

RECSiLICON



ANNUAL REPORT
2017

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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 and fundmanager of Odin Fund Management and different positions in investment banks such as Pareto Securities, ABG Sundal & Collier and First Chicago. She is member of the BoD in several listed companies; Gränges AB, Intrum Justitia AB, IM Skaugen, Skandiabanken ASA, INSR 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 founder and CEO of Empower New Energy AS. From 2009-2017, Terje was Senior Vice President for Business Development in Scatec Solar ASA. He has an extensive executive and senior leadership background in publishing, telecommunications (Alcatel), Oil & Gas (Saga Petroleum), the Confederation of Business and Industry (NHO) and government (Prime Minister's office). Mr. Osmundsen has a post-graduate degree in political science from University of Oslo and American University, Washington DC. He is a non-executive Board member Quantafuel AS and board chairman of Caritas Norway.

LETTER FROM THE CEO

Solar remained the fastest growing renewable energy in 2017 with approximately 100 GW of solar panels installed globally. Many industry forecasts anticipated much lower demand early in 2017. However, end use PV demand grew by 25 percent in 2017 compared to 2016. Solar continues to be increasingly cost competitive compared to other forms of energy driving strong demand growth. Currently, the majority of global solar demand comes from China, however, demand in markets outside of China are projected to significantly increase in the coming years. This increase will create opportunities for REC Silicon to expand its customer base.

REC Silicon's proprietary FBR technology remains a low-cost leader in the polysilicon industry due to its energy-efficiency and high quality product. REC Silicon's FBR technology requires substantially less energy than alternative polysilicon production technologies which results in industry leading cost competitiveness. In addition, this results in a significantly smaller carbon footprint than traditional Siemens polysilicon technology. A smaller carbon footprint ensures sustainability and further sets the FBR technology ahead of the competition. REC Silicon believes that the combination of these benefits will continue to propel demand for REC Silicon polysilicon well into the future.

Despite the positive solar industry growth and unsurpassed cost position in the marketplace, challenges for REC Silicon remain. Difficult market conditions caused by the solar trade war with China effectively block REC Silicon's access to the PV polysilicon market in China. These conditions necessitate the Moses Lake, Washington facility to remain operating at 50 percent capacity. Nevertheless, REC Silicon has been successful in expanding its market share outside of China and further showed its resiliency by achieving positive cash earnings in 2017. Our successes in 2017 were made possible through implementing cost cutting measures, streamlining processes, employee excellence, and improving efficiency while limiting capital expenditures.

In September 2017, REC Silicon announced efficiency improvements and cost cutting initiatives for the Butte, Montana production facility that included the curtailment of solar grade polysilicon production so that efforts could be focused on maintaining competitiveness in the electronics industry. These improvements included an adjustment in the size of the organization. As a result of these changes, the Butte, Montana facility is now better positioned to compete in the semiconductor market, which we believe will continue to expand going forward.

"Our successes in 2017 were made possible through implementing costs cutting measures, streamlining processes, employee excellence, and improving efficiency while limiting capital expenditures."

Throughout these difficult conditions, REC Silicon has been appreciative of the support from federal, state and local elected officials. REC Silicon maintains its belief that a settlement of all solar trade related disputes between the United States and China is the best path forward to preserve, restore, and promote the broader US solar industry, which includes polysilicon manufacturing. As I have said before, in times of rising global polysilicon demand, opportunities for US polysilicon manufacturers should be experiencing healthy expansion, not rapid contraction. With access to the China market restored, REC Silicon can out-compete its foreign rivals from its manufacturing locations in the United States.

The positive cooperation between REC Silicon and our joint venture partner, Shaanxi Non-Ferrous Tian Hong New Energy Co., Ltd., is demonstrated by the successful construction and start-up in 2017 of the first silane unit and multiple FBR reactors at the manufacturing facility in Yulin, People's Republic of China. With a total investment



within budget, the Yulin facility is on track to be the lowest cost and highest quality polysilicon producer not only within China, but throughout the world.

Silicon gas markets remain strong as reflected in increased sales volumes for REC Silicon in 2017. In addition to REC Silicon's Signature Silane™ product line, demand for other silicon gas products, at times, outpaced REC Silicon's available supply. REC Silicon is a major silane gas supplier to a large majority of the top semiconductor producers in the world and a supplier of silane gas for use in the growing solar market.

REC Silicon's foundation was built from the strength and ingenuity of its talented employees. Without such a sure foundation, long term excellence would not be achievable. During adversity, the employees of REC Silicon continue to adapt, persevere, and improve, while at the same time remaining focused on safe operations.

Long term prospects are indeed bright for the solar industry in general and for REC Silicon in particular. Despite the present challenges, opportunities are being created by our dedicated workforce and industry leading technology that paved the way for a successful 2017 and continued success in the years to come.

Tore Torvund
President and CEO

BOARD OF DIRECTORS' REPORT

2017 HIGHLIGHTS (COMPARED TO 2016)

- > EBITDA of \$19.8 million
 - Compared to 2016 EBITDA Loss of \$30.8 million
 - Revenues of \$272.4 million (0.4 percent Increase)
 - > FBR Cash Costs of \$10.6/kg at ~50 percent Capacity Utilization
 - Compared to \$15.3/kg in 2016
 - Demonstrates Successful Efforts to Reduce Costs and Increase Efficiencies
 - > Polysilicon Production Volumes of 11,636MT
 - Compared to 10,729MT in 2016 (8.4 percent Increase)
 - Trade War Continues to Limit FBR Capacity Utilization
 - > Polysilicon Sales Volumes of 13,503MT
 - Compared to 13,067MT in 2016 (3.3 percent Increase)
 - Prime Granular Polysilicon Price Increase of 9.5 percent Compared to Year End 2016
 - Polysilicon Inventory Decrease of 1,909MT
 - Continued Discounts to Mitigate Impact of China/US Trade War
 - FBR Sales Volumes Limited by Production
 - > Silicon Gas Sales Volumes of 3,501MT
 - Compared to 2016 Sales Volumes of 2,734MT (28.1 percent Increase)
 - 19.8 percent Decrease in Average Silane Gas Prices
 - > Yulin JV Started Production in December 2017
 - Full Capacity Utilization Expected in H2 2018
 - Resolution to Equity Contribution Commitment Announced on February 1, 2018
 - > December 31, 2017 Cash Balance of \$104.5
 - Cash Increase of \$38.8 million in 2017
 - \$31.4 million due to Decreased Investment in Working Capital
 - Ability to Meet Bond Maturity in May 2018 (REC03)
 - Completed USD 110 million Bond Issue on March 23, 2018 Ensuring Ability to Repay USD Convertible Bond in September 2018
-

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

Key Financials - REC Silicon Group

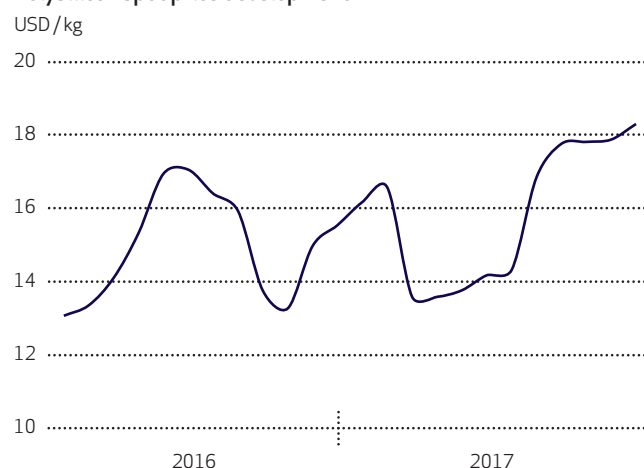
(USD IN MILLION)	2017	2016
Revenues	272.4	271.2
EBITDA	19.8	-30.8
EBITDA margin	7.3%	-11.3%
EBIT excluding impairment charges	-127.2	-123.0
Impairment charges	-0.3	-93.1
EBIT	-127.5	-216.0
EBIT margin	-46.8%	-79.7%
Profit/loss before tax	-209.2	-248.1
Profit/loss	-367.0	-147.4
Earnings per share, basic and diluted (USD)	-0.14	-0.06
Polysilicon production in MT (Siemens and granular)	11,636	10,729
Polysilicon sales in MT (Siemens and granular)	13,503	13,067
Silicon gas sales in MT	3,501	2,734

MARKETS

Industry analysts estimate end use PV demand for 2017 of 99GW compared to 79GW in 2016 (GTM Market Demand Tracker – February 1, 2018). This represents growth of approximately 25 percent compared to 2016. China continues to be the largest market with an estimated 52GW installed during 2017 representing a growth of 52 percent compared to 2016. The United States is the second largest market with 11.9GW representing a 21 percent decline. End use PV demand in Europe (7.4GW) grew by 7 percent while demand in Japan (7.8GW) declined by 10 percent. The emerging market in India (9.3GW) continued to exhibit strong growth (90 percent growth). (Market data taken from GTM Market Demand Tracker – February 1, 2018)

During 2017, market prices for solar modules continued to decline and resulted in increasing end use PV demand discussed above. As a result, excess polysilicon inventories were depleted and prices moved upward due to balance between polysilicon supply and demand. At the end of

Polysilicon spot price development



* Monthly spot price index GTM PV Pulse

2017, average polysilicon spot prices were estimated in a range from USD 17.3/kg to USD 18.1/kg which represented an increase of 16 to 17 percent compared to prices at the end of 2016. Prices inside of China continue to be higher than prices outside of China due to supply constraints caused by the trade war between China and the United States. Spot prices inside of China ended 2017 at over USD 20/kg while spot prices outside of China ended 2017 near USD 14/kg. REC Silicon continues 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.

Semiconductor grade polysilicon markets continue to improve; however, fixed sales contracts continue to limit spot market sales opportunities for REC Silicon. Semiconductor grade polysilicon consumers continue to operate at high capacity utilization rates and inventories are declining. Due to the expiration of long term contracts, REC Silicon sales volumes of Semiconductor grade polysilicon decreased by 57.3 percent.

Demand for silicon gases continued to grow due to higher utilization in PV cell production, capacity expansions for flat panel displays, and the continuing implementation of technology improvements in semiconductor applications.

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 percent FBR capacity utilization)
- Maximizing throughput for utilized assets
- Maintaining liquidity (retain cash)
- Focusing on continued quality improvements
- Optimizing semiconductor polysilicon product offerings
- Supporting Successful Startup of the Yulin JV

REPORT FOR 2017

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 were USD 272.4 million during 2017 and broadly unchanged from USD 271.2 million in 2016.

Polysilicon sales volumes increased by 3.3 percent to 13,503MT compared to 2016. REC Silicon's sales opportunities continue to be limited by restricted access to the Chinese markets because of the solar trade war between China and the United States. Accordingly, the FBR production facility in Moses Lake continues to operate at approximately 50 percent capacity. 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. Polysilicon inventory decreased by 1,909MT in 2017.

REC Silicon's average annual sales prices for prime granular solar grade polysilicon increased by 8.2 percent from 2016 to 2017. The majority of this increase occurred late in 2017 as end use PV demand resulted in higher demand for solar grade polysilicon and resulted in upward pressure on polysilicon prices. REC Silicon's prices during both years were negatively impacted by price discounts offered to offset the effects of the trade war.

Silicon gas sales volumes were 3,501MT, a 28.1 percent increase from 2,734MT in 2016. Average annual prices for silane gas decreased by 19 percent. Price decreases are a result of higher sales volumes into the lower margin PV markets and price concessions to maintain market share as competitors offer discounts to increase production capacity utilization. Sales volumes in 2016 were lower as a result of forward sales volumes in 2015 to increase the Company's liquidity. Overall, demand for silicon gases continued to grow, however, competitors continue to put downward pressure on pricing as they attempt to capture market share and increase production capacity utilization.

Operating Costs and Expenses

The Group successfully implemented cost saving initiatives in November of 2016 to match activity and spending levels to production capacity utilization. As a result, FBR cash cost for 2017 was USD 10.6/kg. This compares with USD 15.3/kg for 2016 and demonstrates the world class capability of the Company's FBR technology despite low production capacity utilization as a result of restricted access to polysilicon markets in China.

Production of granular solar grade polysilicon increased to 9,379MT or a 19.3 percent increase compared to 7,863MT for 2016. Total polysilicon production increased by 8.4 percent in 2017 to 11,636MT.

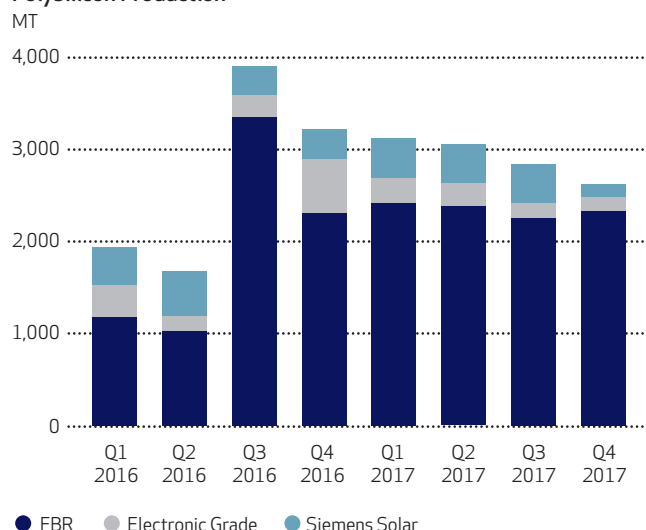
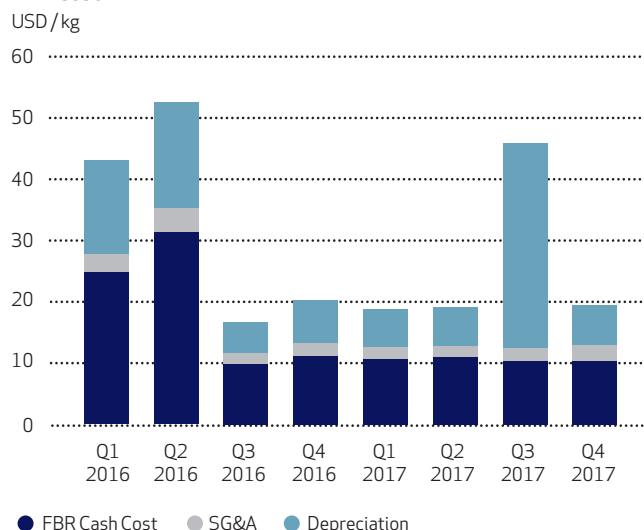
Earnings Before Financial Items and Income Taxes (EBIT)

EBIT for 2017 was a loss of USD 127.5 million which included additional depreciation associated with the derecognition of a grant receivable of USD 65.7M. See notes 4.2 (C) and 21 to the consolidated financial statements. This represents an improvement compared to the EBIT loss of USD 216.0 million for 2016 which included impairment charges of USD 93.1 million.

EBITDA for 2017 was USD 19.8 million compared to a loss of USD 30.8 million in 2016. The increased EBITDA is a result of higher silicon gas sales volumes and the low cost performance of the Company's manufacturing operations.

Financial Items

Net financial items were USD 79.9 million compared to USD 29.2 million in 2016. In 2017, net currency losses related primarily to USD denominated intercompany loans between the Company and the US subsidiaries was a loss of USD 34.1 million compared to a loss of USD

Polysilicon Production**FBR Cost**

13.5 million in 2016. Expense due to fair value adjustments to the convertible bonds was USD 16.2 million compared to USD 3.9 million in 2016. Net financial expenses for 2017 were USD 30.2 million compared to USD 13.5 million in 2016. Net financial expenses for 2017 included USD 4 million of interest due to the accrual of potential tax liabilities (See notes 18 and 31 to the consolidated financial statements) and interest and penalties of USD 11 million associated with the framework agreement to resolve REC Silicon's commitment to contribute USD 169 million of equity capital to the JV (See note 33 to the consolidated financial statements).

Income Taxes

Income tax expense was USD 157.8 million in 2017 compared to a benefit of USD 100.7 million in 2016. Tax expense is primarily due to the impact of a write-down of the deferred tax asset of USD 134.7 million reported at December 31, 2016. In addition, the Company accrued income taxes of USD 26 million (NOK 214 million) due to the contents of a draft ruling issued by the Norwegian Central Tax Office (CTO) on June 30, 2017. See note 18 to the consolidated financial statements. The tax benefit in 2016 is primarily a result of taxable losses generated by operations in the United States.

Profit and Loss

The loss from total operations was USD 367.0 million in 2017 compared to a loss of USD 147.4 million in 2016.

Cash Flow

Net cash flows from operating activities were USD 38.8 million in 2017 compared to USD 3.8 million in 2016. Cash flows during 2017 were primarily a result of EBITDA of USD 19.8 million and a decrease in working capital of USD 31.4 million. Decreases in working capital consisted of a decrease in inventories of USD 22.6 million (1,606MT polysilicon inventory decrease), customer collections in excess of sales

of USD 5.1 million, and an increase in accounts payable of USD 3.6 million. In addition, the Group paid interest of USD 12.4 million.

Net cash outflows from investing activities was USD 2.8 million in 2017 compared to USD 14.5 million in 2016. Capital spending includes only the capital necessary to maintain safe and reliable operations. All expansion projects have been halted due to market conditions. As a result, capital expenditures were USD 2.6 million in 2017 compared to USD 14.5 million in 2016. The remaining USD 0.2 million cash outflow in 2017 was a result of increases in restricted cash balances.

There were no cash flows from financing activities during 2017. During 2016, an NOK denominated bond (REC02) matured and was extinguished with a payment of USD 21.2 million.

The net currency exchange effect on cash balances for 2017 resulted in a gain of USD 2.8 million due to the impact of a weaker USD on cash deposits in NOK. During 2016, the currency exchange effect resulted in a gain of USD 2.2 million due to a weaker USD relative to the NOK.

In total, cash balances increased by USD 38.8 million in 2017 to USD 104.5 million at December 31, 2017.

Balance Sheet and Liquidity

Shareholders' equity decreased to USD 448.9 million (56 percent equity ratio) at December 31, 2017 compared to USD 782.0 million (73 percent equity ratio) at December 31, 2016. This decrease was a primarily a result of the loss from operations of USD 367.0 million. In 2017, the loss from operations included tax expense of USD 157.8 million due to the write-down of deferred tax assets discussed in income taxes above (see note 18 to the consolidated financial statements) and additional depreciation associated with the derecognition of a grant receivable (see note 4.2 C to the consolidated financial statements). In

addition, other comprehensive income included net currency gains of USD 37.5 million offset by USD 3.6 million due to the remeasurement of defined benefit pension plans.

Net debt decreased by USD 18.3 million to USD 83.3 million at December 31, 2017 from USD 101.5 million at December 31, 2016. This decrease was primarily a result of the increase in cash balances of USD 38.8 million discussed above, USD 4.2 million increases to carrying values of NOK denominated debt due to a weaker USD, and USD 16.2 million expense due to fair value adjustments on the USD convertible bond. The remaining USD 0.1 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 85.4 million which represents a decrease of USD 34.9 million from USD 120.3 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 based on cost efficiency and industry leading product performance. REC Silicon's research and technology development activities are designed to enhance quality, improve efficiency, and reduce production costs of our products to add value to our customers and further enhance our competitive position.

Efforts related to REC Silicon's proprietary FBR technology focused on continuing to enhance fundamental scientific knowledge along with yield and efficiency improvements to aid in achieving lower cash production costs while improving product quality in the Moses Lake FBR facility. For the Siemens polysilicon products, the focus remained on producing the highest quality Float Zone and CZ semiconductor polysilicon products with greater efficiency and lower cost.

Efforts related to REC Silicon's Silane production technology focused on continued fundamental scientific development, enhanced analytical techniques, and efficiency geared toward lowering costs and producing the highest quality Silane and Silicon gas products and feedstock for polysilicon production.

Research and development expenditures were USD 4.0 million in 2017 compared to USD 5.5 million in 2016.

GOING CONCERN

On March 23, 2018, the Company announced that it had successfully completed a USD 110 million senior secured bond issue with a maturity date of April 13, 2023. The settlement date of this bond is expected to be April 13, 2018. This USD 110 million bond ensures the Company's ability to meet debt maturity obligations in 2018. See notes 17 and 33 to the consolidated financial statements.

Accordingly, 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.

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 2017, REC Silicon ASA had a negative EBIT of NOK 19.3 million compared to a negative EBIT of NOK 14.6 million in 2016. The Company reported a net loss before tax of NOK 2,370.4 million compared to a net loss of NOK 199.7 million in 2016. Net losses in 2017 included NOK 2,450.3 million due to the impairment of REC Silicon ASA's loan to its subsidiaries in the United States (NOK 492.2 million in 2016) and NOK 82.6 million due to the impairment of REC Silicon Pte Ltd. See note 31 to the consolidated financial statements and note M to the Financial Statements for REC Silicon ASA.

In addition, the net loss for 2017 included NOK 329.9 million related to USD denominated intercompany loans between the Company and its US subsidiaries (NOK 133.1 million loss in 2016), NOK 19.3 million of operating expense (NOK 14.6 million in 2016), and NOK 429.5 million in net interest income (NOK 440.6 million in 2016).

Total equity for the parent Company was NOK 4,514.0 million at December 31, 2017 compared to NOK 7,097.7 million at December 31, 2016. This decrease is a result of the net loss before tax of NOK 2,370.4 million discussed above and income tax expense of NOK 213.6 million. The remaining change can be attributed to employee share option programs.

Allocation of the Net Loss for the Parent Company

The Board proposes that the net loss for the year of NOK 2,583.9 million be allocated to other equity.

Organization

REC Silicon ASA had one employee at the end of 2017.

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 continues to be severely restricted by an import tariff imposed by the Chinese Ministry of Commerce (MOFCOM).

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

Liquidity Risk

On March 23, 2018, the Company announced that it had successfully completed a USD 110 million senior secured bond issue with a maturity date of April 13, 2023. The settlement date of this bond is expected to be April 13, 2018. This USD 110 million bond ensures the Company's ability to meet debt maturity obligations in 2018. See notes 17 and 33 to the consolidated financial statements.

Management's estimates of operating cash requirements for 2018 can be met from 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 2017 which is included in this Annual Report.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Sustainability is at the core of REC Silicon's business model, and the Company 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 Company 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 Company sets clear objectives, monitors performance regularly, reports results, and audits to ensure continuous improvement. The Company'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.

The production of silicon materials is energy intensive and varies based upon the mix of products manufactured. During 2017, polysilicon production at the Butte manufacturing facility declined by 21 percent. This decline is reflected in most of the environmental KPIs. Total energy consumption was reduced by 6 percent, with a corresponding 9 percent reduction in greenhouse gas emissions.

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 2017, the Company had a 2 percent decrease in total waste generation, with a reduction in recycled waste of 52 percent, a 7 percent decrease in non-hazardous waste, and a 49 percent increase in hazardous waste. Water use remained stable compared to 2016, while waste water discharge increased by 7 percent.

The Company registered four environmental permit breaches in 2017 compared to seven in 2016. There were no serious incidents or environmental releases in 2017.

Our Employees

Health and safety has the highest priority, and the Company 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 505 employees as of December 31, 2017, down from 560 in 2016. This decrease is due to workforce reduction and employee attrition primarily because 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 Company has an extensive set of HSE procedures that are regularly monitored, safety departments at each facility, and employee-driven processes that audit and further

	2017	2016	% CHANGE
Energy			
Direct energy consumption (GWh)	580	614	-5%
Electricity (GWh)	839	903	-7%
Total energy use (GWh)	1,419	1,517	-6%
CO2 emissions			
Direct emissions (tCO ₂ -eq)	118,805	125,579	-5%
Indirect emissions from electricity (tCO ₂ -eq)	263,270	294,969	-11%
Total CO2 emissions (tCO ₂ -eq)	382,075	420,548	-9%
Water			
Water consumption (million m ³ /yr)	2.5	2.5	-2%
Waste water discharge (million m ³ /yr)	1.5	1.4	7%
Waste			
Recycled waste (MT)	85	177	-52%
Non-hazardous waste (MT)	11,855	12,795	-7%
Hazardous waste (MT)	654	437	49%
Total waste (MT)	12,508	13,232	-5%
Other figures			
Total number of permit breaches	4	7	-43%

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 2017, employees performed 940 Safe Job Analyses and 1064 Hazard Recognition Audits. The Company saw significant improvements in its safety performance in 2017. The number of lost time injuries (LTI) decreased by 50 percent, from 6 in 2016 to 3 in 2017. In total, there were 13 recordable injuries in 2017, and minimal absence days from work-related injuries.

REC Silicon's 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 Company 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 Company's expectations, and provide examples of

unwelcome behavior and reporting and complaints procedures. Of the employees, 16 percent are women. In the management group, 25 percent are women, and 40 percent of the Board members are women.

Human Rights

REC Silicon's Code of Conduct states that the Company 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 Company'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 Company 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 Company'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 2017 the Company completed one on-site audit 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 2017 and no major issues were uncovered during the audit. For 2018, REC Silicon has one on-site audit 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 Company 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 2017.

Local Communities

REC Silicon and its employees together donated approximately USD 80 thousand to local communities, down from approximately USD 101 thousand in the previous year. REC Silicon's employees contributed 37 percent of the total and donated nearly USD 15 thousand in payroll deductions to United Way and over USD 16 thousand to the American Cancer Society. In 2017, REC Silicon's Moses Lake team received an award for the largest fundraising group for American Cancer Society's Relay for Life.

Employees also provided approximately 1,445 volunteer hours to programs and charitable organizations in 2017. 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 youth programs including Butte's Big Brothers and Big Sisters and Moses Lake High School Booster Club, while REC Silicon employees participated in on-site blood drives, as well as donated toys and food to local drives during the holidays.

OUTLOOK

Market Outlook

Global PV installations during 2018 are expected to increase by approximately 8 percent to 107GW according to GTM Market Demand

Tracker – February 1, 2018 compared to 2017. Other analysts anticipate stronger demand growth in 2018. In GTM's analysis, China remains the largest PV market, demand in China is expected to decline from 52GW in 2017 to 48GW in 2018. However, demand for PV in markets outside of China are expected to grow by 12GW. Solar grade polysilicon prices are expected to increase due to higher input costs, primarily metallurgical grade silicon, for all polysilicon manufacturers.

Polysilicon prices are expected to remain higher in China due to the ongoing trade war between China and the United States. Balance between polysilicon supply and demand is expected to result in relatively stable prices throughout 2018. However, seasonally lower first quarter 2018 demand may create some downward pricing pressure as wafer producers limit polysilicon purchases to avoid inventory increases and polysilicon producers offer price discounts to maintain volumes.

Semiconductor grade polysilicon markets are expected to improve during 2018 as long term fixed contracts expire and inventories decline as a result of high semiconductor capacity utilization. Successful qualifications of REC Silicon products are expected to translate into higher sales volumes during 2018.

Demand for silicon gases is expected to remain strong during 2018. Higher sales volumes into lower margin PV markets and competitive pressure are expected to result in slightly lower prices during 2018.

Production Targets

Production targets for 2018 as well as the actual 2017 production results are summarized in the table below.

POLYSILICON PRODUCTION VOLUME MT	2017 ACTUAL	2018 TARGET
Granular	9,379	9,760
Semiconductor Grade	844	870
Siemens Solar	1,412	700
Total	11,636	11,330
Silicon Gas Sales Volume (MT)	3,501	3,700

Polysilicon production targets for 2018 are estimated at approximately 11,330MT and continue to reflect the operation of the FBR facility in Moses Lake at approximately fifty percent capacity utilization throughout 2018. Sales of solar grade polysilicon are expected to be limited by production volumes and are expected to approximate market demand for REC Silicon's solar grade polysilicon products. FBR production will return to full capacity utilization when the trade war is resolved or when market conditions dictate.

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.

Silicon gas sales volumes are targeted at 3,700MT for 2018. Increased sales volumes of silicon gases are a result of anticipated demand growth in flat panel display and semiconductor markets.

Production and sales achieved during 2018 will be dependent on the development of market conditions and operational performance.

Cost Targets

REC Silicon targets FBR cash production costs of USD 11.7/kg for 2018. The increase in cash cost during 2018 is a result of an increase in metallurgical grade silicon prices. Cash cost targets continue to reflect successful initiatives to match cost and activity levels at reduced production capacity utilization. The Group will continue to operate 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	2017 ACTUAL	2018 TARGET
FBR Cash Cost (USD/kg)	\$10.6	\$11.7

Investment and Expansion

Capital expenditures for 2018 are expected to be approximately USD 4 million. Capital spending includes only the capital necessary to maintain safe and reliable operations. All expansion projects have been halted due to market conditions.

The Company will continue to defer and delay capital spending when possible while maintaining safe operating conditions in order to maintain liquidity.

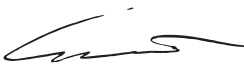
ADDITIONS TO PROPERTY, PLANT, AND EQUIPMENT (USD MILLIONS)	2017 ACTUAL	2018 TARGET
Maintenance Only	3	4

The Yulin JV started up the first silane unit in December 2017 and the facility was operating at 25 percent capacity at year end. The second silane unit and remaining FBR reactors will be started in the second quarter of 2018 and the facility is expected to reach full capacity utilization in the second half of 2018. Business targets for the JV in 2018 include 8,000MT of Polysilicon Production (Siemens and Granular) and demonstrating the facilities' capability to produce high purity EG grade polysilicon. Total investment costs are projected within the budget of USD 1.25 billion.

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, April 4, 2018
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, 2017.

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, 2017. 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, 2017. 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, 2017.

We confirm that, to the best of our knowledge:

- The financial statements for the Group and the Company for the year ending December 31, 2017 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, 2017, and
- The report from the Board of Directors for the year ending December 31, 2017 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, April 4, 2018
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, most recently revised on 30 October 2014.

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 2017. 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 behaviour 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 448.9 million on December 31, 2017, which represented 56 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, and no proposed dividend payments for the financial year 2017.

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, 2017, 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). As of December 31, 2017, the authorisation has not been used.
- Authority to increase the share capital (up to ten percent of the existing share capital). As of December 31, 2017, the authorisation has not been used.

These authorities are restricted to defined purposes and each mandate was considered separately. They are valid until the AGM in 2018 or no later than 15 months from the date of the 2017 AGM.

For further information about the mandates given to the Board, reference is made to the minutes from REC Silicon's 2017 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 2017.

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 2017 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 Stock Exchange. All shares are without any restrictions and are freely tradable.

6. GENERAL MEETINGS

The General Meeting is the Company's highest authority. All shareholders registered in the VPS 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. There were no Extraordinary General Meetings in 2017.

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 was held on 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 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 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. In order to exercise rights to attend and vote at the General Meeting, shares must be registered in the Central Securities Depository (VPS) by the fifth business day prior to the General Meeting.

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) (re-elected in 2016), Ms. Live Haukvik Aker (re-elected in 2017), and Mr. Ole Jacob Ræstad (elected in 2017). Mr. Ole Jacob Ræstad currently holds the positions as CEO of Umoe Gas Carriers AS and CFO of Knutsen OAS Shipping, both related to the Company's largest shareholder, the Umoe Group. 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, of which up to eight are elected by the shareholders. Board members elected by the shareholders are elected for a term of one year. At December 31, 2017, the Board consisted of five directors.

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. All 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 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 ten board meetings in 2017.

MEMBERS OF BOARD OF DIRECTORS	POSITION	BOARD MEMBER SINCE	UP FOR ELECTION	PARTICIPATION AT BOARD MEETINGS IN 2017
Jens Ulltveit-Moe	Chairman	2013	2018	9 of 10
Ragnhild Wiborg	Board member	2013	2018	9 of 10
Espen Klitzing	Board member	2013	2018	10 of 10
Inger Berg Ørstavik	Board member	2013	2018	10 of 10
Terje Osmundsen	Board member	2016	2018	9 of 10

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 evaluation is normally conducted every second year, depending on changes in the composition of the Board. Since there were no changes in the composition of the Board in 2017, the Board did not consider it necessary to conduct a new evaluation in 2017.

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 whistle-blower 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 7 meetings in 2017 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 group 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.

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 2017, the Compensation Committee met 3 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 Anticorruption 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 2017. 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) which are available on the company's website.

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 2017, 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 (IR) is available on a limited basis to provide material previously released and to facilitate the collection and distribution of consensus forecasts.

The Investor Relations 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 defence mechanism to prevent take-over bids. The Board is open to initiatives that are commercially and financially attractive for the shareholders. The Board will assess potential offers in accordance with applicable legislation and Code of Practice 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. Take-over bids are usually specific, one-off, events which makes preparation of guidelines challenging. In the event of a take-over process, the Board will ensure that the Company's shareholders are treated equally, and that the company's activities are not unnecessarily interrupted. The Board will further seek to comply with the relevant recommendations from the Code of Practice.

15. AUDITOR

The Company's external auditor, KPMG, is elected by the AGM and is regarded as independent from the Company.

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. These guidelines include a list of services that are pre-approved for fees up to NOK 500,000 and requires audit committee approval for all other non-audit services or if fees are more than NOK 500,000.

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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REC SILICON ASA

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

REC SILICON GROUP


(USD IN MILLION)	NOTES	2017	2016
ASSETS			
Non-current assets			
Intangible assets	6	15.7	17.3
Land and buildings	6	50.5	51.7
Machinery and production equipment	6	416.7	460.7
Other tangible assets	6	12.0	13.2
Assets under construction	6	61.1	69.7
Property, plant and equipment	6	540.3	595.2
Government grant assets	12, 21	0.0	89.7
Other non-current receivables	12	3.8	3.8
Deferred tax assets	18	0.0	134.7
Total non-current assets		559.8	840.7
Current assets			
Inventories	13	82.9	104.1
Trade and other receivables	12	48.6	55.3
Current tax assets	18	0.0	0.6
Restricted bank accounts	14	4.4	4.0
Cash and cash equivalents	14	104.5	65.8
Total current assets		240.4	229.8
Total assets		800.2	1,070.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

REC SILICON GROUP

(USD IN MILLION)	NOTES	2017	2016
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid-in capital		3,158.0	3,158.0
Other equity and retained earnings		-2,709.1	-2,376.0
Total shareholders' equity		448.9	782.0
Non-current liabilities			
Retirement benefit obligations	19	20.1	18.1
Deferred tax liabilities	18	0.4	4.5
Investments in Associates	8	34.7	35.7
Non-current financial liabilities, interest bearing	17	0.0	144.1
Non-current prepayments, interest calculation	20	5.5	5.9
Other non-current liabilities, not interest bearing	20	8.8	0.2
Total non-current liabilities		69.6	208.6
Current liabilities			
Trade payables and other liabilities	20	62.9	53.8
Provisions	20	0.3	0.0
Current tax liabilities	18	26.0	0.0
Derivatives	11	1.5	1.5
Current financial liabilities, interest bearing	17	187.8	23.1
Current prepayments, interest calculation	20	3.1	1.6
Total current liabilities		281.7	80.0
Total liabilities		351.3	288.6
Total equity and liabilities		800.2	1,070.6

Fornebu, April 4, 2018
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	2017	2016
Revenues	5	272.4	271.2
Cost of materials		-54.3	-60.0
Changes in inventories		-18.2	-29.0
Employee benefit expenses	24	-73.9	-74.6
Other operating expenses	22	-106.2	-140.3
Other income and expenses	23	-0.1	2.0
EBITDA ¹⁾		19.8	-30.8
Depreciation	6	-145.2	-90.3
Amortization	6	-1.8	-1.9
Impairment	6, 7	-0.3	-93.1
Total depreciation, amortization and impairment		-147.3	-185.3
EBIT ²⁾		-127.5	-216.0
Share of profit/loss of investments in associates	8	-1.8	-2.9
Financial income	25	0.6	1.7
Net financial expenses	25	-30.2	-13.5
Net currency gains/losses	25	-34.1	-13.5
Fair value adjustment convertible bonds	25	-16.2	-3.9
Net financial items		-79.9	-29.2
Profit/loss before tax		-209.2	-248.1
Income tax expense/benefit	18	-157.8	100.7
Profit/loss		-367.0	-147.4
Attributable to:			
Owners of REC Silicon ASA		-367.0	-147.4
Earnings per share (In USD)			
-basic	26	-0.14	-0.06
-diluted		-0.14	-0.06

¹⁾ EBITDA - EBIT excluding depreciation, amortization and impairment.

²⁾ EBIT - Profit/loss from total operations excluding income tax expense/benefit, net financial items, and share of profit/loss from investments in associates.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

REC SILICON GROUP

(USD IN MILLION)	2017	2016
Profit/loss	-367.0	-147.4
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit plans	-3.6	-0.9
Currency translation effects	43.6	17.1
Sum items that will not be reclassified to profit or loss	40.0	16.2
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences		
- taken to equity	-6.1	-7.9
Sum items that may be reclassified subsequently to profit or loss	-6.1	-7.9
Total other comprehensive income	33.9	8.2
Total comprehensive income	-333.1	-139.1
Total comprehensive income attributable to:		
Owners of REC Silicon ASA	-333.1	-139.1

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 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
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
Year 2017							
At January 1, 2017	405.3	2,710.9	41.8	3,158.0	174.3	-2,550.3	782.0
Equity share option plan	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	-333.1	-333.1
At December 31, 2017	405.3	2,710.9	41.8	3,158.0	174.3	-2,883.4	448.9

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 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
Year 2017				
Accumulated at January 1, 2017	29.8	20.9	-2,600.9	-2,550.2
Profit/loss from total operations	0.0	0.0	-367.0	-367.0
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plans	0.0	0.0	-3.6	-3.6
Currency translation effects	0.0	0.0	43.6	43.6
Sum items that will not be reclassified to profit or loss	0.0	0.0	40.0	40.0
Items that may be reclassified to profit or loss:				
Currency translation differences taken to equity	-7.7	0.0	0.0	-7.7
Tax on currency translation differences taken to equity	1.5	0.0	0.0	1.5
Sum items that may be reclassified to profit or loss	-6.1	0.0	0.0	-6.1
Total other comprehensive income for the period	-6.1	0.0	40.0	33.9
Total comprehensive income for the period	-6.1	0.0	-327.0	-333.1
Accumulated at December 31, 2017	23.7	20.9	-2,927.9	-2,883.3

CONSOLIDATED STATEMENT OF CASH FLOWS

TOTAL OPERATIONS

REC SILICON GROUP

(USD IN MILLION)	NOTES	2017	2016
Cash flows from operating activities			
Profit/loss before tax from total operations ¹⁾		-209.2	-248.1
Income taxes paid/received	18	0.6	0.0
Depreciation, amortization and impairment	6, 7	147.3	185.3
Fair value adjustment convertible bond	25	16.2	3.9
Equity accounted investments, impairment financial assets, gains/losses on sale	8	1.8	2.9
Gains/losses on disposal of discontinued operations	9	0.0	0.0
Changes in receivables, prepayments from customers etc.	12	5.9	15.3
Changes in inventories	13	22.6	37.4
Changes in payables, accrued and prepaid expenses	20	18.6	-12.8
Changes in provisions	20	0.3	0.0
Changes in VAT and other public taxes and duties	20	1.0	0.0
Currency effects not cash flow or not related to operating activities ²⁾	25	33.6	13.2
Other items ³⁾		0.1	6.8
Net cash flow from operating activities		38.8	3.8
Cash flows from investing activities			
Proceeds from finance receivables and restricted cash	14	0.0	0.3
Payments finance receivables and restricted cash	14	-0.2	-0.2
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	-2.6	-14.5
Net cash flow from investing activities		-2.8	-14.4
Cash flows from financing activities			
Increase in equity	15	0.0	0.0
Payments of borrowings and up-front/waiver loan fees	17	0.0	-21.2
Net cash flow from financing activities		0.0	-21.2
Effect on cash and cash equivalents of changes in foreign exchange rates	25	2.8	2.2
Net increase/decrease in cash and cash equivalents		38.8	-29.7
Cash and cash equivalents at the beginning of the period		65.8	95.4
Cash and cash equivalents at the end of the period		104.5	65.8
¹⁾ PROFIT/LOSS BEFORE TAX FROM TOTAL OPERATIONS INCLUDES			
Interest Paid		-12.3	-13.3
Interest Received		0.6	1.4

²⁾ Net currency loss/gain in 2017 and 2016 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.

The 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 April 4, 2018 and are subject to approval by the Annual General Meeting scheduled for April 26, 2018.

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, 2017 and 2016 the Group did not hold any instruments accounted for as net investment hedges. At December 31, 2017 and 2016, 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, 2017 and 2016 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, 2017 and 2016, the Group had no available-for-sale financial assets and no held-to-maturity financial assets.

For the years ended December 31, 2017 and 2016, 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.

Re-measurements 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, 2017. The most relevant of these are:

IAS 12, 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 assessed the impact of the new amendments and determined that there is no change to current policies. The Group adopted the amended standards as of the effective date.

New standards and interpretations not yet adopted

New standards, amendments to standards, and interpretations have been published, but are not effective at December 31, 2017 and have not been applied in preparing these financial statements. The most relevant of these are:

IFRS 9, issued July 2014 and effective for annual periods after January 2018, presents revised guidance on the classification and measurement of financial instruments. The Group completed an analysis to classify financial instruments in accordance with the requirements of IFRS 9. The analysis of assets, including customer accounts receivable, determined that the current provision for loss on trade receivables is consistent with the credit losses estimated using the requirements outlined in IFRS 9. Additional analysis of liabilities concluded that changes in fair value associated with the fixed rate convertible bond should be reported as a component of other comprehensive income (OCI) instead of fair value through profit and loss (FVTPL). REC Silicon estimates that the effects of this change will not be material and will restate for 2017 in 2018. Upon completion of review it was determined that all other financial instruments are unaffected by the implementation of IFRS 9. The Group will 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 which an entity expects to be entitled to in exchange for goods or services to a customer. The new revenue standard, which is applicable to all entities and will supersede all current revenue recognition requirements under IFRS, applies to periods beginning January 1, 2018. The Group has reviewed all current contracts to identify relevant transaction types as well as prior contracts for transactions the Company may potentially enter in the future. Contracts reviewed include spot buy purchase orders, orders requiring prepayment, bill and hold and framework agreements including structured, tiered and take or pay. For each transaction listed, the application of the five-step model was applied to determine revenue recognition requirements and the compliance of Company policies. The Group has concluded that current accounting practices adhere to the requirements of IFRS 15 and that no changes are required to reach compliance. The Group will adopt the new standard as of the effective date.

IFRS 16, issued 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.

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, 2017, 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, 2017 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).

On March 23, 2018, the Company announced that it had successfully completed a USD 110 million senior secured bond issue with a maturity date of April 13, 2023. The settlement date of this bond is expected to be April 13, 2018. This USD 110 million bond ensures the Company's ability to meet debt maturity obligations in 2018. See notes 17 and 33 to the consolidated financial statements.

Management's estimates of operating cash requirements for 2018 can be met from working capital and cash flows generated by operations. See Note 31 Claims, Disputes, Contingent Liabilities and Contingent Assets.

Accordingly, 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.

(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 an indemnification loan.

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 2017 and 2016, 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 REC Silicon ASA'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.

(D) Cash-generating units for impairment testing

For the 2017 and 2016 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.

During the third quarter of 2017, the government grant receivable was derecognized due to the uncertainty of future taxable profits from operations in the United States because of the ongoing solar trade between China and the United States. Because the grant was related to the construction of the FBR and Silane plants in Moses Lake, the value of the grant was used to offset the cost of construction and depreciated with property, plant, and equipment.

The derecognition of the AEMTC grant resulted in an increase in depreciation of USD 65.7M and a net increase in property, plant, and equipment of USD 24.1 million. In addition, the government grant receivable decreased from USD 89.7 million at December 31, 2016 to zero at December 31, 2017.

The Advanced Energy Manufacturing Tax Credit (AEMTC) can be carried forward for 20 years and will continue to be available to offset income tax on operations in the United States through the year 2029.

See notes 2.21, 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).

(D) 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)	2017	%	2016	%
Customer 1	81.3	29.8%	47.5	18.1%
Customer 2	49.4	18.1%	44.2	16.8%

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

(USD IN MILLION)	2017	%	2016	%
Taiwan	120.2	44.1%	116.7	43.0%
China	65.0	23.9%	41.9	15.4%
South Korea	28.9	10.6%	38.4	14.2%
USA	21.5	7.9%	17.7	6.5%
Japan	14.8	5.4%	32.8	12.1%
Europe	13.2	4.8%	8.1	3.0%
Singapore	5.8	2.1%	5.9	2.2%
Other Asia	1.6	0.6%	3.1	1.1%
Hong Kong	1.1	0.4%	5.8	2.1%
Other countries	0.2	0.1%	0.8	0.3%
Total external revenues	272.4	100.0%	271.2	100.0%

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

Revenues by category

(USD IN MILLION)	2017	%	2016	%
Polysilicon	170.9	62.7%	183.5	67.7%
Silane gas	96.3	35.4%	78.9	29.1%
Other	5.2	1.9%	8.8	3.2%
Total revenues	272.4	100.0%	271.2	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, 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
Carrying value at January 1, 2017	51.7	460.7	13.2	69.7	595.2
Net additions ¹⁾	0.2	8.8	0.5	-8.4	1.1
Government grant ²⁾	3.8	83.0	2.7	0.0	89.5
Disposals	0.0	0.0	0.0	0.0	0.0
Depreciation and amortization	-5.1	-135.8	-4.3	0.0	-145.2
Impairment ³⁾	0.0	-0.2	0.0	-0.2	-0.3
Carrying value at December 31, 2017	50.5	416.7	12.0	61.1	540.3
At December 31, 2017					
Historical cost	148.2	2,135.9	80.7	66.1	2,430.9
Accumulated depreciation/amortization/impairment	-97.7	-1,719.3	-68.7	-5.0	-1,890.6
Carrying value at December 31, 2017	50.5	416.7	12.0	61.1	540.3

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 2017, estimated useful lives by asset class were as follows:

- Land and Buildings 0-31.5 years (weighted average approximately 17 years)
- Machinery and equipment 3-32 years (weighted average approximately 6.5 years)
- Other tangible fixed assets (weighted average approximately 5 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 2017 and 2016 resulted in only minor changes.

Intangible assets

(USD IN MILLION)	ASSETS UNDER DEVELOPMENT	OTHER	TOTAL
Carrying value at January 1, 2016	13.3	8.6	21.9
Internal Development	-0.2	0.0	-0.2
Government grant 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
Carrying value at January 1, 2017	11.7	5.6	17.3
Internal Development	-0.2	0.0	-0.2
Government grants ¹⁾	0.0	0.3	0.3
Amortization	0.0	-1.8	-1.8
Impairment ²⁾	0.0	0.0	0.0
Carrying value at December 31, 2017	11.5	4.1	15.7
At December 31, 2017			
Historical cost	13.0	67.0	80.0
Accumulated amortization/impairment	-1.5	-62.9	-64.4
Carrying value at December 31, 2017	11.5	4.1	15.7

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 (3-5 years) and FBR technology in REC Silicon (20 years).

Reviews of estimated useful lives of intangible assets for 2017 and 2016 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).

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.

At the end of 2017, the group concluded that the value of the Company's market capitalization, the continued impact of the trade war between China and the United States, and the Company's history of net losses could give rise to a change in impairment and impairment testing was performed. The resulting value in use was estimated to approximate the carrying value of REC Silicon. Accordingly, no additional impairment or reversal of impairment was recognized during 2017. During 2017, impairment charges of USD 0.3 million represented assets that were 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 (CGU) at December 31, 2017 and December 31, 2016.

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, 2017 and 2016 are reflected in the table below:

Discount rates (%)

	2017		2016	
	POST-TAX	PRE-TAX	POST-TAX	PRE-TAX
REC Silicon (USD)	12.9	15.2	12.4	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 2018.

Estimates of future cash flows include the assumption that market conditions will support the restart of idled capacity in 2019. If the impact of the trade war continues and idled capacity is not restarted during 2019, 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, 2017 impairment analysis.

KEY ASSUMPTION (USD IN MILLION)	CHANGE	ESTIMATED CHANGE IN IMPAIRMENT
Post-tax discount rate	+/-1% point	-53.9/+63.5
Sales prices	+/-2%	+/-76.0
Volume (production and sales)	+/-2%	+/-50.4
Spending	+/-2%	+/-31.7

8 EQUITY ACCOUNTED INVESTMENTS (ASSOCIATES AND JOINT VENTURES)

The Group entered into a joint arrangement in China; Shaanxi Non-Ferrous Tian Hong REC Silicon Materials Co., Ltd. (Yulin JV) in 2014 granting The Group 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 agreed to contribute additional equity to the joint venture of USD 15 million and USD 154 million in July 2017 which is not included in the table below.

Subsequent to the date of these financial statements, REC Silicon entered into an agreement which resolved its capital contribution commitments to the Yulin JV (see note 33).

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

(USD IN MILLION)	2017	2016
Carrying value at January 1	-35.7	-28.5
Equity contributions	0.0	0.0
Amortization of basis difference in technology contributed	0.0	0.0
Share of joint venture profit/loss	-1.8	-2.9
Deferred income/expense	-1.2	0.0
Effects of changes in currency exchange rates	4.0	-4.3
Carrying value at December 31	-34.7	-35.7

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, 2017 and 2016:

(USD IN MILLION)	2017	2016
Non-current assets	1,060.6	704.0
Other Current assets	32.2	56.9
Cash and cash equivalents	1.0	4.0
Non-current liabilities	-552.5	-313.2
Current liabilities	-236.2	-162.2
Net Assets (100%)	305.1	289.5
REC Silicon's share of net assets	63.6	61.3
Deferred income/expense	-1.2	0.0
Adjusted for technology transfer	-97.0	-97.0
Carrying amount of REC's interest	-34.7	-35.7

9 DISCONTINUED OPERATIONS

There was no income or expense related to discontinued operations in 2017.

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, 2017 and 2016 Jens Ulltveit-Moe controlled 24.68 percent of the shares, primarily through UMOE AS (see note 15).

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 7.9 million USD in 2017 and USD 7.8 million in 2016 for engineering and project services. In addition, REC Silicon sold product to the JV for USD 2.9 million in 2017. REC Silicon has accrued interest expense of USD 0.7 million in 2017 in relation to the deferred payment of the USD 15 million contribution due July 2016.

11 DERIVATIVE FINANCIAL INSTRUMENTS

Fair values and carrying amounts

(USD IN MILLION)	2017		2016	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Option contract	0.0	1.5	0.0	1.5
Total	0.0	1.5	0.0	1.5

Derivatives consist of an option contract which is a part of the indemnification agreement associated with the REC Wafer bankruptcy.

Distribution of derivatives

(USD IN MILLION)	2017		2016	
	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	1.5
Total derivatives	0.0	1.5	0.0	1.5

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

12 RECEIVABLES

Trade and other receivables

(USD IN MILLION)	2017	2016
Trade receivables and accrued revenues	52.6	64.7
Provision for loss on trade receivables	-11.8	-20.2
Trade receivables - net	40.8	44.5
Prepaid costs	7.5	9.5
VAT and other public taxes and duties receivables	0.0	0.0
Government grants current receivables	0.0	0.0
Other current receivables	0.3	1.3
Total Trade and other receivables	48.6	55.3

Specification of provision for loss on receivables

(USD IN MILLION)	2017	2016
At January 1	-20.2	-18.7
Change in provision for loss	5.3	-1.5
Realized losses on trade receivables	3.1	0.0
At December 31	-11.8	-20.2

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)	2017			2016		
	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS
Stock of raw materials	9.8	0.0	9.8	14.1	0.0	14.1
Spare parts	42.8	-16.2	26.6	41.5	-13.9	27.6
Work in progress	12.2	-0.8	11.4	10.1	-1.4	8.7
Finished goods	51.1	-16.1	35.1	84.1	-30.3	53.8
Total	116.0	-33.1	82.9	149.8	-45.7	104.1

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)	2017	2016
Restricted bank accounts non-current	0.0	0.0
Restricted bank accounts current	4.4	4.0
Total restricted bank accounts	4.4	4.0

At December 31, 2017, restricted bank accounts consisted of USD 3.8 million security for the indemnification loan, USD 0.2 million security for bank guarantees for REC Solar (a former subsidiary of the Company) and restricted cash for REC Silicon US of USD 0.4 million.

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).

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		2017		2016	
		NO. OF SHARES	OWNERSHIP	NO. OF SHARES	OWNERSHIP
UMOE AS ¹⁾		627,701,902	24.68%	627,701,902	24.68%
UBS AG	Nominee	116,673,927	4.59%	86,464,715	3.40%
FOLKETRYGDFONDET		105,432,618	4.14%	104,617,618	4.11%
VERDIPAPIRFONDET DNB TEKNOLOGI		86,426,153	3.40%	42,393,251	1.67%
THE BANK OF NEW YORK MELLON N.V.	Nominee	49,307,862	1.94%	27,181,912	1.07%
VERDIPAPIRFONDET DNB NORGE (IV)		45,671,733	1.80%	32,542,258	1.28%
SKANDINAVISKA ENSKILDA BANKEN AB		44,361,032	1.74%	53,996,424	2.12%
CACEIS BANK	Nominee	40,754,615	1.60%	16,336,141	0.64%
SKANDINAVISKA ENSKILDA BANKEN AB	Nominee	37,886,230	1.49%	13,349,629	0.52%
DNB NOR MARKETS, AKSJEHAND/ ANALYSE		26,653,249	1.05%	4,974,270	0.20%
STATE STREET BANK AND TRUST COMP	Nominee	11,599,377	0.46%	33,571,675	1.32%
CLEARSTREAM BANKING S.A.	Nominee	9,692,997	0.38%	27,813,322	1.09%
DNB LIVSFORSIKRING ASA		1,566,936	0.06%	27,613,778	1.09%
MORGAN STANLEY & CO. INTERNATIONAL	Nominee	148,090	0.01%	40,545,251	1.59%
DEUTSCHE BANK AG	Nominee	0	0.00%	39,294,647	1.54%
SWEDBANK GENERATOR		0	0.00%	28,000,000	1.10%
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, 2017 and 2016, respectively. Also includes 35.5 million shares held by Kagra Gruppen AS.

The list of shareholdings above is based on the VPS shareholder register at December 31, 2017 and 2016. Actual shareholding may deviate due to the use of nominee accounts, share lending, forward contracts or other contractual arrangements.

At December 31, 2017, REC Silicon ASA had 23,922 shareholders (26,339 at December 31, 2016). The total number of outstanding shares was 2,543,818,785 at December 31, 2017 and 2016, each with a par value of NOK 1.

At the Annual General Meeting on May 3, 2017, the Board was authorized to increase the share capital with up to NOK 254,000,000, which was approximately 10 percent 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 2018 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 2017 and 2016 are described below. With regard to the determination of salary and other compensation for leading employees for 2018, the Board of Directors will propose guidelines at the 2018 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.

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 12.5 percent to 17.5 percent of yearly fixed base salary. Maximum performance bonus payouts for REC Silicon management varies between 40 percent and 100 percent of the yearly fixed base salary.

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 Board of Directors also wish to implement a synthetic incentive program in 2018 whereby employees' 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 are 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 percent. 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 2017

(AMOUNTS IN USD)

NAME	BASE SALARY	BONUS EARNED AND MAX %	SHARE BASED PAYMENT	PENSION BENEFITS	OTHER TAXABLE BENEFITS
Tore Torvund President and CEO	784,125	655,372 100%	61,749	99,976	211,665
James A. May II CFO	269,774	106,291 40%	13,044	17,978	16,405
Katherine Schultz Executive Legal Officer (To November 3, 2017)	187,655	0 40%	(9,718)	13,136	58,263
Total 2017	1,241,554	627,504	65,075	131,090	286,333

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

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, 2017 and 2016, 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.

Compensation of the Board of Directors paid in 2017

(AMOUNTS IN USD)

NAME	BOARD COMPENSATION	COMPENSATION FOR COMMITTEES
Jens Ullveit-Moe	60,510	0
Espen Klitzing	36,306	6,051
Ragnhild Wiborg	36,306	6,051
Inger Berg Ørstavik	36,306	6,051
Terje Osmundsen	36,306	6,051
Total period May 3, 2016 – May 3, 2017	205,736	23,812

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 Ørstavik Berg	35,720	5,953
Erik Løkke-Øvre	35,720	5,953
Total period May 6, 2015 – May 3, 2016	202,413	23,812

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, 2017 and 2016 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, 2017 or 2016.

NAME	OPTIONS		SHARES	
	2017	2016	2017	2016
Tore Tovund	7,227,613	4,236,177	1,331,486	931,486
James A. May II	1,722,585	1,215,670	2,242,043	2,242,043
Katherine Schultz	NA	670,524	NA	0
Jens Ulltveit-Moe	0	0	627,701,902	627,701,902
Espen Klitzing	0	0	450,000	450,000
Ragnhild Wiborg	0	0	10,000	10,000
Terje Osmundsen	0	0	515,000	515,000

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

Details of options outstanding at December 31, 2017

NAME	TOTAL NUMBER	2017 PROGRAM		2016 PROGRAM		2015 PROGRAM		2014 PROGRAM	
		NUMBER	STRIKE PRICE (NOK)	NUMBER	STRIKE PRICE (NOK)	NUMBER	STRIKE PRICE (NOK)	NUMBER	STRIKE PRICE (NOK)
Tore Torvund	7,227,613	3,500,000	1.19	1,220,478	1.92	1,226,515	2.30	1,280,620	3.50
James A. May II	1,722,585	506,915	1.19	406,418	1.92	408,428	2.30	400,824	3.50

REC bonds

At December 31, 2017 and 2016 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)	2017	2016
Non-current financial liabilities, interest bearing		
NOK Bond	0.0	52.3
Up-front loan fees etc ¹⁾	0.0	0.0
USD Convertible bond	0.0	91.8
Total non-current financial liabilities, interest bearing	0.0	144.1
Current financial liabilities, interest bearing		
Indemnification Loan (NOK)	24.4	23.2
NOK Bond	55.4	0.0
Up-front loan fees etc ¹⁾	0.0	-0.1
USD Convertible bond	108.1	0.0
Total current financial liabilities, interest bearing	187.8	23.1

¹⁾ Amortized as part of effective interest.

Movements in borrowing

(USD IN MILLION)	USD CONVERTIBLE BOND	NOK BONDS	INDEMNIFICATION LOAN	UNAMORTIZED UPFRONT FEES, NOK BONDS	TOTAL
Balance at January 1, 2017	91.8	52.3	23.2	-0.1	167.2
Change in unamortized upfront fee NOK Bonds	0.0	0.0	0.0	0.1	0.1
Change in amortized interest	0.0	0.9	0.0	0.0	0.9
Change in fair value hedge	0.0	-0.5	0.0	0.0	-0.5
Change in fair value	16.2	0.0	0.0	0.0	16.2
Effect of changes in foreign exchange rates	0.0	2.7	1.2	0.0	3.9
Balance at December 31, 2017	108.1	55.4	24.4	0.0	187.8

The indemnification loan is related to the bankruptcy of a former subsidiary in 2012. At December 31, 2017, the indemnification loan is NOK 200 million (USD 24.4 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 percent. 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 the second half of 2018.

At December 31, 2017, none of the interest-bearing liabilities contain financial covenants. However, there are cross default clauses between all the loan agreements above certain threshold amounts.

The Company holds NOK 457.4 million of its own REC03 bonds. There were no debt maturities during 2017.

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, 2017 and 2016, 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, 2017		MATURITY ANALYSIS - CONTRACTUAL PAYMENTS TO BE MADE				
(USD IN MILLION)	CARRYING AMOUNT	TOTAL	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Unamortized upfront fees (NOK)	0.0					
NOK Bonds (NOK)	55.4	55.4	0.0	55.4	0.0	0.0
USD Convertible Bond (USD)	108.1	115.4	1.8	1.8	111.8	0.0
Indemnification Loan (NOK)	24.4	24.4	0.0	0.0	0.0	0.0
Total	187.8	195.1	1.8	57.2	111.8	0.0

AT DECEMBER 31, 2016		MATURITY ANALYSIS - CONTRACTUAL PAYMENTS TO BE MADE			
(USD IN MILLION)	CARRYING AMOUNT	TOTAL	2017	2018	
Unamortized upfront fees (NOK)	-0.1				
NOK Bonds (NOK)	52.3	63.2	5.2	58.0	
USD Convertible Bond (USD)	91.8	122.5	7.2	115.4	
Indemnification Loan (NOK)	23.2	23.2	0.0	23.2	
Total	167.3	208.9	12.3	196.6	

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, 2017 and 2016. All cash flows are undiscounted. Amounts in other currencies than USD are translated at the exchange rates at December 31, 2017 and 2016, respectively.

The nominal interest rates and currency distribution (notional amounts) at December 31, 2017 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, 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 loan	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)	2017	2016
Current income tax expense (-) / benefit (+) ¹⁾	-25.8	0.6
Deferred tax expense (-) / benefit (+)	-132.0	100.1
Total income tax expense (-) / benefit (+) in the statement of income	-157.8	100.7

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

(USD IN MILLION)	2017	2016
Profit/loss before tax from continuing operations	-209.2	-248.1
Tax calculated at domestic tax rates applicable to profits / losses in the respective countries	72.6	91.7
Effects of changes in tax rates and use of another tax rate for parts of profits / losses	-90.7	-12.6
Associated companies	-0.3	-0.5
Expenses not deductible for tax purposes	-1.9	-0.1
Effects of not recognized deferred tax assets, including reversal of previous years	-109.7	21.2
Tax losses, tax credits + temp diff for which no def tax has been rec. this year	-1.9	1.1
Changes in estimates of prior years income taxes	-25.8	0.0
Total income tax expense (-) / benefit (+) in the statement of income	-157.8	100.8
Effective tax rate	-75%	41%

¹⁾ Current income tax expense in 2017 is related to changes in estimates of prior years income taxes in REC Silicon ASA. See note 31 for further information.

Deferred tax expense in 2017 is primarily related to the change in income tax rate for calculation on deferred tax asset and liabilities and the derecognition of deferred assets in the United States (US).

The tax benefit in 2016 is primarily related to losses in REC Silicon in the US.

The income tax calculation for the Group is primarily based on corporate income tax rates of 35 percent in the US and 24 percent in Norway. According to the tax legislation in US the federal tax will decrease from 35 percent to 21 percent in 2018. In Norway, the tax will decrease from 24 percent to 23 percent in 2018.

Income tax for REC Silicon in the US is based on nominal 35 percent federal tax rate plus estimated blended state taxes. The effective tax rate for REC Silicon in the US was minus 48 percent in 2017 and 36.0 percent in 2016.

Income tax assets and liabilities in the statement of financial position

(USD IN MILLION)	2017	2016
Current tax assets	0.0	0.6
Current tax liabilities	26.0	0.0
Net current tax assets (+) / liabilities (-)	-26.0	0.6
Deferred tax assets	0.0	134.7
Deferred tax liabilities	0.4	4.5
Net deferred tax assets (+) / liabilities (-)	-0.4	130.2

Current tax liabilities for 2017 of USD 26 million is related to the change in estimates for prior years' income taxes in REC Silicon ASA.

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

(USD IN MILLION)	2017	2016
Deferred tax assets		
Deferred tax asset to be recovered after 12 months	47.8	191.6
Deferred tax asset to be recovered within 12 months	6.0	6.1
Offset deferred tax assets and liabilities	-53.8	-63.0
Total	0.0	134.7
Deferred tax liabilities		
Deferred tax liability to be settled after 12 months	54.2	67.5
Deferred tax liability to be settled within 12 months	0.0	0.0
Offset deferred tax assets and liabilities	-53.8	-63.0
Total	0.4	4.5
Net deferred tax liabilities(-)/assets(+)	-0.4	130.2

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 2017

(USD IN MILLION)	BALANCE JAN 1, 2017	RECOGNIZED IN INCOME	RECOGNIZED IN OCI/EQUITY	TRANSLATION DIFFERENCE	BALANCE DEC 31, 2017
Total non current assets	-171.9	123.5	0.0	-3.0	-51.4
Total current assets	-1.0	1.0	0.0	0.0	0.0
Total non current liabilities	-6.1	4.4	0.0	1.3	-0.4
Total current liabilities	29.4	-23.7	0.0	0.3	6.0
Tax losses and tax credits carry-forward recognized ¹⁾	279.9	-237.1	0.0	2.7	45.4
Total	130.2	-132.0	0.0	1.3	-0.4

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

(USD IN MILLION)	BALANCE JAN 1, 2017	RECOGNIZED IN INCOME	RECOGNIZED IN OCI/EQUITY	TRANSLATION DIFFERENCE	BALANCE DEC 31, 2017
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

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, 2017 related to REC Silicon in the USA were USD 0.0 million and USD 45.4 million related to REC Silicon ASA. The change in the USA is primarily due to the derecognition of deferred tax asset.

Accumulated income taxes recognized to equity at December 31

(USD IN MILLION)	2017	2016
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	12.6	12.3
Total deferred tax	-39.7	-40.0
Current tax - effect of costs for capital increase	13.1	13.1
Total	-26.6	-26.9

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

(USD IN MILLION)	2017	2016
Total non current assets	-63.2	2.6
Total current assets	-0.7	0.0
Total non current liabilities	27.8	0.0
Total current liabilities	15.9	0.0
Tax losses carry forward	422.7	293.0
Total	402.5	295.6

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

(USD IN MILLION)	2017	2016
REC Silicon ASA (Norway)	94.9	97.5
REC Solar AS (Norway)	199.4	198.0
REC Silicon US operations	106.3	0.0
Other	1.9	0.0
Total	402.5	295.6

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. Due to requirements in IAS 12 for convincing evidence of the available of future taxable income to offset prior tax losses the deferred assets have been derecognized in 2017.

For REC Silicon in Norway, tax losses carried forward and other deferred tax assets have not been 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.

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, 2017 and 2016. 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	
	2017	2016
Gross retirement benefit obligations at January 1	39.7	38.9
Interest cost on pension obligations	1.5	1.6
Remeasurements recognized through OCI	3.0	0.8
Benefits paid, paid-up policies and disability obligation	-1.6	-1.6
Gross retirement benefit obligations at December 31	42.6	39.7
Fair values of plan assets at January 1	21.6	20.7
Actual return on plan assets	0.2	0.2
Pension premiums	2.3	2.2
Benefits paid, paid-up policies and disability reserve	-1.6	-1.5
Fair value of plan assets at December 31	22.5	21.6
Net retirement benefit obligations at December 31	20.1	18.1

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	
	2017	2016
Net retirement benefit obligations at January 1	18.1	18.2
Net periodic benefit costs including net interest	0.7	0.7
Remeasurements recognized through OCI	3.6	1.4
Pension premiums and benefits paid	-2.3	-2.2
Net retirement benefit obligations at December 31	20.1	18.1

The amounts recognized in the statement of income are as follows

(USD IN MILLION)	TOTAL OPERATIONS	
	2017	2016
Total benefit plans	0.0	0.0
Contribution plans including employer's social security tax	3.1	3.0
Total pension expenses (see note 24)	3.1	3.0
Net interest expense	0.7	0.7

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

(USD IN MILLION)	2017	2016
Experience adjustments	0.2	0.2
Effects of changes in assumptions	2.8	0.6
Total remeasurements (gains (-)/losses (+)) on gross retirement benefit obligations	3.0	0.8
Return on plan assets, excluding amounts included in interest	0.6	0.6
Total remeasurements (gains (-)/losses (+)) recognized through Other Comprehensive Income	3.6	1.4

During 2017 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 re-measurement loss recognized to equity through other comprehensive income was USD 15.4 million before income taxes at December 31, 2017. Of this, a loss of USD 22.0 million was related to ASiMI (excluding translation difference).

There is no change to mortality assumptions as of December 31, 2017. 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

	2017	2016
Discount rate	3.46	3.96
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 10.2 at December 31, 2017 and 10.6 at December 31, 2016. Pension premiums of USD 1.5 million are expected to be paid during 2018 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 -5.3 (6.6) million at December 31, 2017.

20 TRADE PAYABLES, PROVISIONS AND OTHER LIABILITIES

Non-financial liabilities, interest calculation

(USD IN MILLION)	2017	2016
Non-current prepayments - interest calculation	5.5	5.9
Current portion of prepayments interest calculation	3.1	1.6
Total prepayments, interest calculation	8.7	7.5

Trade payables and other liabilities

(USD IN MILLION)	2017	2016
Trade and other payables	10.2	16.8
Accrued costs for capex - external	0.0	0.0
VAT and other public taxes and duties payables	27.5	26.5
Accrued operating costs - external	12.5	5.2
Accrued finance costs - external	8.5	3.8
Other non-interest bearing liabilities	4.2	1.5
Trade payables and other liabilities	62.9	53.8

Provisions

(USD IN MILLION)	2017	2016
Provisions, current	0.3	0.0
Provisions non-current	0.0	0.0
Total provision	0.3	0.0

Specification of provisions

(USD IN MILLION)	ONEROUS CONTRACTS	TOTAL
At January 1, 2017	0.0	0.0
Additional provisions	0.7	0.7
Used during the year	-0.3	-0.3
At December 31, 2017	0.3	0.3

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.

The Group recognized expense of USD 0.7 million in the third quarter of 2017 for an onerous contract associated with manufacturing equipment under a non-cancelable operating lease at the Moses Lake facility. During the third and fourth quarter, USD 0.2 million of the provision was utilized in each quarter to offset payments. At December 31, 2017, the Group recognized a provision of USD 0.3 million, equal to the remaining obligation which expires in May 2018.

The Group recognized non-current liability, not interest bearing primarily for a payment penalty of USD 8.3 million in relation to outstanding capital contribution from REC Silicon to the Yulin JV (see note 33).

21 GOVERNMENT GRANTS

(USD IN MILLION)	2017	2016
Changes in amounts recognized in the statement of financial position ¹⁾	-89.7	-21.1

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 2017 are due to the derecognition of the AEMTC grant. In 2016, changes are due to a change 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)	2017	2016
Freight, postage and transportation	6.8	6.5
Energy and water	34.5	37.9
Lease expenses	21.8	23.1
Total operating, service and maintenance costs	31.2	44.4
Consultancy and auditor fees	14.2	21.6
Own work capitalized on fixed assets	-0.5	-0.8
IT and telecommunications costs	4.2	4.3
Travel and entertainment costs	3.4	2.9
Insurance costs	4.3	4.9
Loss on receivables ¹⁾	-5.3	1.5
Other operating costs ²⁾	-8.4	-6.1
Other operating expenses	106.2	140.3

¹⁾ Loss on receivables (see note 12).

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

Auditor's remuneration

(USD IN MILLION)	2017	2016
Statutory Audit (only relating to statutory auditor)	0.7	0.7
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)	0.0	0.1
Total auditors remuneration	1.0	1.0

23 OTHER INCOME AND EXPENSES

(USD IN MILLION)	2017	2016
Restructuring cost and employee termination benefits	-0.6	-1.6
Loss on disposal of non-current assets	0.0	-7.7
Change in property tax estimate from previous period	0.0	2.2
Refund of electricity from previous period	0.0	5.9
Insurance proceeds related to equipment damaged by July 1, 2016 fire	1.2	3.8
Onerous Contract	-0.7	0.0
Other	0.0	-0.7
Total other income and expenses	-0.1	2.0

During both 2017 and 2016 the Group incurred employee termination costs related to a headcount reductions.

Loss on disposal of non-current assets in 2016 was primarily related to equipment damage by fire July 1, 2016 at the Moses Lake facility and was partially offset by USD 3.8 million of insurance proceeds in 2016. In 2017 additional insurance proceeds were received to offset a portion of the remaining loss incurred in 2016.

The Group recognized expense of USD 0.7 million in the third quarter of 2017 for an onerous contract associated with manufacturing equipment under a non-cancelable operating lease at the Moses Lake facility (see note 20).

24 EMPLOYEE BENEFITS

(USD IN MILLION)	2017	2016
Salaries	51.4	56.9
Bonus and sales commission - employees	6.5	-0.1
Share option expense	0.3	0.1
Social security tax	4.1	4.0
Pension cost (incl. social security tax)	3.1	3.0
Other employee related costs	8.4	10.7
Employee benefit expenses	73.9	74.6

The average number of permanent employees during 2017 was 541. The average number of permanent employees during 2016 was 611.

There were no loans or guarantees provided to employees at December 31, 2017 or 2016.

25 FINANCIAL INCOME AND EXPENSES

(USD IN MILLION)	2017	2016
Interest income from financial assets not at fair value through profit or loss	0.6	1.4
Calculated interest income	0.0	0.3
Total income from financial assets not at fair value through profit or loss	0.6	1.7
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)	-5.8	-5.6
Interest expenses for CTO tax dispute	-4.5	0.0
Interest expenses for JV agreement	-11.0	0.0
Interest expenses for financial liabilities not at fair value through profit or loss	0.0	-0.5
Expensing of up-front fees and costs	-0.1	-0.1
Calculated interest expenses	-0.9	-0.2
Capitalization of borrowing costs	0.0	0.9
Other expenses from financial assets and liabilities	-0.7	-0.8
Net financial expenses	-30.2	-13.5
Net currency gains/losses	-34.1	-13.5
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)	-16.2	-3.9
Total fair value through profit or loss	-16.2	-3.9
Net financial items	-79.9	-29.2

Interest income in 2017 includes interest on bank accounts of USD 0.4 million and municipal bonds of USD 0.2.

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

Borrowing costs eligible for capitalization were capitalized at a rate of 7.3 percent for both 2017 and 2016.

Net currency losses in 2017 and 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.

Estimated fair values are shown in the table below.

USD convertible bond

(USD IN MILLION)	AT ISSUE	DEC 31, 2017	DEC 31, 2016	CHANGE TO P/L 2017	CHANGE TO P/L 2016
Nominal value	110.0	110.0	110.0		
Value of the total loan	110.0	108.1	91.8	16.2	3.9
	Fair value adjustment excluding currency			16.2	3.9

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 2017 and USD 12.5 million in 2016.

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.

	2017	2016
Profit/loss from continuing operations (USD IN MILLION)	-367.0	-147.4
Profit/loss from total operations (USD IN MILLION)	-367.0	-147.4
Weighted average number of ordinary shares in issue (IN MILLION)	2,543.8	2,543.8
Basic earnings per share from continuing operations (USD per share)	-0.14	-0.06
Basic earnings per share from total operations (USD per share)	-0.14	-0.06

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 2017 and 2016. 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 2017 or 2016.

28 RESEARCH AND DEVELOPMENT

(USD IN MILLION)	2017	2016
Research and development expense	4.0	5.5
Development capitalized	0.0	0.0
Total research and development	4.0	5.5

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.

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, 2017 and 2016. 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, 2017

(USD IN MILLION)	TOTAL FUTURE PAYMENTS	2018	2019	2020	2021	2022	AFTER 2022
Total purchase of goods and services	95.2	90.9	0.2	1.2	1.5	1.5	0.0
Total minimum operating lease payments	51.1	16.8	13.9	13.6	2.5	2.1	2.1
Total purchase obligations and minimum operating lease payments	146.3	107.8	14.0	14.8	4.0	3.6	2.1

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 entered into a joint venture in China (see note 8) and agreed to contribute additional equity to the joint venture of USD 15 million in July 2016 and USD 154 million in July 2017 which have not been included in the table above. Subsequent to the date of these financial statements, REC Silicon entered into an agreement which resolved its capital contribution commitments to the Yulin JV (see note 33).

GUARANTEES AND PLEDGES

Bank guarantees at December 31, 2017 amounted to USD 5.0 million related to purchases of energy, performance guarantees (REC Solar), and salary related liabilities. Restricted cash balances related to guarantees were USD 4.4 million (see note 14).

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 4.0 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, 2017 and 2016. 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)	2017		2016	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Convertible bonds - fair value whole instrument	0.0	108.1	0.0	91.8
Derivatives option related to REC Wafer bankruptcy	0.0	1.5	0.0	1.5

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).

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 0.1 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)	2017			2016		
	NOMINAL VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE	NOMINAL VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
REC03	55.5	55.4	55.0	52.8	52.3	49.0

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)	2017		2016	
	CARRYING AMOUNT	MAX. EXPOSURE	CARRYING AMOUNT	MAX. EXPOSURE
Cash and bank (incl. restricted bank accounts)	108.9	108.9	69.7	69.7
Trade receivables and accrued revenues	40.8	40.8	44.5	44.5
Other non-current and current receivables	0.3	0.3	1.9	1.9
Finance receivables and short-term loans	3.8	3.8	3.8	3.8
Total	153.8	153.8	120.0	120.0

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 25.9 million) at December 31, 2017.

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

GEOGRAPHICAL	2017	2016	SECTOR	2017	2016	INDUSTRY	2017	2016
China	38%	28%	Manufacturing	72%	77%	Solar	54%	59%
Taiwan	25%	22%	Wholesale	22%	19%	Electronic	40%	38%
Other Asia	12%	14%	Other	6%	4%	Other	6%	4%
North America	8%	4%						
Japan	7%	9%						
Europe	6%	1%						
Hong Kong	4%	21%						
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 2017, two customers represented approximately 50 percent of revenue (four customers in 2016). Five customers represented approximately 50 percent of total trade receivables at December 31, 2017 (six customers at December 31, 2016).

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 zero customers for 2017 and five customers for 2016.

Analysis of aging of receivables at December 31, 2017

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	52.6	35.7	5.1	0.0	0.0	0.0	11.8
Provision for loss on trade recivables	-11.8	0.0	0.0	0.0	0.0	0.0	-11.8
Other non-current and current receivables	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Total receivables	41.1	36.0	5.1	0.0	0.0	0.0	0.0
Prepaid Costs	7.5						
Total trade and other receivables	48.6						

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 receivables	-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						

At December 31, 2017, approximately 31 percent of not due trade receivables were secured by bank guarantees. At December 31, 2016, approximately 23 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, 2017, 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 0.0 million. It is estimated that a ten percent decrease in share price will decrease the estimated fair value of the convertible bond by USD 0.1 million. At December 31, 2016, the estimate was USD 0.1 million for a ten percent increase and USD -0.3 million for a 10 percent 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 -1.1 (1.1) million

calculated on outstanding amounts at December 31, 2017. The same calculation at December 31, 2016 was USD -0.7 (0.7) 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 0.9 (-0.9) million at December 31, 2017. The same calculation at December 31, 2016 including derivatives was USD 2.0 (-2.0) million.

Exchange rate sensitivity

The table below shows the estimated impact of a 10 percent increase in foreign currency rates compared to functional currencies for each entity. A decrease in the same percentage would create the opposite effect. The amounts 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. In addition, sensitivity related to financial liabilities has declined with the extinguishment of debt.

Exchange rate sensitivity on financial instruments at December 31

(USD IN MILLION)	CHANGE + 10% COMPARED TO FUNCTIONAL CURRENCIES	
	2017	2016
Financial assets	64.5	91.0
Financial liabilities	-11.0	-11.0
Total	53.4	80.0
Of which to equity		
USD receivables as part of net investment	13.2	13.2
Rest is to profit or loss	40.2	66.8

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. At December 31, 2017, the Company held NOK 454.3 million in NOK bonds with a carrying value of USD 55.4 million. A 10 percent increase or decrease in the NOK/USD exchange rate would result in a decrease of USD 5.0 million or increase of USD 6.2 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 received a Notice of Change of Value from Grant County for the 2013, 2014, and 2015 assessment years and has also appealed these valuations. In addition, REC Silicon received a Notice of Change of Value from Grant County for the 2016 and 2017 assessment years 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 25.6 million at December 31, 2017 and USD 24.5 million at December 31, 2016. 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 2017 for 2016 property taxes totaled USD 3.3 million and payments made in 2016 for 2015 property taxes totaled USD 4.0 million.

INCOME TAXES

The Company previously received notices of reassessment from the Norwegian Central Tax Office (CTO) regarding tax returns for tax years 2009 through 2011. The CTO questioned the deductibility of losses on loans and guarantees provided to subsidiaries and affiliates (see note 31 to the 2016 annual report).

The Company received a draft decision dated June 30, 2017 from the CTO which disallows losses of NOK 7.7 billion in total (at 28 percent the tax would be approximately NOK 2.2 billion). The Company expects these amounts to be adjusted for group contributions and carry back of tax losses, which would result in

the recognition of approximately USD 26 million in tax expense plus interest of approximately USD 4 million. This range of potential outcomes remain broadly unchanged from disclosures previously made by the Company.

The Company has filed a response with supporting arguments and additional documentation in opposition to findings in the CTO's draft decision. REC Silicon continues to believe that the losses are tax deductible and that the Company's position will eventually prevail. The CTO is expected to issue an additional draft decision. The Company will have another opportunity to comment on the new draft decision prior to the issuance of a final decision. When a final decision is issued, any resulting tax is generally due two weeks after the decision. The Company does not expect a final decision before the second half of 2018.

The Company expects to challenge any adverse final ruling through the appeals process and will attempt to defer any potential payment until a final resolution has been reached.

The timing and amount of any potential outcome is subject to substantial uncertainty.

The resulting short-term liabilities of approximately USD 30 million, income tax payable of approximately USD 26 million, and interest payable of approximately USD 4 million, has been reported in current liabilities in the Company's 2017 financial statements. The tax and interest expense associated with this ongoing tax examination were reported in the second quarter of 2017.

CHINA/USA TRADE WAR

REC Silicon's access to polysilicon markets in China has been significantly 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 had share option programs from 2008 to 2011 for management and key personnel all of which have expired with the last in 2017.

In 2014, 2015, and 2016 REC Silicon granted 8,000,000 share options during each year, and in 2017, 12,000,000 share options were granted to certain key employees. 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 June 30 of each year. The options were granted at a strike price of NOK 3.50 in 2014, NOK 2.30 for 2015, NOK 1.92 for 2016 and NOK 1.19 in 2017. 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.

Options outstanding at December 31, 2017

PROGRAM	EXERCISE PRICE (NOK)	NO. OPTIONS	TOTAL FAIR VALUE (USD MILLION)	REMAINING CONTRACTUAL LIFE (YEAR)
2014	3.50	7,686,975	0.10	2.50
2015	2.30	7,663,911	0.32	3.50
2016	1.92	7,665,565	0.47	4.50
2017	1.19	11,586,413	0.89	5.50
Total		34,602,864	1.79	

In 2015, options terminated were 313,025 and in 2017, options terminated were 1,082,094. These terminations are reflected in the table above.

The amount recognized in the statement of income from continuing operations for share based compensation was an expense of USD 0.0 million in 2017 and USD 0.1 million in 2016.

33 EVENTS AFTER THE REPORTING PERIOD

FRAMEWORK AGREEMENT TO RESOLVE REC SILICON'S OUTSTANDING CAPITAL CONTRIBUTION TO THE YULIN JV

On February 1, 2018, REC Silicon Pte. Ltd (REC Silicon) and Shaanxi Non-Ferrous Tian Hong New Energy Co. Ltd. (SNF) entered into an agreement concerning the outstanding capital contribution from REC Silicon to the Yulin JV.

The Framework Agreement provides that SNF will make REC Silicon's outstanding capital contribution of USD 169 million to the Yulin JV and the equity ownership of the Yulin JV will be adjusted to SNF holding 85 percent and REC Silicon holding 15 percent. REC Silicon will make an interest payment of USD 0.6 million to the Yulin JV within 30 days of signing the Framework Agreement and a penalty payment of USD 10.4 million to SNF in annual installments of USD 2.1 million in March of 2018, USD 3.1 million in March of 2019, and USD 5.2 million in March of 2020. These amounts have been reported in interest expense on the consolidated statement of income and in liabilities on the consolidated statement of financial position at December 31, 2017.

REC Silicon has retained an option to either buy back the 34 percent equity interest from SNF pursuant to a valuation and public bidding process as required by PRC state-owned asset disposal regulations, or continue to maintain solely a 15 percent equity interest in the Yulin JV. Under this option, after a three-year period, REC may appoint an appraiser acceptable to both parties to appraise the value of the 34 percent equity interest in the Yulin JV. If the resulting valuation is higher than the valuation REC expects, or if the valuation determined by the state-owned asset disposal regulation is higher, REC has the right to choose not to buy back the 34 percent equity interest and may choose to sell its remaining 15 percent equity interest in the Yulin JV.

The corporate governance of the Yulin JV will be adjusted according to the new equity interest structure. The Board of Directors of the Yulin JV will be adjusted to five directors, of which four will be appointed by SNF and one will be appointed by REC. REC will nominate the Chief Technology Officer while the remaining executive management of the Yulin JV will be nominated by SNF. Upon a buy-back by REC of the 34 percent equity interest, the corporate governance structure will be restored to the terms of the original Yulin JV contract.

While REC Silicon is continuing to evaluate the impact of this transaction, the Company believes that this investment in associates will continue to be accounted for using the equity method of accounting (see note 3 above). However, the investment will be reduced to reflect REC Silicon's ownership percentage of 15 percent. The adjustment in ownership percentage is expected to result in the recognition of USD 67.3 million associated with the deferral of the gain realized on the transfer of FBR technology to the JV and USD 8.8 million profit from investments in associates associated with the JV operating losses since inception. Accordingly, the investment account will be adjusted to USD 41.4 million during the first quarter of 2018 compared to a liability of USD 34.7 million at December 31, 2017.

ISSUE OF USD 110 MILLION SENIOR SECURED BOND

On March 23, 2018, the Company announced that it had successfully completed a USD 110 million senior secured bond issue with a maturity date of April 13, 2023. The settlement date of this bond is expected to be April 13, 2018.

As part of this bond issue, the Company offered a buy-back of its outstanding senior unsecured bonds maturing May 3, 2018 (ISIN NO0010607476, "REC03") as well as a buy-back of the convertible bonds maturing September 11, 2018 (ISIN NO0010687304). The Company will repurchase approximately NOK 9 million of REC03 at a price of 100.5 percent of par value (plus accrued interest). Further, the company will buy back and cancel a total of approximately USD 107 million of its convertible bonds.

BALANCE SHEET (NGAAP)

REC SILICON ASA


AT DECEMBER 31 (NOK IN MILLION)	NOTES	2017	2016
ASSETS			
Non-current assets			
Equipment and intangible assets	B	0.2	0.3
Investments in subsidiaries	C	526.2	608.5
Non-current receivables from subsidiaries	D	5,134.4	7,666.0
Restricted bank accounts non-current	E	31.3	31.1
Total non-current assets		5,692.1	8,305.9
Current assets			
Other receivables		2.2	2.4
Restricted bank accounts current	E	1.6	1.6
Total current receivables		3.8	4.0
Cash and cash equivalents	E	674.2	434.3
Total current assets		678.0	438.3
Total assets		6,370.1	8,744.2

BALANCE SHEET (NGAAP)

REC SILICON ASA

AT DECEMBER 31 (NOK IN MILLION)	NOTES	2017	2016
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	10.4	2,594.1
Total shareholders' equity	G	4,514.0	7,097.7
Non-current liabilities			
Interest-bearing liabilities	F	1,356.6	1,398.2
Total non-current liabilities		1,356.6	1,398.2
Current liabilities			
Trade payables		0.9	0.1
Current tax payables	I	213.6	0.0
Social security, VAT and other taxes		0.1	0.1
Interest-bearing liabilities	F	200.0	200.0
Derivatives	L	12.7	12.7
Other current liabilities	L	72.3	35.3
Total current liabilities		499.5	248.3
Total liabilities		1,856.1	1,646.5
Total equity and liabilities		6,370.1	8,744.2

Fornebu, April 4, 2018
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	2017	2016
Revenues		0.0	0.0
Employee benefit expenses	H	-3.8	-3.7
Other operating expenses	J	-15.5	-10.9
Depreciation, amortization and impairment	B	0.0	-0.1
EBIT		-19.3	-14.6
Interest income, internal	K	570.2	549.7
Interest income, external		3.3	3.3
Other financial income		0.5	0.0
Interest expense, external	K	-144.5	-112.4
Other financial expenses		-0.4	-0.4
Net currency gains/losses	K	-329.9	-133.1
Impairment of financial assets	M	-2,450.3	-492.2
Net financial items		-2,351.1	-185.1
Profit/loss before income tax		-2,370.4	-199.7
Income tax expenses	I	-213.6	0.0
Profit/loss for the year		-2,583.9	-199.7
Profit/loss for the year is distributed as follows			
Other equity	G	-2,583.9	-199.7
Total distributed		-2,583.9	-199.7

STATEMENT OF CASH FLOWS (NGAAP)

REC SILICON ASA

YEAR ENDED DECEMBER 31 (NOK IN MILLION)	2017	2016
Cash flows from operating activities		
Profit/loss before tax	-2,370.4	-199.7
Tax paid/received	0.0	0.0
Depreciation, amortization and impairment	0.0	0.1
Impairment losses financial assets ¹⁾	2,450.3	492.2
Changes in receivables external	0.2	0.8
Changes in payables	37.7	-1.8
Currency effects not cash flow or not related to operating activities ²⁾	330.4	126.3
Other items ³⁾	4.0	4.5
Net cash flow from operating activities	452.2	422.3
Cash flow from investing activities		
Investment in equity in subsidiaries	0.0	-0.4
Investment in loan to subsidiaries	-212.1	-440.1
Procceds from finance receivables and restricted cash	-0.2	-0.2
Net cash flow from investing activities	-212.3	-440.8
Cash flow from financing activities		
Payments of borrowings and up-front/waiver loan fees	0.0	-179.5
Net cash flow from financing activities	0.0	-179.5
Net increase/decrease in cash and cash equivalents	239.9	-198.0
Cash and cash equivalents at the beginning of the period	434.3	632.3
Cash and cash equivalents at the end of the period	674.2	434.3

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, F and L.

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, 2017. 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 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 April 4, 2018 and are subject to approval by the Annual General Meeting scheduled for April 26, 2018.

B EQUIPMENT AND INTANGIBLE ASSETS

Equipment and intangible assets consists of office equipment and furniture.

There has been no addition and disposal during 2017 and 2016.

(NOK IN MILLION)	2017	2016
Cost at January 1	0.7	0.7
Depreciation for the year	0.0	-0.1
Accumulated depreciation and impairment at December 31	-0.5	-0.4
Carrying value at December 31	0.2	0.3

C SHARES IN SUBSIDIARIES

COMPANY	OWNERSHIP/VOTING RIGHT	BUSINESS OFFICE	DECEMBER 31 (NOK IN MILLION)	
			2017	2016
REC Silicon AS	100%	Bærum	525.2	607.5
REC Solar AS	100%	Bærum	1.0	1.0
Total			526.2	608.5

In 2017 the Company has impaired the shares in REC Silicon AS with NOK 83 million, see note M.

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 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, 2017, 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) with USD 625.8 million at December 31, 2017 and USD 889.3 million at December 31, 2016. In 2017 and 2016 the company has impaired these receivables by USD 288.6 million and USD 30.3 million respectively. 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)	2017	2016
Non-current	31.3	31.1
Current	1.6	1.6
Total restricted bank accounts	32.9	32.7

At December 31, 2017 and 2016 current restricted bank accounts include NOK 0.1 million to secure employees' tax deductions in REC Silicon ASA

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

F INTEREST BEARING LIABILITIES

(NOK IN MILLION)	2017	2016
NOK bonds	454.3	451.0
Up-front fees etc (amortized as part of effective interest)	-0.3	-1.0
USD convertible bond	902.6	948.2
Indemnification loan	200.0	200.0
Total interest bearing liabilities	1,556.6	1,598.2

See note 17 to the consolidated financial statements for details of the Company's interest bearing liabilities and note 3 (C) relating to liquidity risk/going concern.

G EQUITY

(NOK IN MILLION)	SHARE CAPITAL	SHARE PREMIUM	OTHER EQUITY AND RETAINED EARNINGS	TOTAL
Equity at January 1, 2016	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 option program	0.0	0.0	0.2	0.2
Loss for the year	0.0	0.0	-2,583.9	-2,583.9
Equity at December 31, 2017	2,543.8	1,959.8	10.4	4,514.0

Share capital at December 31, 2017 and 2016 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.

H EMPLOYEE BENEFITS

Employee benefit expenses

(NOK IN MILLION)	2017	2016
Payroll	-3.1	-3.1
Bonus	-0.2	0.0
Social security tax	-0.5	-0.4
Pension expense including social security tax	-0.1	-0.1
Other employee related costs	0.1	0.0
Employee benefit expenses	-3.8	-3.7

The average number of employees measured in man-years was 1 during 2017 and 2016. There were no loans or guarantees to employees at December 31, 2017 and 2016.

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, 2017 the Company maintained a defined contribution pension plan for employees that fulfill the requirements of Norwegian law: "Lov om obligatorisk tjenestepensjon".

SHARE OPTION PROGRAMS

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

The 2011 program elapsed in 2017 and at December 31, 2017 there was no share options outstanding from the 2011 program.

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

I INCOME TAXES

Recognized income tax expense

(NOK IN MILLION)	2017	2016
Current income tax benefit (+) / expense (-) for the year	0.0	0.0
Total deferred tax benefit (+) / expense (-) for the year	0.0	0.0
Changes in estimates related to prior years ¹⁾	-213.6	0.0
Total income tax benefit (+) / expense (-) for the year in the income statement	-213.6	0.0

¹⁾ Changes in estimates related to prior years, see note Q for further information.

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

(NOK IN MILLION)	2017	2016
Profit/Loss for before taxes	-2,370.4	-199.7
Tax calculated at domestic tax rate of 24% (25% 2016)	568.9	49.9
Expenses not deductible for tax (permanent differences)	-8.9	0.0
Impairment loss (permanent differences) ²⁾	-588.1	-123.0
Recognition of previously not recognized deferred tax assets	28.0	73.1
Current income tax benefit (+) / expense (-) for the year	0.0	0.0
Changes in estimates related to prior years	-213.6	0.0
Total income tax benefit (+) / expense (-) for the year in the income statement	-213.6	0.0
Effective tax rate	9%	0%

²⁾ Impairment of financial assets.

Current income tax

(NOK IN MILLION)	2017	2016
Profit/Loss for before taxes	-2,370.4	-199.7
Impairment and losses on shares and loans - permanent differences	2,450.3	492.2
Other permanent differences	37.0	0.0
Changes in temporary differences	337.8	121.1
Basis for income tax before utilization (-) / increase (+) of tax losses carried forward	454.7	413.7
Utilization (-) / increase (+) of tax losses carried forward	-454.7	-413.7
Basis for current tax in the income statement and balance sheet	0.0	0.0
Estimated 24 percent current income tax (25% in 2016)	0.0	0.0
Current income tax benefit (+) expense (-) for the year	0.0	0.0
Basis for current tax in balance sheet for the year	0.0	0.0
Estimated 24 percent current income tax (25% in 2016)	0.0	0.0
Current tax asset (+) / liability (-) for the year	0.0	0.0
Changes in estimates related to prior years	-213.6	0.0
Total current tax asset (+) / liability (-)	-213.6	0.0

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

(NOK IN MILLION)	2017	2016
Fixed assets	-2.8	-4.6
Up-front fees	0.3	1.0
Interest bearing liabilities	-201.4	-205.5
Derivatives	-12.7	-12.7
Net unrealized gains on non-current foreign exchange receivables and liabilities	1,918.0	2,260.9
Other	-80.0	-80.0
Tax losses carried forward	-5,008.1	-5,462.7
Total temporary differences and tax loss carried forward	-3,386.8	-3,503.6
Tax percentage	23%	24%
Deferred tax assets (-) / liabilities (+)	-779.0	-840.9
Deferred tax assets not recognized	779.0	840.9
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
Total deferred tax benefit (-)/ expense (+) for the year	0.0	0.0

J OTHER OPERATING EXPENSES

Specification of other operating expenses

(NOK IN MILLION)	2017	2016
Operating lease expenses	-0.2	-0.2
Audit remuneration	-2.8	-1.0
Consultancy fee	-7.2	-3.8
Insurance	-1.7	-1.7
Other operating expenses	-3.6	-4.2
Total Other operating expenses	-15.5	-10.9

Audit remuneration

(NOK IN MILLION)	2017	2016
Statutory audit	-1.5	-1.0
Other non-audit services	-1.3	0.0
Total auditor's remuneration expensed	-2.8	-1.0

Future payment obligations

The future aggregate minimum payment obligations are as follows

(NOK IN MILLION)	2017			2016		
	OPERATING LEASE	OTHER	TOTAL	OPERATING LEASE	OTHER	TOTAL
No later than 1 year	0.1	0.4	0.4	0.1	0.6	0.6
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	0.4	0.4	0.2	0.6	0.8

K INTEREST AND CURRENCY

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 2017 compared to 2016 mainly due to increases to Group internal loans.

External interest expenses increased in 2017 compared to 2016 due to NOK 37 million related to tax liability (zero in 2016) and partly offset by less interest on 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

Specification of net currency gains and losses

(NOK IN MILLION)	2017	2016
Net currency losses related to USD loans to subsidiaries	-372.9	-150.1
Net currency gains on USD convertible bond	45.8	21.1
Net currency losses on other - mainly bank deposit	-2.8	-4.1
Total Net currency gains and losses	-329.9	-133.1

The currency effects from USD due to an average strengthening of the Norwegian Krone (NOK) during 2017.

L DERIVATIVES, OTHER CURRENT 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.

Specification of other current liabilities

(NOK IN MILLION)	2017	2016
Accrued interest on interest-bearing liabilities	32.8	33.0
Accrued interest on tax liabilities	37.0	0.0
Accrued operating costs	2.5	2.3
Total Other current liabilities	72.3	35.3

M IMPAIRMENT OF FINANCIAL ASSETS

Impairment of shares in REC Silicon AS

(NOK IN MILLION)	2017	2016
At cost 1 January	838.5	837.5
Accumulated impairment at January 1	-231.0	0.0
New shares	0.0	0.4
Share option program	0.2	0.6
This year's impairment	-82.6	-231.0
Carrying value at December 31	525.2	607.5

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. In addition, the Company owns all the shares in REC Silicon Pte Ltd.

In 2017 REC Silicon AS impaired the value of the shares in REC Silicon Pte Ltd with NOK 82,4 million. As a consequence of the impairment loss in REC Silicon AS, REC Silicon ASA impaired their shares in REC Silicon AS. Equity in REC Silicon AS at December 31, 2017 is NOK 525.2 million.

In 2016 REC Silicon AS impaired the value of the shares in REC Silicon Inc to zero due to the negative equity of the consolidated operation in USA. As a consequence of the impairment loss in REC Silicon AS, REC Silicon ASA has impaired their shares in REC Silicon AS with NOK 231 million. Equity in REC Silicon AS at December 31, 2016 is NOK 607.5 million.

Impairment of loan to US operations

	(NOK IN MILLION)		(USD IN MILLION)	
	2017	2016	2017	2016
Par value at January 1	7,927.2	7,634.1	919.6	866.6
Accumulated impairment at January 1	-261.2	0.0	-30.3	0.0
Carrying value at January 1	7,666.0	7,634.1	889.3	866.6
Addition	212.1	440.1	25.0	53.0
Impairment	-2,367.7	-261.2	-288.6	-30.3
Currency translation effects	-376.0	-147.1	0.0	0.0
Carrying value at December 31	5,134.4	7,666.0	625.7	889.3

The impairment loss represents the book value in excess of the fair value of 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 2017 and 2016.

O GUARANTEES AND INDEMNIFICATION AGREEMENTS

At December 31, 2017 bank guarantees amounted to NOK 9.5 million (9.2 million at December 31, 2016). These guarantees were co-signed 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, 2017 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, 2017: 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, 2017. The indemnification loan estimated at 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). In 2016, the Company 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. As a consequence, the Company has in 2017 recognized an income tax and tax liability of NOK 213.6 million related to change in estimates to prior years and an estimated interest of NOK 37 million.

AUDITOR'S REPORT



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To the General 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 2017, and the income statement and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of REC Silicon ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2017, and 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 2017, 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, 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, including 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.

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Statsautoriserte revisorer - medlemmer av Den norske Revisorsforening

Offices in:

Oslo	Elverum	Mol i Rana	Stord
Alta	Finnsnes	Molde	Strøme
Årstad	Hamar	Skien	Tromsø
Bergen	Haugesund	Sandefjord	Tvedestrand
Bodø	Kragerø	Sandnessjøen	Tynset
Drammen	Kristiansund	Sarvanger	Ålesund



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Asset Impairment

Refer to page 8 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 540 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, including the ongoing trade war.</p> <p>The recoverable amount is determined based on value in use calculations which rely on external factors, managements' assumptions, and estimated future performance. Key assumptions applied in management's assumptions are future market development and conditions, discount rates applied for cash flow forecast, future long-term sales prices, cash flow growth assumptions, and estimated timing of cash flows.</p> <p>Significant auditor judgment is required when evaluating whether management's assessment is reasonable and supportable.</p> <p>No impairment charges have been recognised during the year.</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 considered whether the disclosures regarding key assumptions and sensitivities adequately reflected the underlying assets impairment assessments. <p>From the audit evidence obtained, we consider management's assessment of the carrying value of property, plant and equipment to be in accordance with the requirements under the relevant accounting standards.</p>



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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.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group had a cash position of USD 105 million and a current interest bearing debt of USD 188 million as per 31 December 2017, which primarily relates to significant debt due in the second and third quarter of 2018. For the financial year 2017, the Group had a net cash inflow of USD 39 million.</p> <p>On 23 March 2018, the Group successfully issued a new USD 110 million bond, which together with expected cash flows from operations will cover the repayment of the debt maturities in 2018.</p> <p>The Group's going concern assessment is considered 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, there are further uncertainties related to the Group's cash flow projections relating to the timing of repayment of the NOK 200 million (USD 23 million) indemnification loan, and the uncertainty related to the outcome of unresolved tax examinations in Norway including the timing of related payments of potentially USD 30 million.</p> <p>Combined with the challenging market conditions, these items result in risk associated with the Group's ability to continue as a going concern.</p>	<p>Our audit procedures in this area included, amongst others:</p> <ul style="list-style-type: none"> - We have obtained external confirmation that the USD 110 million bond issue is completed and allocated. The pre-settlement conditions related to the new bond is solely dependent on documentation from the Group. Expected settlement date is 13 April 2018. - We agreed management's estimated future cash flows to the most recent budget and business plan; - 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 have considered management's and external legal counselor's assessment related to the most likely outcome of the tax case. Further we have assessed management's calculation of the estimated short term liability should the position of the Norwegian Central Tax Office prevail. - We also considered the appropriateness of the going concern disclosures made in the Group financial statements. <p>From the audit evidence obtained, we consider management's assessment and disclosures to be in accordance with the requirements under the relevant accounting standards.</p>

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, with the exception of the financial statements and the Independent 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, with the exception of our report on Other Legal and Regulatory Requirements below.

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.



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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 in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the 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.
- 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 and the Group'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 and the Group 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



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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 and in the statement 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, April 4, 2018
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 US 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