



RECSiLICON



SECOND QUARTER 2018

REPORT

SECOND QUARTER HIGHLIGHTS

(Compared to First Quarter 2018)

- > Revenues of USD 58.9 million and EBITDA Loss of USD 9.6 million
 - Polysilicon Sales Volume of 2,077MT (28.5% Decrease)
 - 401MT Polysilicon Inventory Increase
- > Continued Strong Silicon Gas Sales Volumes
 - Sales Volume of 918MT (2.4% Increase vs. Q1'18)
 - 2.1% Silane Gas Price Increase vs. Q1'18
- > June 30, 2018 Cash Balance of USD 42.4 million
 - Cash Decrease of USD 69.6 million
 - Debt Repayment of USD 59.5 million (Net)
 - Cash Outflows from Operations USD 7.1 million
- > FBR Cash Cost of \$13.4/kg
 - FBR Capacity Utilization Decreased to ~25% in June
 - Lower Spending due to Delay of Planned Maintenance
 - FBR Production Volume of 2,078MT (33.5% Decrease)
- > Yulin JV Operating at Reduced Capacity Utilization
 - ~1,000MT of Granular Produced in Q2'18 (Secondary Quality)
 - ~1,800MT Produced YTD vs. Target of 8,000MT for 2018
- > Impairment Charges of USD 340 million
 - Market Disruption due to Curtailment of Solar Incentives in China
 - Market Barriers Prevent Access to Primary Polysilicon Markets in China
 - 30% Workforce Reduction in Moses Lake Announced on July 1, 2018

FINANCIAL HIGHLIGHTS

Key Financials - REC Silicon Group

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017	Q1 2018
Revenues	58.9	61.4	128.6	118.9	272.4	69.6
EBITDA	-9.6	1.3	5.0	5.9	19.8	14.6
EBITDA margin	-16.3%	2.1%	3.9%	5.0%	7.3%	21.0%
EBIT excluding impairment charges	-29.6	-19.0	-35.2	-34.9	-127.2	-5.6
Impairment charges	-340.4	0.0	-340.5	0.0	-0.3	-0.1
EBIT	-370.1	-19.0	-375.7	-35.0	-127.5	-5.7
EBIT margin	-627.9%	-30.9%	-292.2%	-29.4%	-46.8%	-8.1%
Profit/loss before tax	-374.4	-45.6	-314.3	-69.3	-192.8	60.1
Profit/loss	-374.4	-62.0	-313.9	-79.2	-350.6	60.5
Earnings per share, basic and diluted (USD)	-0.15	-0.02	-0.12	-0.03	-0.14	0.02
Polysilicon production in MT (Siemens and granular)	2,491	3,057	6,014	6,184	11,636	3,523
Polysilicon sales in MT (Siemens and granular)	2,077	2,960	4,981	5,469	13,503	2,904
Multicrystalline brick sales in MT	0	0	2	0	1	2
Silicon gas sales in MT	918	808	1,815	1,628	3,501	897

REC SILICON

REC Silicon produces polysilicon and silicon gases for the solar and electronics industries at plants in Moses Lake, Washington and in Butte, Montana. REC Silicon targets polysilicon production of approximately 9,284MT in 2018.

Revenues during the second quarter of 2018 decreased by 15.3 percent to USD 58.9 million compared to the first quarter of 2018. The decrease in revenues is a result of lower sales volumes of polysilicon which declined by 28.5 percent to 2,077MT.

Total polysilicon production volume was 2,491MT, 6.4 percent lower than guidance of 2,660MT provided on April 26, 2018. This decrease was primarily a result of lower FBR production capacity utilization rates which were reduced to approximately 25 percent in early June. Despite lower production volumes, polysilicon inventories increased by 401MT during the second quarter of 2018.

EBITDA was a loss of USD 9.6 million for the second quarter of 2018 compared to income of USD 14.6 million during the first quarter of 2018. The EBITDA loss is primarily a result of the impact of lower solar grade polysilicon sales prices and inventory write-downs of approximately USD 15 million due to low estimated future sales prices. In addition, the Company recorded USD 2.2 million of impairments to customer accounts receivable due to an increase in credit risks driven by volatile market conditions.

Summary of second quarter results by segment

(USD IN MILLION)	Q2 2018	
	REVENUES	EBITDA
Solar Materials	20.4	-15.9
Semiconductor Materials	38.6	14.4
Other & Eliminations	0.0	-8.2
Total	58.9	-9.6

MARKET DEVELOPMENT

Industry analysts estimate end use PV demand for the second quarter of 2018 in a range from 25GW (GTM Global PV Supply Quarterly Briefing - July 2018) to 2.7GW (IHS Markit Installations Tracker - Q2 2018). This represents a decrease of 2.7GW and 1.3GW compared to the previous forecasts, respectively. Estimated end use demand for the second quarter of 2018 was broadly unchanged compared to PV demand for the first quarter of 2018. Second quarter demand began on a steady pace with the expectation that adjustments to Chinese feed in tariffs (FITs) would push PV installations higher during the quarter. At the end of May, market visibility declined and inventories began to build as concerns mounted over PV demand in China. During the first week of June, China announced an immediate and significant reduction in financial support for solar installations. This created uncertainty in the global market and caused polysilicon demand to decline sharply. In order to mitigate increases in inventories, producers quickly curtailed production across the value chain. Declining demand placed downward pressure on solar grade polysilicon prices. Spot prices inside of China at the end of the second quarter were estimated at approximately USD 12.4/kg, a decrease of approximately USD 3.6/kg (23 percent) compared to spot prices at the end of the first quarter 2018. Spot prices outside of China ended the quarter at approximately USD 11.6/kg, a decrease of approximately USD 1.8/kg (13 percent). Solar grade polysilicon prices continue to be higher inside of China due to supply constraints caused by the solar trade war between China and the United States. However, this price differential declined substantially during the quarter to a discount of approximately 6 percent for prices outside of China at the end of the second quarter compared to 16 percent at the end of the first quarter.

Semiconductor grade polysilicon markets continue to be dominated by long term fixed sales contracts and high polysilicon inventory levels. However, these fixed sales contracts are beginning to expire and inventory levels are declining due to growing demand for semiconductor devices and the implementation of improved technology in the semiconductor and flat panel display industries. REC Silicon's increasing sales volumes of

semiconductor grade polysilicon during 2018 are a result of successful product qualifications which have translated into firm orders.

Overall, demand for silicon gases remained strong during the second quarter. Demand continues to increase as a result of higher silane utilization in PV cell production, capacity expansions for flat panel displays, and the continuing implementation of technology improvements in semiconductor applications. Efforts by competitors to capture additional market share and increase capacity utilization continues to place downward pressure on prices.

RESEARCH AND DEVELOPMENT

REC Silicon incurred R&D expenses of USD 0.8 million during the second quarter of 2018 compared to USD 0.9 million during the first quarter.

Research and development efforts continue to focus on fundamental aspects of the FBR technology. The primary focus during the second quarter was to support the Yulin FBR start up and optimization.

Silane process models continued to be developed and efforts were focused on minimizing chloride losses. Fundamental research continued to focus on process thermochemistry in support of silane and silane derivatives. These lines of research were suspended with the workforce reduction on July 2, 2018.

Going forward, research efforts will be focused on maintaining minimum research lab operations and advancing analytical methods for silicon gases.

SEGMENT INFORMATION

SOLAR MATERIALS

REC Silicon manufactures polysilicon for the solar energy markets from its manufacturing facility in Moses Lake, Washington. This facility uses best-in-class proprietary Fluidized Bed Reactor (FBR) technology to produce low cost high purity polysilicon for the solar industry. The Moses Lake plant is the world's largest producer of granular polysilicon with approximately 18,000MT of polysilicon production capacity.

Revenues for the Solar Materials segment were USD 20.4 million during the second quarter of 2018, a decrease of 37.7 percent from USD 32.7 million during the first quarter of 2018. This decrease was due to lower polysilicon sales volumes and lower average sales prices.

Sales volumes of granular solar grade polysilicon decreased by 32.0 percent to 1,742MT compared to the first quarter of 2018. Lower sales volumes reflect a sharp drop in demand after China announced reductions in financial support for PV installations on June 1, 2018. Because REC finalized sales early in the quarter, sales prices realized dropped by 7.2 percent compared to a decline of 13.0 percent to published spot prices available outside of China.

Granular polysilicon production volume was 2,078MT and 8.8 percent lower than market guidance of 2,280MT provided on April 26, 2018. In the Company's July 1, 2018 market notification of a workforce reduction, granular polysilicon guidance was revised to 2,040MT. This decrease in

production was due to additional capacity curtailments which reduced FBR capacity utilization to approximately 25 percent early in June.

FBR cash production costs were USD 13.4/kg in line with guidance provided on April 26, 2018. The cost impact of lower production volumes was offset by lower spending due to the deferral of planned maintenance activities on idled equipment.

REC Silicon's sales opportunities continue to be limited by restricted access to the Chinese markets because of the trade war between China and the United States. During the second quarter, this restriction limited REC Silicon's ability to react to changing market conditions, resulted in the idling of production capacity, and resulted in the layoff of approximately 85 of REC Silicon's employees. The Company intends to continue operating the FBR facility in Moses Lake at capacity utilization rates near 25 percent while implementing measures to reduce costs and maintain sufficient liquidity to continue operations. FBR production will remain at low levels until the trade war is resolved or market conditions improve.

The Solar Materials segment contributed a loss of USD 8.4 million to the Company's EBITDA during the second quarter of 2018. This loss is primarily a result of lower average polysilicon sales prices and write-downs of finished inventory due to low estimated future sales prices. This contribution represents revenues less costs of manufacturing for products sold during the period and excludes selling, general, and administrative expenses.

SEMICONDUCTOR MATERIALS

REC Silicon manufactures polysilicon and silicon gases for semiconductor markets from its manufacturing facility in Butte, Montana. This facility is the world's largest supplier of silicon gases for semiconductor, flat panel display, and solar applications. The facility uses a silane based siemens polysilicon processing technology to produce the highest quality (FZ) polysilicon for use in the semiconductor industry. The Butte plant has a capacity of approximately 4,500MT of silicon gas loading and 2,000MT polysilicon production.

Semiconductor segment revenues were USD 38.6 million during the second quarter of 2018 an increase of 2.3 percent from USD 37.7 million during the first quarter of 2018. This increase in revenues was due primarily to higher semiconductor grade polysilicon sales volumes.

Polysilicon sales volumes declined by 1.9 percent to 335MT compared to the first quarter of 2018. This decrease was the result of lower solar grade polysilicon sales volumes while semiconductor grade polysilicon sales volumes increased by 17.6 percent to 274MT. Because of the increase in higher quality product sales, average prices realized on total polysilicon sales increased by 5.7 percent while the underlying price realizations for semiconductor grade polysilicon remained broadly unchanged compared to the prior quarter.

Silicon gas sales volumes were 918MT during the second quarter of 2018 or 8MT higher than market guidance provided on April 26, 2018. This represents a 2.5 percent increase compared to sales volumes for the first quarter of 2018 and an increase of 13.7 percent compared to

Key Financials - Solar Materials

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017	Q1 2018
Revenues	20.4	26.6	53.1	53.4	127.8	32.7
EBITDA contribution	-15.9	-4.3	-7.5	-5.5	-1.7	8.4
Contribution margin	-77.8%	-16.1%	-14.1%	-10.2%	-1.3%	25.6%
Polysilicon production in MT (Siemens and granular)	2,078	2,380	5,206	4,797	9,380	3,127
Polysilicon sales in MT (Siemens and granular)	1,742	2,387	4,304	4,604	11,450	2,563
Multicrystalline brick sales in MT	0	0	2	0	1	2

Key Financials - Semiconductor Materials

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017	Q1 2018
Revenues	38.6	35.0	76.3	65.8	147.5	37.7
EBITDA contribution	14.4	12.7	32.0	25.1	55.3	17.5
Contribution margin	37.4%	36.4%	41.9%	38.2%	37.5%	46.5%
Polysilicon production in MT (Siemens)	412	677	808	1,387	2,256	396
Polysilicon sales in MT (Siemens)	335	588	677	880	2,093	342
Silicon gas sales in MT	918	808	1,814	1,628	3,582	896

Key Financials - Other and Eliminations

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017	Q1 2018
Revenues	0.0	-0.3	-0.9	-0.3	-2.9	-0.8
EBITDA contribution	-8.2	-7.1	-19.4	-13.8	-33.9	-11.3
Polysilicon sales in MT (Siemens and granular)	0	-16	0	0	-39	0
Silicon gas sales in MT	0	0	1	0	-80	1

the second quarter of 2017. Sales prices realized by REC Silicon for silane gas increased by approximately 2.1 percent.

Semiconductor polysilicon production was 267MT in line with guidance of 270MT provided on April 26, 2018.

The Semiconductor Materials segment contributed USD 14.4 million to the Company's EBITDA during the second quarter of 2018. This contribution represents revenues less costs of manufacturing for products sold during the period and excludes selling, general, and administrative expenses. EBITDA contributed by the Semiconductor Materials segment declined by USD 3.1 million due to write-downs of solar grade products in inventory and a higher sales volume mix of the highest quality semiconductor grade polysilicon which has a lower margin.

OTHER AND ELIMINATIONS

The segment Other includes general administrative and sales activities in support of the manufacturing facilities in the United States and the Company's headquarters in Fornebu, Norway. It also includes costs associated with the Company's representative offices in Taiwan, Korea, Singapore, China, and the United States.

Operating costs in Other and Eliminations were USD 8.2 million during the second quarter of 2018. Operating costs decreased compared to the first quarter of 2018 because the first quarter of 2018 includes higher costs as a result of efforts to monetize non-core assets and to refinance the Company's debt to satisfy debt maturities during 2018.

In addition, second quarter costs include the recognition of bad debt expense of USD 2.2 million offset by lower spending due to cost reduction efforts.

FINANCIAL ITEMS

Net currency gains and (losses) are primarily related to the impact of exchange rate fluctuations between transaction currencies and the USD which is the primary functional currency for the group. REC Silicon ASA changed functional currency from NOK to USD beginning on January 1, 2018 due to changes in the Company's capital structure with the maturity of REC03 and the issuance of the USD senior secured bond on April 13, 2018. During periods prior to January 1, 2018, net currency gains and (losses) related primarily to the impact of exchange rate changes to internal loans (loans of approximately USD 0.9 billion at December 31, 2017) that are not eliminated on consolidation.

Other financial expenses during the second quarter of 2018 include USD 2.8 million in premium paid to retire REC03 and the USD convertible bonds before their maturity dates.

Interest expenses on borrowings decrease to USD 3.7 million due to the reduction of interest bearing debt.

See note 7 for additional information on borrowings.

Financial Items - REC Silicon Group

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017	Q1 2018
Financial income	0.2	0.1	0.5	0.3	0.6	0.3
Interest expenses on borrowings	-3.7	-7.1	-7.0	-10.3	-28.4	-3.3
Expensing of up-front fees and costs	-0.1	0.0	-0.1	0.0	-0.1	0.0
Other financial expenses	-3.2	-0.4	-3.5	-1.0	-1.7	-0.4
Net financial expenses	-6.9	-7.5	-10.6	-11.3	-30.2	-3.7
Net currency gains/losses	2.5	-17.0	-1.7	-20.7	-34.1	-4.2
Fair value adjustment convertible bonds	0.0	-1.6	0.0	-1.6	0.2	0.0
Net financial items	-4.2	-26.0	-11.8	-33.3	-63.5	-7.6

CASH FLOW

Net cash outflows from operating activities were USD 7.1 million during the second quarter of 2018. Cash outflows were primarily a result of an EBITDA loss of USD 9.6 million and interest payments of USD 6.2 million. In addition, cash outflows included a currency loss of approximately USD 1.9 million on cash deposits in NOK due to an increase in the value of the USD vs. NOK. These were offset by a decrease in working capital of USD 11.1 million. The decreased investment in working capital was due to decreased inventories of USD 8.9 million and customer collections in excess of sales of USD 6.4 million which were offset by a decrease in accounts payable of USD 4.1 million. The remaining USD 0.5 million decrease in cash can be attributed to changes in other assets and liabilities.

Cash outflows from investing activities of USD 3.0 million included capital expenditures of USD 0.6 million and an increase in restricted cash deposits of USD 2.3 million.

Cash outflows from financing activities were USD 59.5 million and were a result of the Company's successful efforts to refinance its debt. On March 23, 2018, the Company announced that it had completed the issue of a USD 110 million senior secured bond with a maturity date of April 13, 2023. The bond was settled on April 13, 2018. As a result of this transaction, the Company paid USD 1.2 million to repurchase a portion of the REC03 NOK denominated bonds and USD 111.3 million to repurchase the majority of the USD convertible bonds. The Company incurred loan costs of USD 1.6 million associated with this transaction. In addition, REC03 matured on May 3, 2018 and the Company paid USD 55.4 million to retire the remaining bonds.

See note 7 for additional information on the effect of this bond issue.

In total, cash balances decreased by USD 69.6 million to USD 42.4 million at June 30, 2018.

FINANCIAL POSITION

Shareholders' equity decreased to USD 133.5 million (34 percent equity ratio) at June 30, 2018, compared to USD 511.4 million (61 percent equity ratio) at March 31, 2018. This decrease was primarily a result of a loss from total operations of USD 374.4 million which included impairment expense of USD 340.4 million. See note 3 for additional

information on impairment. In addition, net currency losses of USD 3.5 million were included in other comprehensive income.

Net debt increased by USD 9.8 million to USD 92.1 million at June 30, 2018, from USD 82.3 million at March 31, 2018. This increase was a result of the decrease in cash balances of USD 69.6 million discussed above offset by a decrease of USD 59.8 million in debt carrying values due to the Company's successful efforts to extend debt maturities by issuing a new USD senior secured bond and the repayment of the Company's existing debt. In addition, the NOK denominated indemnification loan decreased by USD 1.2 million due to the impact of a stronger USD.

Net debt includes convertible bonds at fair value and unamortized loan fees. Including bonds at nominal value, nominal net debt increased by USD 11.3 million to USD 93.6 million at June 30, 2018 compared to USD 82.3 million at March 31, 2018.

See note 17 to the consolidated financial statements for 2017 and note 7 to this report for further information on interest bearing liabilities.

RISKS AND UNCERTAINTIES**CHINA/USA TRADE WAR**

REC Silicon's access to polysilicon markets in China continues to be restricted by the solar trade war between China and the United States. The Group continues to work to obtain a favorable resolution. REC Silicon remains focused on identifying sales opportunities outside of China to mitigate the impact of the trade war. The timing or outcome of any potential resolution remains uncertain.

INCOME TAXES

REC Silicon 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. The timing and amount of any potential outcome is subject to substantial uncertainty. See note 31 to the 2017 annual report.

GOING CONCERN

On July 1, 2018 the Company announced a workforce reduction of approximately 85 of its employees due to the ongoing impacts of the solar trade war between China and the United States. Uncertain market conditions and reduced demand for the Company's solar grade polysilicon have increased the Company's liquidity risk.

The Company's current liquidity position and cost reduction initiatives are considered sufficient to meet debt maturities of USD 1.5 million in September of 2018 and expected operating cash flow requirements for the next twelve months. Cash flow estimates used to arrive at this conclusion include assumptions that the Moses Lake FBR facility continues to operate at approximately 25 percent capacity utilization, solar markets stabilize near current spot price averages, and markets for the Company's semiconductor polysilicon and silicon gas products remains strong. However, the Company's liquidity is dependent upon increases in demand for solar grade polysilicon or a resolution to the solar trade war between China and the United States.

Accordingly, these financial statements have been prepared under the assumption that the Company is a going concern.

However, if conditions surrounding the call of the indemnity loan or the outcome of tax examinations are negative, the liquidity risk for the Company will increase. The indemnification loan was callable in February 2016. This loan has not been called and the due date is uncertain (see note 6 and 2017 Annual Report note 17). The Company's tax filings for prior years continue to be under examination by the Norwegian Central Tax Office (see 2017 Annual Report note 31) and the timing and impact of a ruling remain uncertain.

Please refer to the annual report for 2017, specifically, note 31 to the consolidated financial statements and the risk factors section of the Board of Directors' Report.

MARKET OUTLOOK

Revisions to solar incentives announced by China on June 1, 2018 are expected to reduce global PV demand by 10GW to 20GW for 2018. PV installations in China are currently forecast at approximately 30GW for 2018 compared to approximately 50GW before the change in solar incentives. Estimates of global PV demand are currently forecast from 85GW (GTM Global PV Supply Quarterly Briefing - July 2018) to 103GW

(IHS Markit Installations Tracker – Q2 2018). This represents a decrease of 18GW and 10GW compared to previous forecasts, respectively. China is expected to continue to be the largest PV market, however, demand in China is predicted to decline as a percentage of the global PV market. PV Demand for third quarter of 2018 is expected to be near 20GW (IHS Markit Installations Tracker – Q2 2018) compared to 24GW in the previous forecast. As a result, demand for solar grade polysilicon will be soft during the third quarter with some improvement anticipated during the fourth quarter. To control polysilicon inventories, several major polysilicon manufacturers have announced decreases in production. Polysilicon prices inside China are expected to continue to decline while the price gap for polysilicon inside of China compared to outside of China continues to narrow. Polysilicon prices outside China will continue to decline as demand for polysilicon remains soft. Accordingly, shipments of REC Silicon's solar grade granular polysilicon will be lower during the third quarter as the market adjusts to reductions in global demand for PV installations.

Demand for semiconductor grade polysilicon is expected to grow during the remainder of 2018 as long term fixed contracts expire and inventories decline because of high semiconductor capacity utilization. The successful qualification of REC Silicon products are expected to continue to translate to increasing sales volumes throughout 2018. Macro demand factors associated with data transmission and storage, mobility, and increasing Silicon content in automobiles and other consumer goods are forecasted to continue to result in demand growth over the long term.

Demand for silicon gases in semiconductor and flat panel display applications is expected to remain strong throughout 2018. However, volatility in solar markets is expected to translate to lower demand for silicon gases in the PV segment. Overall demand is expected to remain high due to capacity expansions for flat panel displays, and the continuing implementation of technology improvements in semiconductor applications. As a result of softer demand in the PV segment, prices for PV grade silane gas are expected to negatively impact average prices for the remainder of 2018.

Production targets

POLYSILICON PRODUCTION VOLUME (MT)	ACTUAL RESULTS		TARGETS		
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
Granular	3,127	2,078	1,200	1,200	7,606
Semiconductor Grade	250	267	300	320	1,137
Siemens Solar	146	145	130	120	541
Total	3,523	2,491	1,630	1,640	9,284
Silicon Gas Sales Volume (MT)	897	918	900	960	3,675

Cost targets

FBR Cash Cost (USD/kg)	ACTUAL RESULTS		TARGETS		
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
FBR Cash Cost (USD/kg)	9.4	13.4	15.9	15.2	12.4

GUIDANCE

PRODUCTION TARGETS

REC Silicon targets polysilicon production of 1,630MT during the third quarter of 2018. Polysilicon production rates include the effect of additional FBR capacity curtailments at the Moses Lake facility due to uncertain market conditions and restricted access to markets in China caused by the solar trade war between China and the United States. Third quarter production is expected to decline by approximately 42 percent due primarily to the operation of the Moses Lake facility at only 25 percent of capacity. Anticipated production levels continue to approximate estimated market demand for REC Silicon's solar grade polysilicon products. FBR production will return to full capacity utilization only when the trade war is resolved or when market conditions dictate.

Polysilicon production targets for 2018 are estimated at 9,284MT. This estimate includes the impact of FBR operations at only 25 percent of capacity throughout 2018.

Silicon gas sales volumes are targeted at 900MT for the third quarter of 2018 and 3,675MT for the full year 2018.

Cost Targets

REC Silicon targets FBR cash production costs of USD 15.9/kg for the third quarter of 2018 and USD 12.4/kg for the full year 2018. The increase in cash cost for the third quarter is primarily a result of lower production volumes caused by the capacity curtailment of the FBR facility. While cost reduction initiatives including the workforce reduction in Moses Lake reduce overall spending levels, decreases in efficiency will result in increased unit costs compared to prior periods.

INVESTMENT AND EXPANSION ACTIVITIES

Capital expenditures for 2018 are expected to be approximately USD 3 million. Capital spending includes only the capital necessary to maintain safe and reliable operations. The Company will continue to defer and delay capital spending when possible, while maintaining safe operating conditions to maintain liquidity.

The Yulin Joint Venture (JV) produced approximately 1,000MT of granular polysilicon during the second quarter of 2018 compared to 800MT produced during the first quarter. During the quarter, the JV operated one silane unit at approximately 50 percent capacity and the second silane unit was started on July 11, 2018. Business targets for the JV in 2018 include 8,000MT of Polysilicon Production (Siemens and Granular) and demonstration of 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 "Market 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 the Group's activities described in section "Risks and Uncertainties" above, in REC Silicon's Annual Report for 2017, including the section Risk Factors in the Board of Directors' Report.

STATEMENT BY THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

The Board of Directors and the Chief Executive Officer have today considered and approved the condensed financial statements for the first half year 2018 and the financial information in this report that is relevant for the first half year 2018 (together “the first half year 2018 report”).

The first half year 2018 report has been prepared in accordance with IAS 34 as adopted by the EU and additional disclosure requirements for the first half year report as stated in the Norwegian Securities Trading Act (Verdipapirhandelloven).

We confirm that, to the best of our knowledge, the condensed set of financial statements for the first half year 2018 gives a true and fair view of the Group’s consolidated assets, liabilities, financial position, and results of operations. To the best of our knowledge, the first half year 2018 report includes a fair review of important events during the period and their effects on the condensed set of financial statements for the first half year 2018, together with a description of the principal risks and uncertainties for the remaining months of the financial year as well as transactions with related parties that have a material effect on financial position or the results for the period.

Fornebu, July 18, 2018
Board of Directors



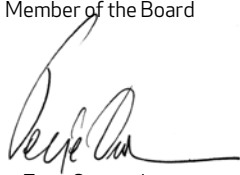
Espen Klitzing
Member of the Board



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 FINANCIAL POSITION

REC SILICON GROUP

(USD IN MILLION)	NOTES	JUN 30, 2018	JUN 30, 2017	DEC 31, 2017
ASSETS				
Non-current assets				
Intangible assets	3	11.8	16.3	15.7
Land and buildings	3	42.4	50.5	50.5
Machinery and production equipment	3	106.6	431.0	416.7
Other tangible assets	3	5.9	12.4	12.0
Assets under construction	3	8.8	61.8	61.1
Property, plant and equipment	3	163.7	555.7	540.3
Government grant assets		0.0	89.7	0.0
Investments in Associates	4	36.9	0.0	0.0
Other non-current receivables		3.8	3.8	3.8
Financial assets and prepayments		40.7	3.8	3.8
Deferred tax assets		0.0	147.2	0.0
Total non-current assets		216.3	812.6	559.8
Current assets				
Inventories	6	80.9	108.4	82.9
Trade and other receivables	11	43.3	46.0	48.6
Restricted bank accounts		7.0	4.4	4.4
Cash and cash equivalents		42.4	71.4	104.5
Total current assets		173.5	230.1	240.4
Total assets		389.8	1,042.8	800.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

REC SILICON GROUP

(USD IN MILLION)	NOTES	JUN 30, 2018	JUN 30, 2017	DEC 31, 2017
EQUITY AND LIABILITIES				
Shareholders' equity				
Paid-in capital		3,158.0	3,158.0	3,158.0
Other equity and retained earnings		-3,024.5	-2,446.6	-2,709.1
Total shareholders' equity		133.5	711.4	448.9
Non-current liabilities				
Retirement benefit obligations		19.6	17.7	20.1
Deferred tax liabilities		0.0	0.9	0.4
Investments in Associates	4	0.0	35.0	34.7
Non-current financial liabilities, interest bearing	7	108.7	106.1	0.0
Non-current prepayments, interest calculation		3.5	5.7	5.5
Other non-current liabilities, not interest bearing		5.5	0.3	8.8
Total non-current liabilities		137.3	165.8	69.6
Current liabilities				
Trade payables and other liabilities		61.1	57.2	62.9
Provisions	9	0.0	0.0	0.3
Current tax liabilities	10	26.2	25.5	26.0
Derivatives	5	1.6	1.5	1.5
Current financial liabilities, interest bearing	7	25.8	77.7	187.8
Current prepayments, interest calculation		4.5	3.8	3.1
Total current liabilities		119.1	165.7	281.7
Total liabilities		256.4	331.4	351.3
Total equity and liabilities		389.8	1,042.8	800.2

CONSOLIDATED STATEMENT OF INCOME

REC SILICON GROUP

(USD IN MILLION)	NOTES	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017
Revenues		58.9	61.4	128.6	118.9	272.4
Cost of materials	6	-16.0	-14.2	-32.4	-29.1	-54.3
Changes in inventories	6	-10.3	-0.3	-2.4	6.9	-18.2
Employee benefit expenses		-14.7	-18.6	-33.3	-36.3	-73.9
Other operating expenses		-27.6	-26.9	-55.5	-55.6	-106.2
Other income and expenses 1)		0.0	0.0	0.1	1.2	-0.1
EBITDA		-9.6	1.3	5.0	5.9	19.8
Depreciation	3	-19.8	-19.9	-39.8	-40.0	-145.2
Amortization	3	-0.2	-0.4	-0.5	-0.9	-1.8
Impairment	3	-340.4	0.0	-340.5	0.0	-0.3
Total depreciation, amortization and impairment		-360.5	-20.3	-380.7	-40.9	-147.3
EBIT		-370.1	-19.0	-375.7	-35.0	-127.5
Share of profit/loss of investments in associates	4	-0.1	-0.6	73.2	-1.1	-1.8
Financial income		0.2	0.1	0.5	0.3	0.6
Net financial expenses		-6.9	-7.5	-10.6	-11.3	-30.2
Net currency gains/losses		2.5	-17.0	-1.7	-20.7	-34.1
Fair value adjustment convertible bonds	7	0.0	-1.6	0.0	-1.6	0.2
Net financial items		-4.2	-26.0	-11.8	-33.3	-63.5
Profit/loss before tax		-374.4	-45.6	-314.3	-69.3	-192.8
Income tax expense/benefit		0.0	-16.4	0.4	-9.8	-157.8
Profit/loss		-374.4	-62.0	-313.9	-79.2	-350.6
Attributable to:						
Owners of REC Silicon ASA		-374.4	-62.0	-313.9	-79.2	-350.6
Earnings per share (In USD)						
From continuing operations						
-basic		-0.15	-0.02	-0.12	-0.03	-0.14
-diluted		-0.15	-0.02	-0.12	-0.03	-0.14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

REC SILICON GROUP

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017
Profit/loss from total operations	-374.4	-62.0	-313.9	-79.2	-350.6
Other comprehensive income, net of tax:					
Items that will not be reclassified to profit or loss:					
Fair value adjustment on own credit risk	0.0	-2.8	-1.9	-12.7	-16.4
Remeasurement of defined benefit plans	0.0	0.0	0.0	0.0	-3.6
Currency translation effects	0.0	19.3	1.5	23.7	43.6
Sum items that will not be reclassified to profit or loss	0.0	16.5	-0.4	11.0	23.6
Items that may be reclassified subsequently to profit or loss:					
Currency translation differences					
- taken to equity	-3.5	-2.0	-1.2	-2.4	-6.1
Sum items that may be reclassified subsequently to profit or loss	-3.5	-2.0	-1.2	-2.4	-6.1
Total other comprehensive income	-3.5	14.4	-1.5	8.6	17.5
Total comprehensive income	-378.0	-47.6	-315.4	-70.6	-333.1
Total comprehensive income attributable to:					
Owners of REC Silicon ASA	-378.0	-47.6	-315.4	-70.6	-333.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

REC SILICON GROUP

(USD IN MILLION)	ATTRIBUTABLE TO EQUITY HOLDERS OF REC SILICON ASA						
	SHARE CAPITAL	SHARE PREMIUM	OTHER PAID-IN CAPITAL	TOTAL PAID-IN CAPITAL	OTHER EQUITY	COMPREHENSIVE INCOME	TOTAL EQUITY
June 30, 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	-70.6	-70.6
At June 30, 2017	405.3	2,710.9	41.8	3,158.0	174.3	-2,620.9	711.4
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
June 30, 2018							
At January 1, 2018	405.3	2,710.9	41.8	3,158.0	174.3	-2,883.4	448.9
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	-315.4	-315.4
At June 30, 2018	405.3	2,710.9	41.8	3,158.0	174.3	-3,198.9	133.4

This table presents details of comprehensive income

(USD IN MILLION)	TRANSLATION DIFFERENCES THAT CAN BE TRANSFERRED TO PROFIT AND LOSS	ACQUISITION	RETAINED EARNINGS	TOTAL
June 30, 2017				
Accumulated at January 1, 2017	29.8	20.9	-2,600.9	-2,550.3
Profit/loss from total operations	0.0	0.0	-79.2	-79.2
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Fair value adjustment on own credit risk	0.0	0.0	-12.7	-12.7
Remeasurement of defined benefit plans	0.0	0.0	0.0	0.0
Currency translation effects	0.0	0.0	23.7	23.7
Sum items that will not be reclassified to profit or loss	0.0	0.0	11.0	11.0
Items that may be reclassified to profit or loss:				
Currency translation differences taken to equity	-3.3	0.0	0.0	-3.3
Tax on currency translation differences taken to equity	0.9	0.0	0.0	0.9
Sum items that may be reclassified to profit or loss	-2.4	0.0	0.0	-2.4
Total other comprehensive income for the period	-2.4	0.0	11.0	8.6
Total comprehensive income for the period	-2.4	0.0	-68.2	-70.6
Accumulated at June 30, 2017	27.4	20.9	-2,669.1	-2,620.9
Year 2017				
Accumulated at January 1, 2017	29.8	20.9	-2,600.9	-2,550.3
Profit/loss from total operations	0.0	0.0	-350.6	-350.6
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Fair value adjustment on own credit risk	0.0	0.0	-16.4	-16.4
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	23.6	23.6
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	23.6	17.5
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	-2,883.4
June 30, 2018				
Accumulated at January 1, 2018	23.7	20.9	-2,927.9	-2,883.4
Profit/loss from total operations	0.0	0.0	-313.9	-313.9
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Fair value adjustment on own credit risk	0.0	0.0	-1.9	-1.9
Remeasurement of defined benefit plans	0.0	0.0	0.0	0.0
Currency translation effects	0.0	0.0	1.6	1.6
Sum items that will not be reclassified to profit or loss	0.0	0.0	-0.4	-0.4
Items that may be reclassified to profit or loss:				
Currency translation differences taken to equity	-1.2	0.0	0.0	-1.2
Currency translation differences transferred to profit/loss for the period	0.0	0.0	0.0	0.0
Sum items that may be reclassified to profit or loss	-1.2	0.0	0.0	-1.2
Total other comprehensive income for the period	-1.2	0.0	-0.4	-1.5
Total comprehensive income for the period	-1.2	0.0	-314.3	-315.4
Accumulated at June 30, 2018	22.5	20.9	-3,242.2	-3,198.9

CONSOLIDATED STATEMENT OF CASH FLOWS

TOTAL OPERATIONS

REC SILICON GROUP

(USD IN MILLION)	NOTES	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017
Cash flows from operating activities						
Profit/loss before tax		-374.4	-48.3	-314.3	-82.1	-209.2
Income taxes paid/received		0.0	0.6	0.0	0.6	0.6
Depreciation, amortization and impairment	3	360.5	20.3	380.7	40.9	147.3
Fair value adjustment convertible bond	7	0.0	4.4	0.0	14.3	16.2
Equity accounted investments, impairment financial assets, gains/losses on sale	4	0.2	0.6	-72.7	1.1	1.8
Changes in receivables, prepayments from customers etc.	11	6.4	-1.3	8.8	14.2	5.9
Changes in inventories	6	8.9	-0.1	2.0	-2.9	22.6
Changes in payables, accrued and prepaid expenses		-6.5	-2.3	-7.7	0.0	18.6
Changes in provisions	9	-0.1	0.0	-0.3	0.0	0.3
Changes in VAT and other public taxes and duties		-0.1	0.4	0.0	0.3	1.0
Changes in derivatives		-0.1	0.0	0.0	0.0	0.0
Currency effects not cash flow or not related to operating activities		-4.4	16.3	1.4	20.0	33.6
Other items		2.6	-0.1	2.4	-0.1	0.1
Net cash flow from operating activities		-7.1	-9.4	0.3	6.3	38.8
Cash flows from investing activities						
Payments finance receivables and restricted cash		-2.3	-0.3	-2.6	-0.3	-0.2
Proceeds from sale of property, plant and equipment and intangible assets		0.0	0.0	0.5	0.0	0.0
Payments for property, plant and equipment and intangible assets	3	-0.6	-1.1	-0.9	-1.9	-2.6
Net cash flow from investing activities		-3.0	-1.5	-2.9	-2.2	-2.8
Cash flows from financing activities						
Increase in equity		0.0	0.0	0.0	0.0	0.0
Payments of borrowings 1)		-169.5	0.0	-169.5	0.0	0.0
Proceeds from borrowings		110.0	0.0	110.0	0.0	0.0
Net cash flow from financing activities		-59.5	0.0	-59.5	0.0	0.0
Effect on cash and cash equivalents of changes in foreign exchange rates		0.0	1.4	0.0	1.5	2.8
Net increase/decrease in cash and cash equivalents		-69.6	-9.5	-62.1	5.6	38.8
Cash and cash equivalents at the beginning of the period		112.0	80.9	104.5	65.8	65.8
Cash and cash equivalents at the end of the period		42.4	71.4	42.4	71.4	104.5

1) Payment of borrowings include fees and costs for issue and repurchase of interest bearing debt.

NOTES

1 GENERAL

THE GROUP

REC Silicon ASA (the Company) and its subsidiaries (together REC Silicon Group, REC Silicon, or the Group) are a leading producer of advanced silicon materials, delivering high-purity polysilicon and silicon gases to the solar and electronics industries worldwide.

REC Silicon ASA is headquartered in Fornebu, Norway and 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 US. REC Silicon's marketing activities for sales of solar grade polysilicon, semiconductor grade silicon and silicon gases are carried out in China, Japan, Korea, Taiwan, and the United States. The Group's joint venture operations are held in REC Silicon Pte Ltd in Singapore.

BASIS OF PREPARATION

The financial statements are presented in million USD. Due to rounding, 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.

FINANCIAL STATEMENTS

These consolidated interim financial statements, combined with other relevant financial information in this report, have been prepared in accordance with IAS 34. They have not been audited or subject to a review by the auditor. They do not include all the information required for full annual financial statements of the Group and should be read in conjunction with the consolidated financial statements for 2017. The consolidated financial statements for 2017 are available upon request from the Company's registered office in Fornebu, Norway or at www.recsilicon.com.

The Board of Directors has prepared these interim financial statements under the assumption that the Company is a going concern and is of the opinion that this assumption was realistic at the date of the accounts. Please refer to the section Risks and Uncertainties in this report for additional information.

ACCOUNTING POLICIES

The consolidated financial statements for 2017 were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Norwegian Accounting Act. The accounting policies adopted by the Company are consistent with those of the previous fiscal year. See note 2.24 to the consolidated financial statements for 2017.

IFRS 15, Revenues from Contracts with Customers, was implemented as of January 1, 2018. The group has not identified any implementation effect or significant impact on accounting policies related to revenues. There were no impacts or changes to the opening balances. See note 3 for a disaggregation of revenues by contract type.

IFRS 9, Financial instruments, effective beginning January 1, 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. An adjustment of USD 1.9 million to fair value of the USD convertible bonds related to own credit risk was reclassified to OCI at January 1, 2018. See note 10 for a discussion on the impact to accounts receivable.

New Standards and interpretations not yet adopted

IFRS 16 Leases, issued January 2016, replaces existing leases guidance, including IAS 17, IFRIC 4, SIC-15, SIC-27 and establishes a balance sheet lease accounting model that will increase transparency and comparability effective for annual periods beginning in 2019. The group is in the process of assessing the impact of this standard and plans to adopt it on the required effective date.

SEGMENT INFORMATION

REC Silicon produces silicon gas and polysilicon for the semiconductor industries at its manufacturing facility in Butte, Montana. The Company also produces polysilicon for the photovoltaic industry at its manufacturing facility in Moses Lake, Washington. Incremental changes to the Company's organization structure, management team, operating strategy, and performance measurement reporting have led to the determination that these businesses represent separate distinguishable operating segments. Beginning in 2018, there are two operating segments; Solar Materials and Semiconductor Materials. The operating segments include revenues less cost of manufacturing excluding depreciation for products sold while Other include general, administrative, and selling expenses which support both operating segments in addition to administrative costs for the Company's headquarters in Fornebu, Norway. Eliminations include the reversal of the impact of transactions between group members and affiliates. The results of the operating segments plus Other and Eliminations taken together reconcile to total EBITDA for the Group.

Group Management continues to be headed by the Chief Executive Officer (CEO), and the CEO makes decisions regarding the allocation of resources and performance assessment for all segments. Accordingly, the CEO is regarded as the Chief Operating Decision Maker (CODM).

FOREIGN CURRENCY TRANSLATION

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"). Due to changes in the Company's capital structure the selection of functional currency was reevaluated at January 1, 2018 and it was determined that the Company's functional currency should be changed from NOK to USD. Accordingly, REC Silicon ASA's account balances at January 1, 2018 were converted to USD. Amounts reported for REC Silicon ASA for periods beginning on January 1, 2018 and later are stated using USD as the functional currency. Amounts reported for periods beginning prior to January 1, 2018 are stated using NOK as the functional currency. The Group's reporting currency continues to be USD.

ESTIMATES AND JUDGMENTS

Preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4 to the consolidated financial statements for 2017.

2 SEGMENT INFORMATION

See notes 2.3 and 5 to the consolidated financial statements for 2017 and note 1 to these financial statements for further information on segments.

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017
Revenues					
Solar Materials	20.4	26.6	53.1	53.4	127.8
Semiconductor Materials	38.6	35.0	76.3	65.8	147.5
Other	0.0	0.0	0.0	0.0	0.0
Eliminations	0.0	-0.3	-0.9	-0.3	-2.9
Total	58.9	61.4	128.6	118.9	272.4
EBITDA					
Solar Materials	-15.9	-4.3	-7.5	-5.5	-1.7
Semiconductor Materials	14.4	12.7	32.0	25.1	55.3
Other	-8.1	-7.1	-19.0	-13.8	-32.7
Eliminations	0.0	0.0	-0.5	0.0	-1.2
Total	-9.6	1.3	5.0	5.9	19.8

The following table disaggregates revenues by contract type and reconciles to total revenues.

(USD IN MILLION)	Q2 2018	Q2 2017	JUN 30, 2018	JUN 30, 2017	YEAR 2017
Non-Contract Revenue	41.9	42.4	90.5	81.9	194.7
Structured (Regional/Volume pricing)	15.2	14.4	32.8	28.6	62.2
Tiered (Volume pricing)	1.7	4.6	5.1	8.4	15.5
Contract Revenue	17.0	19.0	38.0	37.0	77.7
Total	58.9	61.4	128.5	118.9	272.4

3 FIXED ASSETS

See note 6 to the consolidated financial statements for 2017.

Property, plant and equipment and intangible assets

(USD IN MILLION)	LAND AND BUILDINGS	MACHINERY AND EQUIPMENT	OTHER TANGIBLE FIXED ASSETS	ASSETS UNDER CONSTRUCTION	TOTAL PROPERTY, PLANT AND EQUIPMENT	TOTAL INTANGIBLE ASSETS	TOTAL
Carrying value at January 1, 2018	50.5	416.7	12.0	61.1	540.3	15.7	556.0
Net additions 1)	0.0	1.4	0.3	-0.9	0.8	-0.1	0.8
Disposals	-0.4	0.0	0.0	0.0	-0.4	0.0	-0.4
Depreciation and amortization	-1.3	-37.3	-1.1	0.0	-39.8	-0.5	-40.2
Impairment	-6.3	-274.1	-5.4	-51.4	-337.2	-3.3	-340.5
Carrying value at June 30, 2018	42.4	106.6	5.9	8.8	163.7	11.8	175.6
At June 30, 2018							
Historical cost	147.5	2,130.0	79.6	65.2	2,422.3	80.0	2,502.3
Accumulated depreciation/amortization/impairment	-105.1	-2,023.4	-73.7	-56.4	-2,258.6	-68.1	-2,326.7
Carrying value at June 30, 2018	42.4	106.6	5.9	8.8	163.7	11.8	175.6

1) Net additions include transfers from assets under construction

IMPAIRMENT REVIEWS

See note 7 to the consolidated financial statements for 2017.

The Group conducted a review of impairment indicators and impairment testing was performed at June 30, 2018. Impairment indicators that could give rise to a change in impairment included carrying value in excess of the Company's market capitalization, changes in solar grade polysilicon market conditions, and production capacity curtailments due to uncertainty associated with the trade war between the US and China (See notes 10 and 13).

Management has performed an evaluation of the Company's operations and has determined that the Group consists of two cash generating units (CGUs) based upon changes in the Company's operations and management structures. This determination was based upon changes in segment reporting to include segments Solar Materials and Semiconductor Materials which were accordingly determined by management to represent the smallest units for which cash flows can be reasonably determined. Net Costs associated with the Other segment have been allocated to the individual CGUs based upon estimated activity, volume, and revenue factors. Value in use has been estimated for each CGU using discounted cash flows over a 5-year period with the last year used as a basis for the terminal value. A discount rate of 12.9 percent was estimated on an after-tax basis and adjusted to estimate the equivalent before tax discount rate of 15.2 percent for the Solar Materials CGU and 20.1 percent for the Semiconductor Materials CGU.

Impacts on long term polysilicon market conditions caused by the trade war between the US and China are difficult to determine. Forecasts used to arrive at estimated future cash flows include the assumption that market conditions will support an increase in production capacity utilization of the Moses Lake FBR facility to 50 percent capacity utilization in 2020 and 100% capacity utilization in 2021. Should the impacts of the trade war continue, additional impairment of the Solar Materials CGU would be required.

The net carrying value of the Solar Materials CGU exceeded the resulting value in use at June 30, 2018. Therefore, an additional impairment of USD 396.7 million has been taken against the property, plant and equipment in the Solar Materials CGU at June 30, 2018.

The resulting value in use of the Semiconductor Materials CGU exceeded the net carrying value at June 30, 2018. Therefore, net impairments recorded during previous periods of USD 56.3 million were reversed.

Total impairments of USD 340.4 million are included in the line "Impairment" in the statement of income and include USD 0.5 million of assets that have been replaced or taken out of service during the third quarter of 2016.

4 EQUITY ACCOUNTED INVESTMENTS (ASSOCIATES AND JOINT VENTURES)

In February 2014, REC Silicon entered into a joint arrangement in China; Shaanxi Non-Ferrous Tian Hong REC Silicon Materials Co., Ltd. (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 a supplemental agreement in relation to outstanding capital contribution.

The Framework Agreement provides that SNF will make REC Silicon's outstanding capital contribution of USD 169 million and the equity ownership of the Yulin JV will be adjusted. REC Silicon agreed to pay the Yulin JV USD 0.6 million for interest and SNF USD 2.1 million. These payments were made in March of 2018. The remaining payments to SNF include USD 3.1 million in March of 2019 and USD 5.2 million in March of 2020. The remaining installment amounts have been reported as liabilities in the consolidated statement of financial position at March 31, 2018.

The framework agreement provides that REC Silicon's ownership is reduced to a 15 percent interest. REC Silicon will also appoint the Yulin JV Chief Technology Officer (CTO) and maintain one seat on the JV's board of directors. This arrangement continues to be recognized as an associate and is accounted for according to the equity method. See note 33 to the consolidated financial statements for 2017.

The adjustment to reduce REC Silicon's ownership interest to 15 percent resulted in the recognition of USD 67.2 million associated with the deferral of the gain realized on the transfer of FBR technology to the JV and USD 5.0 million profit from investments in associates associated with the JV operating losses since inception.

The Group's share of net equity does not reflect its 15 percent ownership interest in the Yulin JV, due to differences in timing of equity contributions by the JV partners.

The following table presents a reconciliation of the Group's investment in the Yulin joint venture:

(USD IN MILLION)	JUN 30, 2018	DEC 31, 2017
Carrying value at January 1	-34.7	-35.7
Equity contributions	0.0	0.0
Amortization of basis difference in technology contributed	0.0	0.0
Share of joint venture profit/loss	-0.3	-1.8
Deferred income/expense	0.8	-1.2
Change in Deferred Gain of Tech Transfer due to change in ownership	67.2	0.0
Change in Retained earnings due to change in ownership	5.0	0.0
Effects of changes in currency exchange rates	-1.2	4.0
Carrying value at end of period	36.9	-34.7

The following table presents the major classification of assets and liabilities reflected on the Yulin JV's statement of financial position:

(USD IN MILLION)	JUN 30, 2018	DEC 31, 2017
Non-current assets	1,170.8	1,060.6
Other Current assets	39.8	32.2
Cash and cash equivalents	66.7	1.0
Non-current liabilities	-674.9	-552.5
Current liabilities	-142.8	-236.2
Net Assets (100%)	459.6	305.1
REC Silicon's share of net equity	67.1	63.6
Deferred income/expense	-0.4	-1.2
Adjusted for technology transfer	-29.8	-97.0
Carrying amount of REC's interest	36.9	-34.7

See note 8 to the consolidated financial statements for 2017.

5 DERIVATIVES

See notes 3 and 11 to the consolidated financial statements for 2017.

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

At June 30, 2018, the option contract was a liability valued at USD 1.6 million (USD 1.5 million at December 31, 2017).

6 INVENTORIES

See note 13 to the consolidated financial statements for 2017.

Inventories at end of period

(USD IN MILLION)	JUN 30, 2018			DEC 31, 2017		
	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS
Stock of raw materials	11.0	0.0	11.0	9.8	0.0	9.8
Spare parts	42.1	-17.6	24.5	42.8	-16.2	26.6
Work in progress	12.3	-1.8	10.5	12.2	-0.8	11.4
Finished goods	71.0	-36.1	34.9	51.1	-16.1	35.1
Total	136.3	-55.5	80.9	116.0	-33.1	82.9

7 BORROWINGS AND GUARANTEES

See notes 4 and 17 to the consolidated financial statements for 2017.

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.

As part of this bond issue, the Company repurchased senior unsecured bonds maturing May 3, 2018 (ISIN NO0010607476, REC03) and USD convertible bonds maturing September 11, 2018 (ISIN NO0010687304). The Company agreed to repurchase approximately NOK 9 million of REC03 at a price of 100.5 percent of par value (plus accrued interest). Further, the Company bought back and canceled a total of approximately USD 108.5 million of the USD convertible bonds.

The bond was settled on April 13, 2018.

On May 3, 2018 the senior unsecured bonds (REC03) reached their maturity date and the Company extinguished all outstanding bonds at their face value of NOK 446.5 million.

Carrying amounts of interest bearing liabilities at June 30, 2018 and contractual repayments (excluding interest payments) are specified in the table below.

(USD IN MILLION)	CARRYING AMOUNT		CONTRACTUAL PAYMENTS, EXCLUDING INTEREST		
	CURRENCY	USD	TOTAL	2018	2023
Unamortized upfront fees (USD)	-1.5	-1.5	0.0	0.0	0.0
USD senior secured bond (USD)	110.0	110.0	110.0	0.0	110.0
USD convertible bond (USD)	1.5	1.5	1.5	1.5	0.0
Indemnification loan (NOK)	200.0	24.5	24.5	24.5	0.0
Total		134.5	136.0	26.0	110.0

The indemnification loan is related to the bankruptcy of a former subsidiary in 2012. At June 30, 2018, the indemnification loan is NOK 200 million (USD 24.5 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 (see note 10 below and note 17 to the consolidated financial statements for 2017).

Guarantees

See note 29 to the consolidated financial statements for 2017.

At June 30, 2018, the Company had provided USD 5.0 million in bank guarantees against which the Company has pledged USD 4.0 million of restricted cash. This included bank guarantees for the benefit of REC Solar of USD 1.2 million with USD 0.2 million of restricted cash as security.

The Company has also provided parent company guarantees related to the performance of solar panels and systems sold by the REC Solar Group. These guarantees were USD 54.7 million at June 30, 2018 and December 31, 2017.

The Company has been provided with offsetting guarantees by REC Solar Holdings AS as part of the sale of REC Solar in 2013.

Fair values of financial instruments

See note 30 to the consolidated financial statements for 2017.

The option contract in the indemnification agreement associated with the REC Wafer Norway AS bankruptcy is subject to level 3 of the fair value hierarchy of IFRS 13. The value of this option was USD 1.6 million at June 30, 2018 and USD 1.5 million at December 31, 2017.

The fair value of the USD convertible bond at June 30, 2018 is estimated at 100 percent of nominal value, compared to 98 percent at December 31, 2017. Fair value of the USD convertible bond is estimated using recent transactions reported for the bond.

USD convertible bond

(USD IN MILLION)	AT ISSUE SEP 2013	JUN 30, 2017	DEC 31, 2017	MAR 30, 2018	JUN 30, 2018
Nominal value	110.0	110.0	110.0	110.0	1.5
Value of the total loan	110.0	106.1	108.1	110.0	1.5

(USD IN MILLION)	CHANGES UNDER IFRS 9			
	Q2 2017	YEAR 2017	Q1 2018	Q2 2018
Profit/Loss	1.6	-0.2	0.0	0.0
Other Comprehensive Income	12.7	16.4	1.9	1.9
Total	14.3	16.2	1.9	1.9

USD senior secured bond

(USD IN MILLION)	JUN 30, 2018
Nominal value	110.0
Unamortized upfront fees (USD)	-1.5
Net carrying amount	108.5

8 COMMITMENTS

Contractual purchase obligations and minimum operating lease payments at June 30, 2018

(USD IN MILLION)	TOTAL FUTURE PAYMENTS	REMAINING 2018	2019	2020	2021	2022	2023	AFTER 2023
Purchase of goods and services	25.0	19.4	0.9	1.3	1.6	1.6	0.1	0.0
Minimum operating lease payments	42.0	7.5	14.0	13.7	2.5	2.1	2.1	0.0
Total purchase obligations and minimum lease payments	67.1	26.9	14.9	15.0	4.2	3.8	2.3	0.0

9 PROVISIONS

During the third quarter of 2017, the Group recognized expense of USD 0.7 million for an onerous contract associated with manufacturing equipment under a non-cancellable operating lease at the Moses Lake facility. The equipment is no longer required to support operations due to reduced capacity utilization caused by the trade war between China and the United States. During the first quarter of 2018, USD 0.2 million of the provision was utilized to offset payments. At March 31, 2018, the Group recognized a provision of USD 0.1 million equal to the remaining lease obligation which expired in May 2018. As of June 30, 2018, no additional provision was made.

10 CLAIMS, DISPUTES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CHINA/USA TRADE WAR

REC Silicon's access to polysilicon markets in China continues to be restricted by the solar trade war between China and the United States. The Group continues to work to obtain a favorable resolution. REC Silicon remains focused on identifying sales opportunities outside of China to mitigate the impact of the trade war. The timing or outcome of any potential resolution remains uncertain.

INCOME TAXES

REC Silicon 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. The timing and amount of any potential outcome is subject to substantial uncertainty. See note 31 to the 2017 annual report.

GOING CONCERN

On July 1, 2018 the Company announced a workforce reduction of approximately 85 of its employees due to the ongoing impacts of the solar trade war between China and the United States. Uncertain market conditions and reduced demand for the Company's solar grade polysilicon have increased the Company's liquidity risk.

The Company's current liquidity position and cost reduction initiatives are considered sufficient to meet debt maturities of USD 1.5 million in September of 2018 and expected operating cash flow requirements for the next twelve months. Cash flow estimates used to arrive at this conclusion include assumptions that the Moses FBR facility continues to operate at approximately 25 percent capacity utilization, market stabilize near current spot price averages, and markets for the Company's semiconductor polysilicon and silicon gas products remains strong.

Accordingly, these financial statements have been prepared under the assumption that the Company is a going concern.

However, if conditions surrounding the call of the indemnity loan or the outcome of tax examinations are negative, the liquidity risk for the Company will increase. The indemnification loan was callable in February 2016. This loan has not been called and the due date is uncertain. (see note 6 and 2017 Annual Report note 17). The Company's tax filings for prior years continue to be under examination by the Norwegian Central Tax Office (see 2017 Annual Report note 31) and the timing and impact of a ruling remain uncertain.

Please refer to the annual report for 2017, specifically, note 31 to the consolidated financial statements and the risk factors section of the Board of Directors' Report.

OTHER

During 2016, REC Advanced Silicon Materials LLC (ASiMi) received a refund of USD 6.6 million for electricity costs in prior years due to incorrectly implemented rate increases. The utility provider appealed the Federal Energy Regulatory Commission's (FERC) refund decision to the D.C. Court of Appeals which affirmed the FERC's decision. Although further avenues of appeal exist, the likelihood of a reversal is remote. No provision was made for any potential liability associated with this matter.

Please refer to the annual report for 2017, specifically, note 31 to the consolidated financial statements and the risk factors section of the Board of Directors' Report.

11 RECEIVABLES

See notes 12 and 30 to the consolidated financial statements for 2017.

Aging of receivables at June 30, 2018

(USD IN MILLION)	TOTAL CARRYING AMOUNT	NOT DUE	AGING OF RECEIVABLES THAT ARE NOT IMPAIRED PAST DUE				IMPAIRED
			< 30 DAYS	>30<90 DAYS	>90<365 DAYS	>365 DAYS	
Trade receivables and accrued revenues	46.9	26.7	5.7	0.3	0.0	0.0	14.2
Provision for loss on trade receivables	-14.2	0.0	0.0	0.0	0.0	0.0	-14.2
Other non-current and current receivables	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Total receivables	33.1	27.1	5.7	0.3	0.0	0.0	0.0
Prepaid Costs	10.2						
Total trade and other receivables	43.3						

The provision for doubtful accounts includes the impact of adopting IFRS 9 which requires the Company to estimate expected credit losses (ECL) based upon historical experience. The total bad debt expense recorded for the second quarter of 2018 was USD 2.2 million.

12 TRANSACTIONS WITH RELATED PARTIES

See notes 10 and 16 to the consolidated financial statements for 2017.

In the first half of 2018, REC Silicon invoiced the Yulin JV USD 5.5 million for engineering and project services. In addition, REC Silicon sold product to the JV for USD 0.8 million in the first half of 2018 (see note 4 above).

REC Silicon ASA office is owned by shareholder UMOE AS and leased to the Company.

13 EVENTS AFTER THE REPORTING PERIOD

WORKFORCE REDUCTION

REC Silicon executed a layoff affecting nearly 30% of its current workforce in Moses Lake, Washington on July 2, 2018. This layoff impacted approximately 85 employees across the Company and is a direct result of the on-going solar trade war between China and the United States. REC Silicon reduced its production at Moses Lake to approximately 25% of total production capacity. These actions were taken to help maintain the Company's liquidity, its ability to meet financial obligations, and to maintain REC Silicon's capability to resume manufacturing operations when access to China's polysilicon markets is restored.

The associated restructuring costs will be reported in the third quarter of 2018 and are expected to be approximately USD 2.7 million.

DEFINITION OF ALTERNATIVE PERFORMANCE MEASURES

An Alternative Performance Measure (APM) is a measure of historical or future financial performance, financial position, or cash flows other than a financial measure defined or specified in the applicable financial reporting framework.

The Company has identified the following APMs used in reporting:

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

EBIT Margin – EBIT divided by revenues.

EBITDA – EBIT excluding depreciation, amortization and impairment.

EBITDA Margin – EBITDA divided by revenues.

EBITDA Contribution – Revenues less cost of manufacturing excluding depreciation for products sold.

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

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

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

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

FOR MORE INFORMATION, PLEASE CONTACT

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About REC Silicon

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

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