2	7,666.0	919.6	-30.3	889.3
Total impairment loss financial assets		-492.2				

REC Silicon ASA owns all the shares in REC Silicon AS which owns REC Silicon Inc. that is the holding company of the USA operations. Due to negative equity of the consolidated operations in USA, REC Silicon AS has impaired the value of the shares to zero. As a consequence of the impairment loss in REC Silicon AS, REC Silicon ASA has impaired their shares in REC Silicon AS. Equity in REC Silicon AS at December 31, 2016 is NOK 607.5 million.

In addition, REC Silicon ASA impaired loans to the US operations. In total, the impairment loss of NOK 492.2 million represents the book value in excess of the fair values of equity shares and loans to REC Silicon ASA's US subsidiaries. Estimates of the value of US operations were calculated using the fair values of financial assets and liabilities held by the US entities and the net present value of cash flows of operations in the United States.

N RESEARCH AND DEVELOPMENT

REC Silicon ASA did not conduct any activities associated with research and development during 2016 and 2015.

O GUARANTEES AND INDEMNIFICATION AGREEMENTS

At December 31, 2016 bank guarantees amounted to NOK 9 million (11 million at December 31, 2015). These guarantees were cosigned by REC Solar.

The Company and some of its subsidiaries are jointly and severally liable for certain loans established by the Company.

- Relevant loan agreements at December 31, 2016 were as follows:
 - REC03: senior unsecured bonds with NOK 455.5 million outstanding. The tenor is from May 2011 to May 2018.
- The Company and the following subsidiaries of the Company are jointly and several liable for the above mentioned loan at December 31, 2016: REC Silicon AS, REC Silicon Inc., REC Advanced Silicon Materials LLC and REC Solar Grade Silicon LLC.

The Company has provided guarantees and indemnification agreements in connection with the bankruptcy of REC Wafer Norway AS in 2012. The maximum amount of the indemnification agreements is NOK 270 million. Liabilities have been estimated based upon conditions contained in these agreements for NOK 212.7 million at December 31, 2016. Indemnification loans estimated to NOK 200 million and an option agreement with estimated fair value of NOK 12.7 million. See note 29 and 30 to the consolidated financial statements for more information.

P RELATED PARTIES

Related parties' transactions for the Company are primarily interest income (see the income statement and note K) and loans to its subsidiaries (see note D and M)). These loans are included in non-current receivables from subsidiaries (see the balance sheet). During the 2016, the Company has contributed equity to REC Silicon AS (see note C). Group Management and Board of Directors' compensation, ownership of shares and options, loan agreements and guarantees are shown in note 16 to the consolidated financial statements.

Q CONTINGENT LIABILITIES

See note 31 to the consolidated financial statements. Specifically, notices of reassessment from the Central Tax Office for Large Enterprises. No provisions for potential tax liabilities have been recognized at December 31, 2016 or 2015 related to these.

AUDITOR'S REPORT



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To the Annual Shareholder's Meeting of REC Silicon ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of REC Silicon ASA. The financial statements comprise:

- The financial statements of the parent company REC Silicon ASA (the "Company"), which comprise the balance sheet as at 31 December 2016, the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.
- The financial statements of REC Silicon ASA and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2016, the statement of income, statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG AS is a Norwegian limited liability company and a member firm of a KPMG network of independent member firms affiliated with KPMG network (collectively "KPMG network"), a Swiss entity.

System for audit is reviewed - modification and the normal accounting system.

Offices in

Oslo	London	Washington	Stockholm
Amsterdam	Frankfurt	Madrid	Paris
Berlin	Brussels	Copenhagen	Dublin
Helsinki	Interim	Oslo	Stockholm
Trondheim	Ålesund	Bergen	Ålesund



Auditor's Report - 2016
REC Silicon ASA

Asset Impairment

Refer to page 9 in the Board of Director's report, the accounting policies on page 33, the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 38, and Note 7 on page 43 in the consolidated financial statements.

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>The impairment assessment of property, plant and equipment and other intangible assets with a total carrying value of USD 595 million is considered to be a risk area due to the size of the balances, recent impairments and the current economic environment in the Group's operating segment and jurisdictions.</p> <p>The Group has recognised impairment charges in respect of items of property, plant and equipment and other intangible assets during the year of USD 79 million.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> - We assessed management's process and results for identification and classification of cash generating units (CGUs) to ensure they were appropriate and in accordance with IAS 36; - We evaluated the historical accuracy of management's budgets and forecasts and challenged management on the current year cash flow forecasts as well as the timing on future cash flows; - We evaluated and challenged management on the growth assumptions and management's future business plan assumptions with reference to current market conditions; - We used KPMG valuation specialists to assess the mathematical and methodological integrity of management's impairment models and the discount rates applied with reference to market data; - We obtained and evaluated management's sensitivity analysis to determine the impact of reasonably possible changes and we performed our own independent sensitivity calculations to quantify the downside changes to management's models required to result in impairment; and - We considered whether the disclosures regarding key assumptions and sensitivities adequately reflected the underlying assets impairment assessments. <p>Although uncertainties exists in any long term forecasting exercise, based on the work performed we determined that the impairment recognized in 2016 was appropriate.</p>



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REC Silicon ASA

Government Grant asset valuation

Refer to the accounting policies on page 35, the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 38, and Note 12 and 21 on pages 47 and 60 respectively in the consolidated financial statements.

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Government Grant asset relates to an Advanced Energy Manufacturing Tax Credit program that entitles the US company to claim credits on the US tax returns as described in note 4.2.(c). The impairment assessment of the grant asset, with a carrying value of USD 90 million, is considered to be a risk area due to the size of the balance, the number and size of recent impairments, the current economic environment in the Group's operating segment and jurisdictions as well as their judgmental nature, similar to that noted in the assessment of the asset impairment above.</p> <p>The Group has recognised impairment charges in respect of government grant asset during the year of USD 19 million.</p>	<p>Based on the work performed over the Group's impairment test of cash generating units, we obtained the current year Grant asset valuation model and memo from the Group. We agreed the inputs to the Grant asset valuation model to the Assets Impairment model and recalculated the carrying value of the Grant asset.</p> <p>Although uncertainties exists in any long term forecasting exercise, based on the work performed we determined that the valuation adjustment recognized in 2016 was appropriate.</p>

Going Concern

Refer to page 10 in the Board of Director's report, the Group's assessment of financial risk management in Note 3 on page 37 and the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 38.

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group has a cash position of USD 66 million and an interest bearing debt of USD 167 million as per 31 December 2016. For the financial year 2016, the Group had a negative net cash flow of USD 30 million. The Group's going concern assessment is considered to be a risk area due to cash flow projections being impacted by the volatility and uncertainty that currently characterizes the polysilicon market.</p> <p>In addition, the uncertainty related to the timing of repayment of the USD 23 million (NOK 200 million) indemnification loan and the uncertainty related to the unresolved tax examinations in Norway, adds further uncertainties related to the Group's cash flow projections.</p> <p>Apart from the potential repayment of the indemnification loan, the Group has no loan repayments until May 2018.</p>	<p>We performed procedures to understand management's going concern review process. Hereunder;</p> <ul style="list-style-type: none"> - We agreed the assumed cash flows to the most recent budget and business plan; - We understood what forecast expenditure is committed and what could be considered discretionary; - We assessed the underlying assumptions used in the going concern assessment, hereunder agreed the forecasts used in the going concern assessment with those used for impairment calculations; - We also considered the appropriateness of the going concern disclosures made in the Group financial statements. <p>Although uncertainties exists in the going concern analysis prepared by management, we agree with the conclusion reached by management that it is appropriate to use the going concern basis of accounting and that the related disclosures are appropriate.</p>



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Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director ("Management") are responsible for the preparation and fair presentation of the financial statements of the Company in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



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- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

[Report on Other Legal and Regulatory Requirements](#)

[Opinion on the Board of Directors' report](#)

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report including the report on Corporate Social Responsibility, and the report on Corporate Governance concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

[Opinion on Registration and Documentation](#)

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information", it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 31 March 2017
KPMG AS

Vegard Tangerud
State Authorized Public Accountant

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About REC Silicon

REC Silicon ASA is a leading producer of advanced silicon materials, supplying high-purity polysilicon and silicon gases to the solar and electronics industries worldwide. We combine over 30 years experience and best-in-class proprietary technology to deliver on customer expectations. Our two U.S. based plants have a capacity of more than 20,000 MT high-purity polysilicon. REC Silicon is headquartered in Fornebu, Norway and listed on the Oslo stock exchange under the ticker: REC.

For more information, go to: www.recsilicon.com