



RECSiLICON

# THIRD QUARTER 2018

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REPORT

## THIRD QUARTER HIGHLIGHTS

(Compared to Second Quarter 2018)

- > Revenues of USD 43.7 million and EBITDA Loss of USD 6.1 million
  - Polysilicon Sales Volume of 1,113MT (46.4% Decrease)
  - 503MT Polysilicon Inventory Increase
  
- > Silicon Gas Sales Volumes
  - Sales Volume of 865MT (5.8% Decrease)
  - 1.3% Silane Gas Price Increase
  
- > September 30, 2018 Cash Balance of USD 41.0 million
  - Cash Decrease of USD 1.4 million
  - Cash Outflows from Operations USD 1.7 million
  - \$4.0M Decreased Investment in Working Capital
  
- > FBR Cash Cost of \$15.1/kg
  - FBR Capacity Utilization Decreased to ~25% in June
  - Lower Spending due to Delay of Planned Maintenance
  - FBR Production Volume of 1,170MT (43.7% Decrease)
  
- > Yulin JV Start-up Progressing Well
  - ~3,000MT Produced YTD
  - FBR Solar Grade Quality Achieved
  - Silane Units and FBR Reactors Have Achieved Design Capacity

## FINANCIAL HIGHLIGHTS

### Key Financials - REC Silicon Group

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017	Q2 2018
Revenues	43.7	75.5	172.3	194.3	272.4	58.9
EBITDA	-6.1	3.6	-1.1	9.5	19.8	-9.6
EBITDA margin	-14.0%	4.7%	-0.6%	4.9%	7.3%	-16.3%
EBIT excluding impairment charges	-16.9	-82.1	-52.1	-117.0	-127.2	-29.6
Impairment charges	-0.1	-0.1	-340.5	-0.2	-0.3	-340.4
EBIT	-16.9	-82.2	-392.6	-117.2	-127.5	-370.1
EBIT margin	-38.7%	-109.0%	-227.9%	-60.3%	-46.8%	-627.9%
Profit/loss before tax	-20.3	-118.7	-334.7	-188.0	-192.8	-374.4
Profit/loss	-19.6	-120.8	-333.5	-200.0	-350.6	-374.4
Earnings per share, basic and diluted (USD)	-0.01	-0.05	-0.13	-0.08	-0.14	-0.15
Polysilicon production in MT (Siemens and granular)	1,615	2,835	7,616	9,020	11,636	2,478
Polysilicon sales in MT (Siemens and granular)	1,113	4,091	6,094	9,560	13,503	2,077
Multicrystalline brick sales in MT	0	1	2	1	1	0
Silicon gas sales in MT	865	904	2,680	2,532	3,501	918

## 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 9,276MT in 2018.

Revenues during the third quarter of 2018 decreased by 25.8 percent to USD 43.7 million compared to the second quarter of 2018. The decrease in revenues is primarily a result of lower sales volumes and prices for solar grade polysilicon due to cuts in PV incentives announced by China in May 2018. Total polysilicon sales volumes decreased by 46.4 percent to 1,113MT.

Total polysilicon production volume was 1,615MT and was in line with guidance of 1,630MT provided on July 19, 2018. Production includes the effect of lower FBR production capacity utilization rates which were reduced to approximately 25 percent in early June. Polysilicon inventories increased by 503MT during the third quarter of 2018.

EBITDA was a loss of USD 6.1 million for the third quarter of 2018 compared to an EBITDA loss of USD 9.6 million during the second quarter of 2018. The EBITDA loss is primarily a result of the impact of lower solar grade polysilicon volumes and sales prices and inventory write-downs due to low estimated future sales prices. These were offset by the Company's efforts to reduce costs including the workforce reduction announced on July 1, 2018. EBITDA included USD 1.9 million in termination benefits associated with the workforce reduction offset by a refund of sales taxes for previous periods of USD 1.3 million which have been reported on the statement of income as other income and expense.

### Summary of second quarter results by segment

(USD IN MILLION)	Q3 2018	
	REVENUES	EBITDA
Solar Materials	6.2	-9.9
Semiconductor Materials	37.6	9.3
Other & Eliminations	0.0	-5.4
Total	43.7	-6.1

### MARKET DEVELOPMENT

End use PV demand for the third quarter of 2018 is estimated near 20GW (IHS Markit PV Installations Tracker – Q3 2018). This represents a decrease of 8GW compared to the second quarter. The decrease in demand is directly attributable to a reduction in financial support for solar installations announced by China in May 2018. Polysilicon prices stabilized during the third quarter, however, solar grade polysilicon spot prices inside of China dropped below spot prices outside of China for the first time. Spot prices at the end of the third quarter inside of China were estimated at approximately USD 10.4/kg, a decrease of USD 2.0/kg (16 percent) compared to spot prices at the end of the second quarter 2018. For the same period, spot prices outside of China decreased by USD 1.6/kg (5 percent) to USD 11.0/kg. Trade restrictions implemented by the European Union to prevent dumping of solar modules have expired. However, PV demand has not increased with additional access to solar modules. Overall, demand remained soft and oversupply continues to place downward pressure on prices across the supply chain. Polysilicon suppliers have taken maintenance outages and some smaller polysilicon suppliers are not expected to resume production in the near future.

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 industry. In August, SEMI Silicon Wafer shipment data indicated record shipments. 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 third quarter. However, there was some weakness in the PV segment because of reduced production capacity utilization by PV manufacturers, particularly in China. In other segments, demand continues to increase as a result of 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 0.4 million during the third quarter of 2018 compared to USD 0.8 million during the second quarter.

Research efforts are focused on maintaining minimum research lab operations and the development of analysis capabilities for testing silicon gases which has previously been outsourced.

## 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 6.2 million during the third quarter of 2018, a decrease of 69.8 percent compared to USD 20.4 million during the second 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 62.2 percent to 658MT compared to the second quarter of 2018. Lower sales volumes continue to reflect the impact of reductions in financial support for PV installations announced by China in June 2018. Because REC finalized sales early in the second quarter, the Company realized the full impact of declining sales prices during the third quarter. Sales prices for the third quarter declined by 20.5 percent compared to the second quarter.

Granular polysilicon production volume was 1,170MT and consistent with market guidance of 1,200MT provided on July 19, 2018.

Production includes the impact of a reduction in FBR production capacity utilization to approximately 25 percent early in June.

FBR cash production costs were USD 15.1/kg which was USD 0.7/kg lower than guidance provided with the second quarter earnings release. Cost reduction initiatives have reduced overall spending levels, however, decreases in capacity utilization has resulted in increased unit costs compared to USD 11.0/kg achieved for the first half of 2018.

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. As a result, the Company has idled production capacity, reduced its workforce, and spending levels to maintain liquidity. The Company intends to continue operating the FBR facility in Moses Lake at capacity utilization rates near 25 percent while continuing to implement measures to reduce costs and maintain sufficient liquidity. 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 9.9 million to the Company's EBITDA loss during the third quarter of 2018. This loss is primarily a result of lower polysilicon sales volumes, lower prices, and write-downs of finished inventory due to low estimated future sales prices. This contribution represents revenues less cash 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**

### Key Financials - Solar Materials

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017	Q2 2018
Revenues	6.2	37.3	59.3	90.7	127.8	20.4
EBITDA contribution	-9.9	0.0	-17.4	-5.5	-1.7	-15.9
Contribution margin	-161.5%	-0.1%	-29.4%	-6.1%	-1.3%	-77.8%
Polysilicon production in MT (Siemens and granular)	1,170	2,254	6,375	7,051	9,380	2,078
Polysilicon sales in MT (Siemens and granular)	658	3,420	4,962	8,024	11,450	1,742
Multicrystalline brick sales in MT	0	1	2	1	1	0

### Key Financials - Semiconductor Materials

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017	Q2 2018
Revenues	37.6	39.8	113.9	105.6	147.5	38.6
EBITDA contribution	9.3	13.5	41.2	38.7	55.3	14.4
Contribution margin	24.7%	33.9%	36.2%	36.6%	37.5%	37.4%
Polysilicon production in MT (Siemens)	446	582	1,241	1,969	2,256	399
Polysilicon sales in MT (Siemens)	455	695	1,132	1,576	2,093	335
Silicon gas sales in MT	865	955	2,679	2,583	3,582	918

### Key Financials - Other and Eliminations

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017	Q2 2018
Revenues	0.0	-1.7	-0.9	-2.0	-2.9	0.0
EBITDA contribution	-5.4	-9.9	-24.9	-23.7	-33.9	-8.2
Polysilicon sales in MT (Siemens and granular)	0	-24	0	0	-39	0
Silicon gas sales in MT	0	-51	1	-51	-80	0

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 37.6 million during the third quarter of 2018 a decrease of 2.5 percent from USD 38.6 million during the second quarter of 2018.

Polysilicon sales volumes increased to 455MT compared to 335MT in the second quarter of 2018. This increase was the result of higher solar grade polysilicon sales volumes while semiconductor grade polysilicon sales volumes decreased by 2.7 percent to 266MT. Because of the increase in lower quality product sales, average prices realized on total polysilicon sales decreased by 25.9 percent while the underlying price realizations for semiconductor grade polysilicon decreased by 4.6 percent compared to the prior quarter.

Silicon gas sales volumes were 865MT during the third quarter of 2018 or 35MT below market guidance provided on July 19, 2018. This represents a 5.8 percent decrease compared to sales volumes for the second quarter of 2018. Sales prices realized by REC Silicon for silane gas increased by approximately 1.3 percent.

Semiconductor polysilicon production was 296MT in line with guidance of 300MT provided with the second quarter earnings release.

The Semiconductor Materials segment contributed USD 9.3 million of income to the Company's EBITDA during the third quarter of 2018. This contribution represents revenues less cash costs of manufacturing for products sold during the period and excludes selling, general, and administrative expenses. Compared to the second quarter, EBITDA contributed by the Semiconductor Materials segment declined by USD 5.2 million due to lower silicon gas sales volumes and a high mix of lower margin solar grade polysilicon sales. In addition, inventory of lower quality semiconductor grade polysilicon products that is expected to sell at lower prices into the solar market was written down to reflect lower expected sales realizations.

#### 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 5.4 million during the third quarter of 2018, a decrease of USD 2.8 million compared to the second quarter. This decrease includes the reimbursement of USD 0.7 million for expenses incurred in prior periods by the Yulin JV. In addition, the second quarter included the recognition of bad debt expense of USD 2.2 million.

#### INVESTMENT IN ASSOCIATES (YULIN JV)

The Yulin JV has produced approximately 3,000MT through the third quarter of 2018. The silane units and the FBR reactors have demonstrated design capacity and utilization rates continue to increase. The Yulin JV is expected to reach full capacity rates during the first quarter of 2019. The Siemens reactors have been commissioned and have demonstrated production of Czochralski (CZ) grade polysilicon. Trials to demonstrate the production of Float Zone (FZ) polysilicon are underway.

#### 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.

See note 7 for additional information on borrowings.

#### INCOME TAX

REC Silicon reported an income tax benefit of USD 0.7 million for the third quarter of 2018 related to a refund of alternative minimum tax in the United States. This represents a decrease in the Company's unrecognized deferred tax asset in the United States. The deferred tax asset in the United States was derecognized in the first quarter of 2018 and consists primarily of unused net operating losses and will continue to be available to offset taxable income during future periods.

The tax effects of the loss before tax from continuing operations of USD 20.3 million result in no effective tax impact since they are offset by changes in unrecognized deferred tax assets.

See note 18 to the consolidated financial statements for 2017 for additional information on income taxes.

#### CASH FLOW

Net cash outflows from operating activities were USD 1.7 million during the third quarter of 2018. Cash outflows were primarily a result of an EBITDA loss of USD 6.1 million offset by a decrease in working capital of USD 4.0 million. The decreased investment in working capital was due to customer collections in excess of sales of USD 5.5 million and an increase

#### Financial Items - REC Silicon Group

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017	Q2 2018
Financial income	0.3	0.2	0.8	0.5	0.6	0.2
Interest expenses on borrowings	-3.3	-3.4	-10.3	-13.7	-28.4	-3.7
Expensing of up-front fees and costs	-0.1	0.0	-0.2	-0.1	-0.1	-0.1
Other financial expenses	-0.3	-0.4	-3.9	-1.3	-1.7	-3.2
Net financial expenses	-3.7	-3.8	-14.3	-15.1	-30.2	-6.9
Net currency gains/losses	0.1	-34.1	-1.7	-54.8	-34.1	2.5
Fair value adjustment convertible bonds	0.0	1.7	0.0	0.1	0.2	0.0
Net financial items	-3.3	-36.0	-15.2	-69.3	-63.5	-4.2

in accounts payable of USD 4.2M which were offset by an increase in inventories of USD 5.6 million. The remaining USD 0.2 million decrease in cash can be attributed to changes in other assets and liabilities.

Cash flows from investing activities of USD 2.0 million included a return of restricted cash associated with the extinguishment of the USD convertible bond. This was offset by capital expenditures of USD 0.4 million.

Cash outflows from financing activities were USD 1.7 million and were a result of the extinguishment of the USD convertible bond.

In total, cash balances decreased by USD 1.4 million to USD 41.0 million at September 30, 2018.

## FINANCIAL POSITION

Shareholders' equity decreased to USD 111.2 million (30 percent equity ratio) at September 30, 2018, compared to USD 133.5 million (34 percent equity ratio) at June 30, 2018. This decrease was a result of a loss from total operations of USD 19.6 million and a net currency loss of USD 2.6 million was included in other comprehensive income.

Net debt decreased by USD 0.3 million to USD 91.7 million at September 30, 2018, from USD 92.1 million at June 30, 2018. This decrease was a result of the decrease in cash balances of USD 1.4 million discussed above offset by USD 1.5 million to retire the USD convertible bond and \$0.2 million in fees associated with the registration of the new USD senior secured bond. In addition, the NOK denominated indemnification loan decreased by USD 0.1 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 decreased by USD 0.1 million to USD 93.5 million at September 30, 2018 compared to USD 93.6 million at June 30, 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 Company 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.

### PROPERTY TAX

REC Silicon has contested Grant County's valuations of taxable property. The 2012 assessment year is subject to an appeal currently pending

before the Thurston County Superior Court. Assessment for the years 2013 through 2015 have also been appealed. Please see note 31 to the 2017 REC Silicon Annual Report.

On August 17, 2018, the Thurston County Superior Court issued a bench ruling affirming Grant County's valuation of REC Silicon's property for assessment year 2012. The Court ruled from the bench so the decision is not official until the judge signs an order presented by the parties. There has been an order presented to the judge by the parties, but it has not yet been signed. After the order is signed, REC will have 30 days to appeal to the Washington Court of Appeals. The Company intends to appeal this ruling to the Court of Appeals of Washington. The ruling does not affect amounts reflected in the Company's financial statements and the Company will not be required to pay the disputed tax amounts until all appeals are exhausted.

### GOING CONCERN

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 is considered sufficient to meet 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, markets stabilize near current spot price averages, and markets for the Company's semiconductor polysilicon and silicon gas products remain stable.

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 10 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.

### 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. Circuit Court of Appeals which affirmed the FERC's decision. The time limit for further appeals has expired and the ruling by the FERC will stand.

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

Fourth quarter 2018 end use PV demand is expected to increase to 30GW (IHS Markit PV Installation Market Tracker, Q3 2018). This represents an increase of approximately 10GW compared to the third quarter. Due to PV demand growth in emerging markets, analysts have increased estimates of global installations for 2018. China is expected to remain the largest PV market, however, India is expected to surpass

the United States and become the second largest PV market in 2019. Oversupply is expected to persist throughout the solar supply chain as additional polysilicon production capacity is installed to attain economies of scale and drive production costs lower. Declining PV demand in China is expected to place downward pressure on prices. In turn, lower costs of PV projects are expected to drive increased end use PV demand in markets outside of China. As a result, polysilicon demand in the fourth quarter is expected to improve. However, oversupply will continue to place downward pressure on prices.

Demand for semiconductor grade polysilicon is expected to grow as long term fixed contracts expire and semiconductor grade polysilicon inventories decline. Inventories are expected to decline because of high semiconductor production capacity utilization and as new silicon wafer expansions are started up. The successful qualification of REC Silicon products are expected to continue to translate to increasing sales volumes during the fourth quarter of 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. However, volatility in solar markets will 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 and volume for the remainder of 2018.

## GUIDANCE

### PRODUCTION TARGETS

REC Silicon targets polysilicon production of 1,660MT during the fourth quarter of 2018 and 7,565MT for the full year 2018. Polysilicon production rates include the effects of uncertain market conditions and restricted access to markets in China caused by the solar trade war between China and the United States. Accordingly, the FBR facility in Moses Lake continues to operate at only 25% of its production capacity. FBR production will return to full capacity utilization only when the trade war is resolved or when market conditions dictate.

#### Production targets

POLYSILICON PRODUCTION VOLUME (MT)	ACTUAL RESULTS			TARGETS	
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
Granular	3,127	2,078	1,170	1,190	7,565
Semiconductor Grade	250	267	296	340	1,153
Siemens Solar	146	132	150	130	558
Total	3,523	2,478	1,615	1,660	9,276
Silicon Gas Sales Volume (MT)	897	918	865	850	3,530

#### Cost targets

FBR Cash Cost (USD/kg)	ACTUAL RESULTS			TARGETS	
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
	\$9.4	\$13.4	\$15.1	\$15.3	\$12.3

Silicon gas sales volumes are targeted at 850MT for the fourth quarter of 2018 and 3,530MT for the full year 2018. This estimate reflects lower anticipated demand for silicon gasses due to trade restrictions and uncertainty in the PV sector due to market uncertainty.

### Cost Targets

REC Silicon targets FBR cash production costs of USD 15.3/kg for the fourth quarter of 2018 and USD 12.3/kg for the full year 2018. Cash costs continue to reflect the decrease in FBR capacity utilization discussed above. While cost reduction initiatives in Moses Lake have reduced overall spending levels, decreases in capacity utilization has resulted in increased unit costs compared to USD 11.0/kg achieved for the first half of 2018.

### INVESTMENT AND EXPANSION ACTIVITIES

Capital expenditures for 2018 are expected to be approximately USD 2.0 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) projected is primarily complete 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.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## REC SILICON GROUP

(USD IN MILLION)	NOTES	SEP 30, 2018	SEP 30, 2017	DEC 31, 2017
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	3	11.8	16.1	15.7
Land and buildings	3	41.7	51.2	50.5
Machinery and production equipment	3	97.2	435.4	416.7
Other tangible assets	3	5.3	12.6	12.0
Assets under construction	3	9.0	60.8	61.1
Property, plant and equipment	3	153.3	560.0	540.3
Government grant assets		0.0	0.0	0.0
Investments in Associates	4	34.3	0.0	0.0
Other non-current receivables		3.8	3.8	3.8
Financial assets and prepayments		38.1	3.8	3.8
Deferred tax assets		0.0	147.2	0.0
Total non-current assets		203.2	727.1	559.8
<b>Current assets</b>				
Inventories	6	86.5	93.2	82.9
Trade and other receivables	11	34.4	48.6	48.6
Restricted bank accounts		4.6	4.5	4.4
Cash and cash equivalents		41.0	88.0	104.5
Total current assets		166.5	234.2	240.4
Total assets		369.7	961.3	800.2

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## REC SILICON GROUP

(USD IN MILLION)	NOTES	SEP 30, 2018	SEP 30, 2017	DEC 31, 2017
<b>EQUITY AND LIABILITIES</b>				
<b>Shareholders' equity</b>				
Paid-in capital		3,158.0	3,158.0	3,158.0
Other equity and retained earnings		-3,046.8	-2,535.4	-2,709.1
Total shareholders' equity		111.2	622.6	448.9
<b>Non-current liabilities</b>				
Retirement benefit obligations		19.4	17.5	20.1
Deferred tax liabilities		0.0	1.1	0.4
Investments in Associates	4	0.0	34.8	34.7
Non-current financial liabilities, interest bearing	7	108.3	0.0	0.0
Non-current prepayments, interest calculation		3.8	5.5	5.5
Other non-current liabilities, not interest bearing		5.3	0.3	8.8
Total non-current liabilities		136.8	59.3	69.6
<b>Current liabilities</b>				
Trade payables and other liabilities		65.9	60.2	62.9
Provisions	9	0.0	0.5	0.3
Current tax liabilities	10	26.1	26.8	26.0
Derivatives	5	1.6	1.6	1.5
Current financial liabilities, interest bearing	7	24.5	187.5	187.8
Current prepayments, interest calculation		3.6	2.9	3.1
Total current liabilities		121.6	279.5	281.7
Total liabilities		258.5	338.7	351.3
Total equity and liabilities		369.7	961.3	800.2

# CONSOLIDATED STATEMENT OF INCOME

## REC SILICON GROUP

(USD IN MILLION)	NOTES	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017
Revenues		43.7	75.5	172.3	194.3	272.4
Cost of materials	6	-12.5	-12.7	-44.9	-41.9	-54.3
Changes in inventories	6	4.1	-14.2	1.7	-7.2	-18.2
Employee benefit expenses		-13.8	-17.2	-47.0	-53.5	-73.9
Other operating expenses		-27.1	-26.6	-82.7	-82.2	-106.2
Other income and expenses		-0.6	-1.2	-0.5	0.0	-0.1
EBITDA		-6.1	3.6	-1.1	9.5	19.8
Depreciation	3	-10.8	-85.2	-50.5	-125.2	-145.2
Amortization	3	0.0	-0.5	-0.5	-1.3	-1.8
Impairment	3	-0.1	-0.1	-340.5	-0.2	-0.3
Total depreciation, amortization and impairment		-10.8	-85.8	-391.5	-126.7	-147.3
EBIT		-16.9	-82.2	-392.6	-117.2	-127.5
Share of profit/loss of investments in associates	4	-0.1	-0.4	73.1	-1.5	-1.8
Financial income		0.3	0.2	0.8	0.5	0.6
Net financial expenses		-3.7	-3.8	-14.3	-15.1	-30.2
Net currency gains/losses		0.1	-34.1	-1.7	-54.8	-34.1
Fair value adjustment convertible bonds	7	0.0	1.7	0.0	0.1	0.2
Net financial items		-3.3	-36.0	-15.2	-69.3	-63.5
Profit/loss before tax		-20.3	-118.7	-334.7	-188.0	-192.8
Income tax expense/benefit		0.7	-2.1	1.1	-12.0	-157.8
Profit/loss		-19.6	-120.8	-333.5	-200.0	-350.6
<b>Attributable to:</b>						
Owners of REC Silicon ASA		-19.6	-120.8	-333.5	-200.0	-350.6
<b>Earnings per share (In USD)</b>						
From continuing operations						
-basic		-0.01	-0.05	-0.13	-0.08	-0.14
-diluted		-0.01	-0.05	-0.13	-0.08	-0.14

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## REC SILICON GROUP

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017
Profit/loss from total operations	-19.6	-120.8	-333.5	-200.0	-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	-1.1	-1.9	-13.9	-16.4
Remeasurement of defined benefit plans	0.0	0.0	0.0	0.0	-3.6
Currency translation effects	0.0	44.4	1.6	68.1	43.6
Sum items that will not be reclassified to profit or loss	0.0	43.3	-0.4	54.2	23.6
Items that may be reclassified subsequently to profit or loss:					
Currency translation differences					
- taken to equity	-2.6	-11.2	-3.7	-13.6	-6.1
- transferred to profit/loss for the period	0.0	0.0	0.0	0.0	0.0
Sum items that may be reclassified subsequently to profit or loss	-2.6	-11.2	-3.7	-13.6	-6.1
Total other comprehensive income	-2.6	32.1	-4.1	40.6	17.5
Total comprehensive income	-22.2	-88.8	-337.6	-159.4	-333.1
<b>Total comprehensive income attributable to:</b>					
Owners of REC Silicon ASA	-22.2	-88.8	-337.6	-159.4	-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
<b>September 30, 2017</b>							
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	-159.4	-159.4
At September 30, 2017	405.3	2,710.9	41.8	3,158.0	174.3	-2,709.7	622.6
<b>Year 2017</b>							
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
<b>September 30, 2018</b>							
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	-337.6	-337.6
At September 30, 2018	405.3	2,710.9	41.8	3,158.0	174.3	-3,221.1	111.2

## This table presents details of comprehensive income

(USD IN MILLION)	TRANSLATION DIFFERENCES THAT CAN BE TRANSFERRED TO PROFIT AND LOSS	ACQUISITION	RETAINED EARNINGS	TOTAL
<b>September 30, 2017</b>				
Accumulated at January 1, 2017	29.8	20.9	-2,600.9	-2,550.3
Profit/loss from total operations	0.0	0.0	-200.0	-200.0
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Fair value adjustment on own credit risk	0.0	0.0	-13.9	-13.9
Remeasurement of defined benefit plans	0.0	0.0	0.0	0.0
Currency translation effects	0.0	0.0	68.1	68.1
Sum items that will not be reclassified to profit or loss	0.0	0.0	54.2	54.2
Items that may be reclassified to profit or loss:				
Currency translation differences taken to equity	-16.2	0.0	0.0	-16.2
Tax on currency translation differences taken to equity	2.6	0.0	0.0	2.6
Sum items that may be reclassified to profit or loss	-13.6	0.0	0.0	-13.6
Total other comprehensive income for the period	-13.6	0.0	54.2	40.6
Total comprehensive income for the period	-13.6	0.0	-145.8	-159.4
Accumulated at September 30, 2017	16.2	20.9	-2,746.7	-2,709.7
<b>Year 2017</b>				
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
<b>September 30, 2018</b>				
Accumulated at January 1, 2018	23.7	20.9	-2,927.9	-2,883.4
Profit/loss from total operations	0.0	0.0	-333.5	-333.5
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	-3.7	0.0	0.0	-3.7
Tax on currency translation differences taken to equity	0.0	0.0	0.0	0.0
Sum items that may be reclassified to profit or loss	-3.7	0.0	0.0	-3.7
Total other comprehensive income for the period	-3.7	0.0	-0.4	-4.1
Total comprehensive income for the period	-3.7	0.0	-333.9	-337.6
Accumulated at September 30, 2018	19.9	20.9	-3,261.8	-3,221.1

# CONSOLIDATED STATEMENT OF CASH FLOWS

## TOTAL OPERATIONS

### REC SILICON GROUP

(USD IN MILLION)	NOTES	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017
<b>Cash flows from operating activities</b>						
Profit/loss before tax		-20.3	-118.7	-334.7	-188.0	-192.8
Income taxes paid/received		0.7	0.0	0.7	0.6	0.6
Depreciation, amortization and impairment	3	10.8	85.8	391.5	126.7	147.3
Fair value adjustment convertible bond	7	0.0	-1.7	0.0	-0.1	-0.2
Equity accounted investments, impairment financial assets, gains/losses on sale	4	0.1	0.4	-72.6	1.5	1.8
Changes in receivables, prepayments from customers etc.	11	5.5	-7.2	14.3	7.0	5.9
Changes in inventories	6	-5.6	15.2	-3.6	12.3	22.6
Changes in payables, accrued and prepaid expenses		4.7	6.3	-2.9	6.3	18.6
Changes in provisions	9	0.0	0.5	-0.3	0.5	0.3
Changes in VAT and other public taxes and duties		2.9	0.0	2.9	0.3	1.0
Changes in derivatives		0.0	0.0	0.0	0.0	0.0
Currency effects not cash flow or not related to operating activities		-0.1	32.5	1.3	52.5	33.6
Other items		-0.3	0.6	2.1	0.5	0.1
Net cash flow from operating activities		-1.7	13.7	-1.4	20.0	38.8
<b>Cash flows from investing activities</b>						
Proceeds/Payments finance receivables and restricted cash		2.4	0.1	-0.2	-0.2	-0.2
Proceeds from sale of property, plant and equipment and intangible assets		0.0	0.0	0.6	0.0	0.0
Payments for property, plant and equipment and intangible assets	3	-0.4	-0.3	-1.3	-2.2	-2.6
Net cash flow from investing activities		2.0	-0.2	-0.9	-2.4	-2.8
<b>Cash flows from financing activities</b>						
Increase in equity		0.0	0.0	0.0	0.0	0.0
Payments of borrowings 1)		-1.7	0.0	-171.2	0.0	0.0
Proceeds from borrowings		0.0	0.0	110.0	0.0	0.0
Net cash flow from financing activities		-1.7	0.0	-61.2	0.0	0.0
Effect on cash and cash equivalents of changes in foreign exchange rates		0.0	3.0	0.0	4.6	2.8
Net increase/decrease in cash and cash equivalents		-1.4	16.6	-63.6	22.2	38.8
Cash and cash equivalents at the beginning of the period		42.4	71.4	104.5	65.8	65.8
Cash and cash equivalents at the end of the period		41.0	88.0	41.0	88.0	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](http://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 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard, which supersedes all prior revenue recognition requirements under IFRS, applies to periods beginning January 1, 2018. The group has adopted IFRS 15 on the required effective date using the modified retrospective approach. 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 2 for a disaggregation of revenues by contract type.

The Group's main revenues come from the sale of its own manufactured goods in different segments:

1. Silicon gas and polysilicon for the semiconductor industries
2. Polysilicon for the photovoltaic industry

For the sale of manufactured goods, the Group has concluded that revenue should be recognized at the point in time when control of the asset

is transferred to the customer, which is usually at the point of shipment of goods and in accordance with Incoterms listed within the contract. Therefore, based on the Group's assessment, the adoption of IFRS 15 did not impact the Group's revenue and profit or loss. There was no impact on equity on the date of implementation.

With regard to variable consideration, some contracts with customers provide discounts or a right of return. Prior to the adoption of IFRS 15, the Group recognized revenue from the sale of goods measured at fair value of the consideration received or receivable, which included a provision of allowances for discounts and expected returns. Such provisions give rise to variable consideration under IFRS 15 and are required to be estimated at contract inception and updated thereafter. Under the new standard, an entity may include some or all of the provisions in the transaction price – but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. The Group has concluded that application of the IFRS 15 will result in the same treatment as under the prior IFRS.

The Group provides warranties for the products to be in conformance to specifications and does not provide extended warranties or maintenance services in its contracts with customers. Such warranties are assurance-type warranties and are not deemed a separate performance obligation.

#### **IFRS 9 Financial instruments**

IFRS 9, Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group adopted IFRS 9 retrospectively, except for hedge accounting which is implemented prospectively. Comparative figures are not prepared as there is no requirement for this.

#### **(a) Classification and measurement of financial assets and financial liabilities**

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. Therefore, reclassification for these instruments is not required.

Additional analysis of liabilities concluded that changes in fair value related to changes in own credit risk, associated with the fixed rate convertible bond should be reported as a component of other comprehensive income (OCI). Other changes in fair value are reported through Profit and Loss. Prior to the implementation of IFRS 9, all changes in fair value were reported through Profit and Loss. IFRS 9 was implemented on January 1, 2018, 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, and figures for 2017 have been restated (see note 7 below).

#### **(b) Impairment**

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either "12-month ECLs" or "lifetime ECLs":

12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date;

lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Based on requirements of IFRS 9, the Group has determined that only its municipal bond and accounts receivables are subject to estimating the probability of impairment using the ECL model.

**i) Municipal Bonds**

The Group has determined that the municipal bonds meet the exception provided at IFRS 9 for financial instruments that have low credit risk at the reporting date. Accordingly, the Group estimates that the expected credit loss has not changed since inception and the risk of credit loss approaches zero. Therefore, no impairment will be recorded on this asset.

The Group will continually monitor the risks associated with this asset. Should any conditions arise to indicate an increase in credit risk, the asset will be impaired according.

**ii) Accounts Receivables**

For account receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Based on its assessment, the impact of adopting IFRS 9 which requires the Company to estimate expected credit losses (ECL) based upon historical experience is included in the provision for doubtful accounts (see note 11).

**(c) Hedge accounting**

Currently, the Group has no hedge relationships for which hedge accounting is applied. Previously the Group had some fair value interest hedge of a NOK loan. The fair value hedges have been revoked and the remaining fair value adjustments are being amortized prospectively as part of the effective interest. The Group did not identify any significant impact of implementing IFRS 9 hedge accounting.

**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.

**IFRS 16 Leases**

IFRS 16, issued in 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.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance lease under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosure than under IAS 17.

The standard is expected to have accounting effect from January 1, 2019 and will be implemented using either the full retrospective or modified retrospective method. The group intends to apply the modified retrospective approach and will not restate comparative amounts for the year prior to the first adoption. In note 29 of the 2017 Annual Report, the Group has a total of USD 51.1M related to future minimum lease payments relating to fixed term operational leases as of December 31, 2017. It is assumed that some of these operational leases will be classified as financial leases according to IFRS 16 at implementation.

The group is in the process of assessing the impact of the standard. Changes are expected to be made in the statement of financial position and cash flows as a result of removing the distinction between operating and finance leases.

## 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)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017
Revenues					
Solar Materials	6.2	37.3	59.3	90.7	127.8
Semiconductor Materials	37.6	39.8	113.9	105.6	147.5
Other	0.0	0.0	0.0	0.0	0.0
Eliminations	0.0	-1.7	-0.9	-2.0	-2.9
Total	43.7	75.5	172.3	194.3	272.4
EBITDA					
Solar Materials	-9.9	0.0	-17.4	-5.5	-1.7
Semiconductor Materials	9.3	13.5	41.2	38.7	55.3
Other	-5.4	-9.3	-24.4	-23.0	-32.7
Eliminations	0.0	-0.7	-0.5	-0.7	-1.2
Total	-6.1	3.6	-1.1	9.5	19.8

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

(USD IN MILLION)	Q3 2018	Q3 2017	SEP 30, 2018	SEP 30, 2017	YEAR 2017
Non-Contract Revenue	29.8	56.5	120.3	138.3	194.7
Structured (Regional/Volume pricing)	12.7	15.3	45.6	43.9	62.2
Tiered (Volume pricing)	1.2	3.8	6.4	12.2	15.5
Contract Revenue	14.0	19.1	51.9	56.1	77.7
Total	43.7	75.5	172.3	194.3	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	1.6	0.3	-0.7	1.2	-0.1	1.2
Disposals	-0.4	0.0	0.0	0.0	-0.4	0.0	-0.4
Depreciation and amortization	-2.0	-46.9	-1.6	0.0	-50.5	-0.5	-51.0
Impairment	-6.3	-274.1	-5.4	-51.4	-337.2	-3.3	-340.5
Carrying value at September 30, 2018	41.7	97.2	5.3	9.0	153.3	11.8	165.2
At September 30, 2018							
Historical cost	147.5	2,128.5	80.1	65.4	2,421.5	80.0	2,501.5
Accumulated depreciation/amortization/impairment	-105.8	-2,031.3	-74.7	-56.4	-2,268.2	-68.1	-2,336.3
Carrying value at September 30, 2018	41.7	97.2	5.3	9.0	153.3	11.8	165.2

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. Impairment indicators that could give rise to a change in impairment included carrying value in excess of the Company's market capitalization and continued uncertainty associated with the trade war between China and the United States.

Management determined that the Group contains two cash generating units (CGUs). This determination was based upon 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.

The impairment indicators relate specifically to the Solar Materials segment. Accordingly, impairment testing was performed on the Solar Materials CGU at September 30, 2018.

Value in use has been estimated for the Solar Materials 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 15.3 percent.

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 resulting value in use of the Solar Materials CGU is estimated to approximate the carrying value of the Solar Materials CGU at September 30, 2018. Therefore, no additional impairment or reversal of impairment has been recognized.

## 4 EQUITY ACCOUNTED INVESTMENTS (ASSOCIATES)

In February 2014, REC Silicon entered into an investment 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 in penalties. 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 September 30, 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)	SEP 30, 2018	DEC 31, 2017
Carrying value at January 1	-34.7	-35.7
Share of joint venture profit/loss	-0.4	-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	-3.7	4.0
Carrying value at end of period	34.3	-34.7

The following table presents the major classification of assets and liabilities reflected on the Yulin JV's statement of financial position at September 30, 2018:

(USD IN MILLION)	SEP 30, 2018	DEC 30, 2017
Non-current assets	1,167.2	1,060.6
Other Current assets	92.3	32.2
Cash and cash equivalents	16.0	1.0
Non-current liabilities	-716.8	-552.5
Current liabilities	-117.3	-236.2
Net Assets (100%)	441.5	305.1
REC Silicon's share of net equity	64.4	63.6
Deferred income/expense	-0.4	-1.2
Adjusted for technology transfer	-29.8	-97.0
Carrying amount of REC's interest	34.3	-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 September 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)	SEP 30, 2018			DEC 31, 2017		
	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS	BEFORE WRITEDOWNS	WRITEDOWNS	AFTER WRITEDOWNS
Stock of raw materials	12.1	0.0	12.1	9.8	0.0	9.8
Spare parts	42.4	-18.4	24.1	42.8	-16.2	26.6
Work in progress	12.1	-1.9	10.2	12.2	-0.8	11.4
Finished goods	88.5	-48.4	40.2	51.1	-16.1	35.1
Total	155.2	-68.6	86.5	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.

The remainder of the USD convertible bond USD 1.5 million was paid on the maturity date.

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

(USD IN MILLION)	CARRYING AMOUNT		CONTRACTUAL PAYMENTS, EXCLUDING INTEREST		
	CURRENCY	USD	TOTAL	2019	2023
Unamortized upfront fees (USD)	-1.7	-1.7	0.0	0.0	0.0
USD senior secured bond	110.0	110.0	110.0	0.0	110.0
Indemnification loan (NOK)	200.0	24.5	24.5	24.5	0.0
<b>Total</b>		<b>132.7</b>	<b>134.5</b>	<b>24.5</b>	<b>110.0</b>

The indemnification loan is related to the bankruptcy of a former subsidiary in 2012. At September 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 September 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 September 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 September 30, 2018 and USD 1.5 million at December 31, 2017.

The fair value of the USD senior secured bond at September 30, 2018 is estimated at 100 percent of nominal value.

#### USD senior secured bond

(USD IN MILLION)	SEP 30, 2018	JUN 30, 2018
Nominal value	<b>110.0</b>	110.0
Unamortized upfront fees (USD)	<b>-1.7</b>	-1.5
<b>Net carrying amount</b>	<b>108.3</b>	108.5

The following table represents change due to IFRS 9 related to the USD convertible bond.

(USD IN MILLION)	CHANGES UNDER IFRS 9				
	Q3 2017	SEP 30, 2017	YEAR 2017	Q3 2018	SEP 30, 2018
Profit/Loss	-1.7	-0.1	-0.2	0.0	0.0
Other Comprehensive Income	1.2	13.9	16.4	0.0	1.9
Total	-0.5	13.8	16.2	0.0	1.9

## 8 COMMITMENTS

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

(USD IN MILLION)	TOTAL FUTURE PAYMENTS	REMAINING 2018	2019	2020	2021	2022	2023	AFTER 2023
Purchase of goods and services	11.2	5.4	1.1	1.3	1.6	1.6	0.1	0.0
Minimum operating lease payments	38.4	3.8	14.1	13.7	2.5	2.1	2.1	0.0
Total purchase obligations and minimum lease payments	49.6	9.2	15.1	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 September 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 Company 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.

### PROPERTY TAX

REC Silicon has contested Grant County's valuations of taxable property. The 2012 assessment year is subject to an appeal currently pending before the Thurston County Superior Court. Assessment for the years 2013 through 2015 have also been appealed. Please see note 31 to the 2017 REC Silicon Annual Report.

On August 17, 2018, the Thurston County Superior Court issued a bench ruling affirming Grant County's valuation of REC Silicon's property for assessment year 2012. The Court ruled from the bench so the decision is not official until the judge signs an order presented by the parties. There has been an order presented to the judge by the parties, but it has not yet been signed. After the order is signed, REC will have 30 days to appeal to the Washington Court of Appeals. The Company intends to appeal this ruling to the Court of Appeals of Washington. The ruling does not affect amounts reflected in the Company's financial statements and the Company will not be required to pay the disputed tax amounts until all appeals are exhausted.

### GOING CONCERN

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 is considered sufficient to meet 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, markets stabilize near current spot price averages, and markets for the Company's semiconductor polysilicon and silicon gas products remain stable.

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 10 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.

### 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. The time limit for further appeals has expired and the ruling by the FERC will stand.

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 September 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	41.2	26.7	0.0	0.1	0.0	0.0	14.4
Provision for loss on trade receivables	-14.4	0.0	0.0	0.0	0.0	0.0	-14.4
Other non-current and current receivables	0.3	0.3	0.0	0.0	0.0	0.0	0.0
<b>Total receivable</b>	<b>27.1</b>	<b>27.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Prepaid Costs	7.3						
<b>Total trade and other receivable</b>	<b>34.4</b>						

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. Bad debt expense recorded for the third quarter of 2018 was USD 0.2 million. Bad debt expense for the nine months ended September 30, 2018 was USD 2.6 million and included the impairment of specific customer accounts due to an increase in credit risks driven by volatile market conditions.

## 12 TRANSACTIONS WITH RELATED PARTIES

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 third quarter of 2018 was USD 0.2 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). Cash costs include items accrued as accounts payable and other current liabilities that are normally expected to be settled in cash within a short period of time. Adjustments to costs that are made within the current period are reflected in cash costs. Adjustments to costs recognized in prior periods are generally recognized in other income and expense and excluded from cash costs. FBR Cash Cost does not include general and administrative costs.

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



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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](http://www.recsilicon.com)