

# Fourth quarter results 2020

# Agenda

## Business update

By CEO Michael Koenig

## Financial performance

By CFO Morten Viga

## Outlook

By CEO Michael Koenig



# A good result driven by a robust business model and improved markets

- ◆ Elkem's EBITDA for the fourth quarter reached the highest level since 2018
- ◆ The business model shows improved results in terms of specialisation, operational performance, good cost management and record sales volumes
- ◆ Elkem has received an A rating in corporate sustainability by CDP, recognising the company among the world's leading companies for tackling climate change
- ◆ The board has proposed a dividend of NOK 0.15 per share representing a dividend pay-out ratio of 36% of profit for the period
- ◆ The market outlook is good, but macroeconomic uncertainty still persists



Total operating income

MNOK 7,129



EBITDA

MNOK 938



EBITDA margin

13 %



# Environment, Social and Governance

## Top ESG ratings achieved – further improvement initiatives ongoing, strengthening Elkem’s competitive position



Selected for CDP’s A List on climate change for 2020, ranking Elkem in the top 5 per cent of the 5,800+ companies scored by CDP



Gold performance rating for 2020 ranking Elkem in the top 5 per cent



### Safety

**Ambition** zero injuries



### Environment

Biocarbon strategy to reduce fossil CO2 emissions 40% by 2030

Silicones contribute to greenhouse gas reductions that are approx. 9 times greater than emissions from silicones manufacturing.



### Social

**Ambition** best practice standards on human rights and community involvement



### Governance

Adherence to Norwegian Code of Practice for Corporate Governance

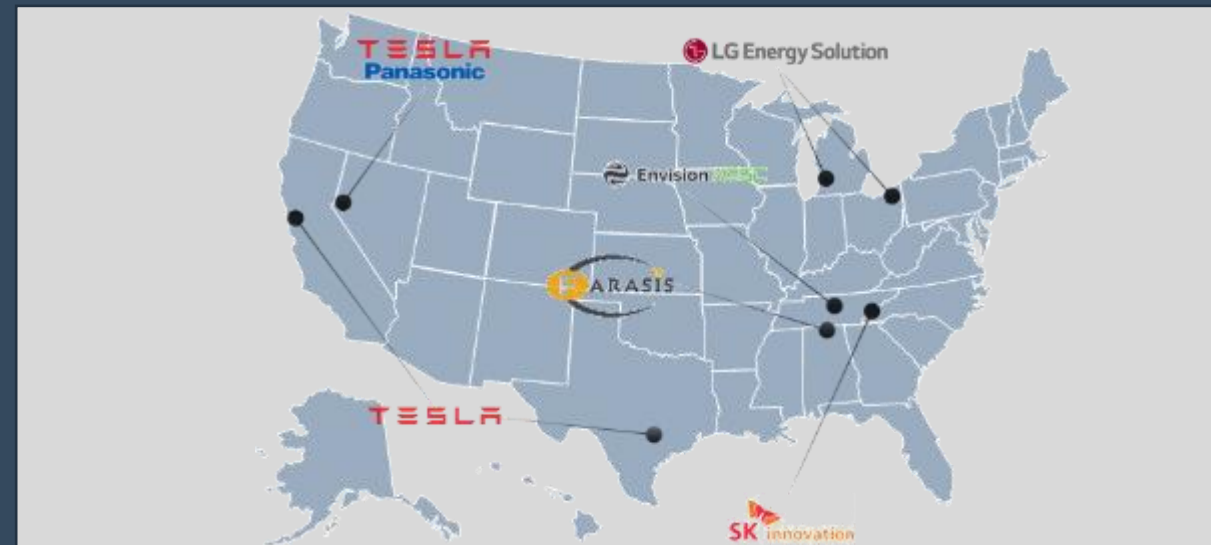
Management and board of directors actively engaged in ESG issues

# Battery materials project a significant green value creation opportunity

- ◆ Elkem aims to establish a leading position in the fast-growing market for battery anode materials in Europe and North America, with a clear path to further growth
  - ▶ Demand for rechargeable lithium-ion batteries expected to increase more than ten times from today's level by 2030, mainly driven by EVs
- ◆ Elkem's pilot plant in Kristiansand has started initial testing to prepare for production start up in March 2021
  - ▶ The purpose of the pilot is to qualify products and verify the business case for a large-scale industrial plant
- ◆ Herøya, Norway has been selected as site for the industrial plant, with final investment decision expected in 2021
  - ▶ Elkem has received NOK 10 million from Enova to fund the initial planning and has also applied for EU support to the project
- ◆ Elkem will in the near future formally invite industrial and financial partners to participate in the project. ABG Sundal Collier is acting as financial advisor

## Battery initiatives in Europe and North America

Annual need for anode graphite is estimated to 0.8 million tons by 2030





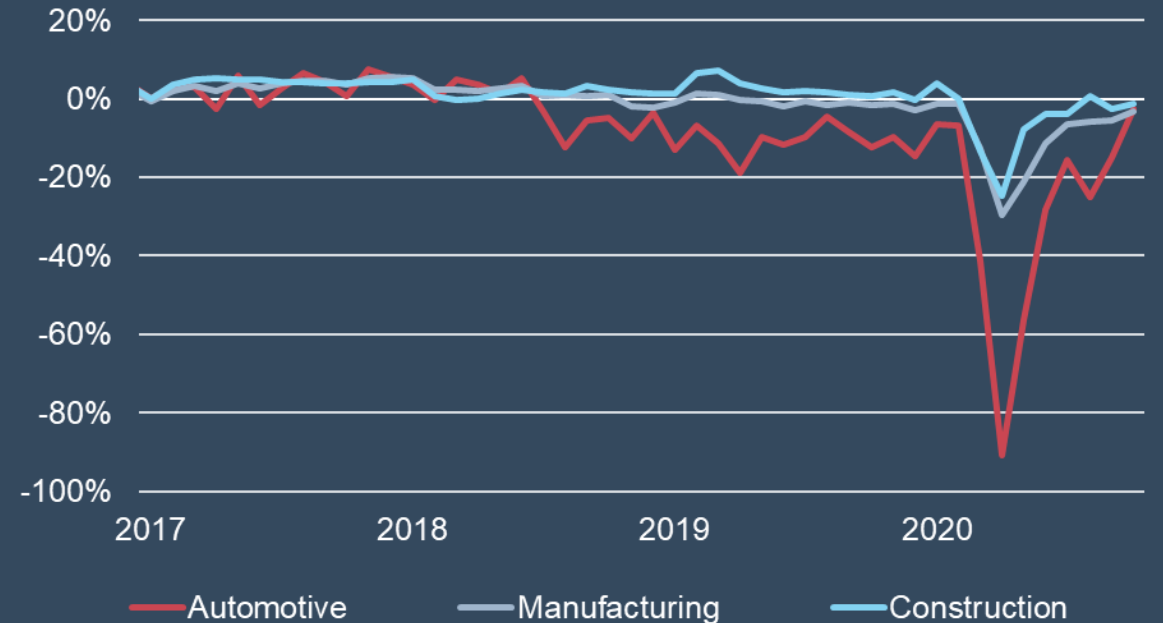
# Key markets and regions showing **continued recovery**

- ◆ Global automotive continued to recover in September and remained stable at pre-covid levels in October and November
  - ▶ Sales in China close to historic record levels
  
- ◆ EU industrial production shows continued recovery
  - ▶ Increasing production in all industry segments
  
- ◆ The Chinese economy continues its fast recovery from the pandemic. GDP growth was 2.3% in 2020. IMF is projecting 7.9% growth in 2021

Automotive – units sold (million)



EU Industrial Production YOY



# New specialised silicones complementing Elkem's portfolio

- ◆ Elkem will invest in organo-functional silicones (OFS) and low viscosity (LV) silicones fluids, complementing the specialised product offering to customers
- ◆ Elkem has signed an agreement to acquire a custom-designed, purpose-built plant for manufacturing of OFS
  - ▶ The plant is brand new, but never started in regular production, and located in France close to Elkem Silicones' global research centre
  - ▶ The purchase price is in the low double-digit millions of euros and production is expected to start within 12 months
- ◆ A decision has also been made to invest in a new production workshop for LV silicones fluids at the Xinghuo site in China
  - ▶ The new workshop will produce low viscosity silicones fluids for personal care, textile and leather markets in Asia-Pacific
  - ▶ The investment will be CNY 100 million and is scheduled to open in January 2022

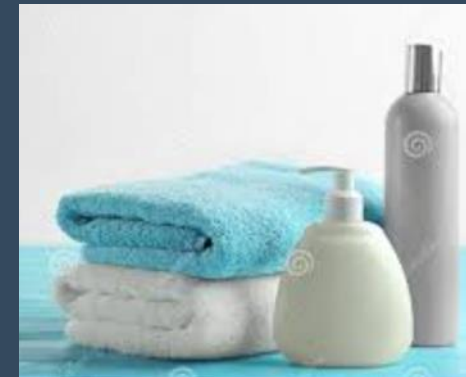
## Organo-functional silicones (OFS)

- ◆ OFS combine the unique performance of silicones with the functionality, compatibility and potential reactivity that organics can provide
- ◆ Advanced manufacturing process creates OFS products with highly specialised properties enabling enhanced formulating compatibility to aid spreading and wetting performance in surface treatments



## Low viscosity silicones fluids

- ◆ Low viscosity fluids are used in many personal & textile care applications
- ◆ They will gradually replace "cyclic" siloxane building blocks to reduce environmental concerns
- ◆ The project will enable Elkem to meet future market growth through a major technology shift and keep up with new environmental regulations



# Silicones - strengthening the position in an attractive industry

- ◆ Elkem's silicones business has shown a good development in 2020 and is delivering on its specialisation strategy
  - ▶ The acquisitions of Basel Chemie and Polysil have strengthened Elkem's product offering and R&D capabilities
  - ▶ The new global R&D centre opening in Lyon in 2Q-2021 will further support Elkem's development
- ◆ Strong industry fundamentals and attractive positions
  - ▶ Recent development in China shows resilient growth for silicones even in a challenging macroeconomic environment
  - ▶ Silicones to EVs and expansion into medical silicones and organo-functional silicones provide profitable long-term growth opportunities
- ◆ Productivity and operations significantly improved in 2020
  - ▶ To further streamline operations in China, Yongdeng Silicon will become part of the Silicones division from 1Q-2021
  - ▶ Yongdeng is captive producer covering approx. 50% of the annual silicon consumption at Elkem's Xinghuo plant





# Silicones market update, strong demand but high price volatility in China

- ◆ Silicones demand in China was strong in 4Q-2020 but the pricing was volatile
  - ▶ Lack of available material caused an artificial price spike in spot markets
  - ▶ Supply was further disrupted by a fire at a silicones plant in Zhejiang
  - ▶ The price spike was not sustainable and not reflecting the broader underlying market sentiment, and prices normalised before year-end
- ◆ DMC prices in China have stabilised above CNY 20,000 per mt early 2021
- ◆ The demand in China is expected to remain high going forward
  - ▶ Chinese New Year will however impact the market in 1Q-2021
- ◆ Prices in Europe and the US are trending slightly higher and demand for specialties shows clear sign of recovery



DMC reference price China (CNY/mt)



# Silicon and ferrosilicon market update, good price and demand recovery

## ◆ Silicon and ferrosilicon

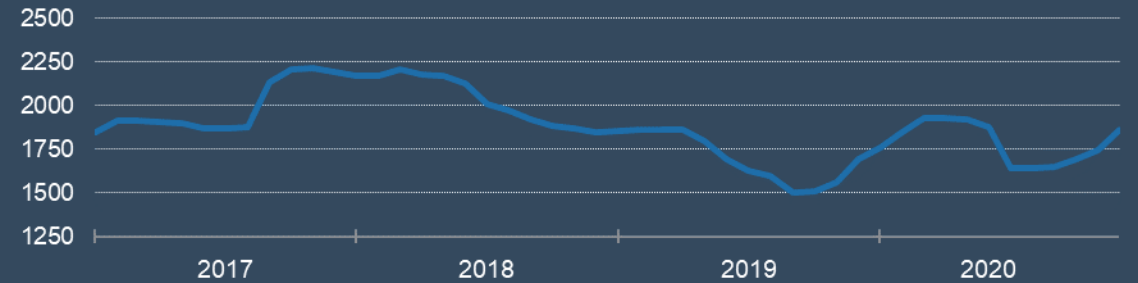
- ▶ Market prices have increased during the fourth quarter 2020 and continued to rise into first quarter 2021
- ▶ Strong demand, back to pre-covid levels, mainly driven by steel and automotive
- ▶ Supply still low, but some restarts of idled capacity expected
- ▶ Global supply chain is challenging due to low container availability
- ▶ European stock levels are historically low

## ◆ Specialty products

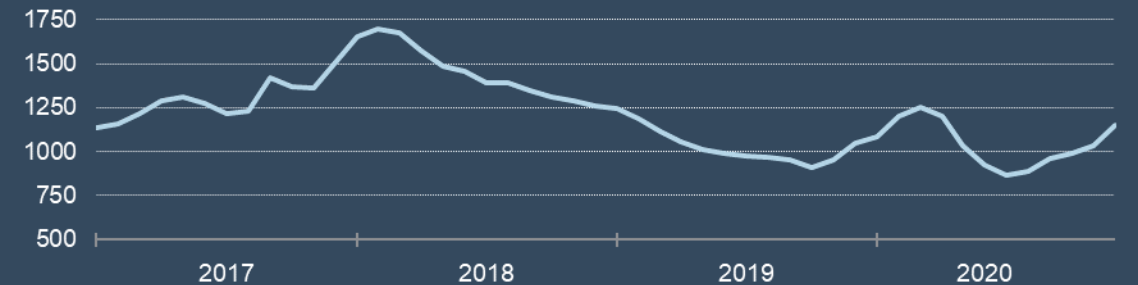
- ▶ Good recovery due to improvements in automotive



CRU silicon 99 price EU (EUR/mt)



CRU ferrosilicon 75 price EU (EUR/mt)

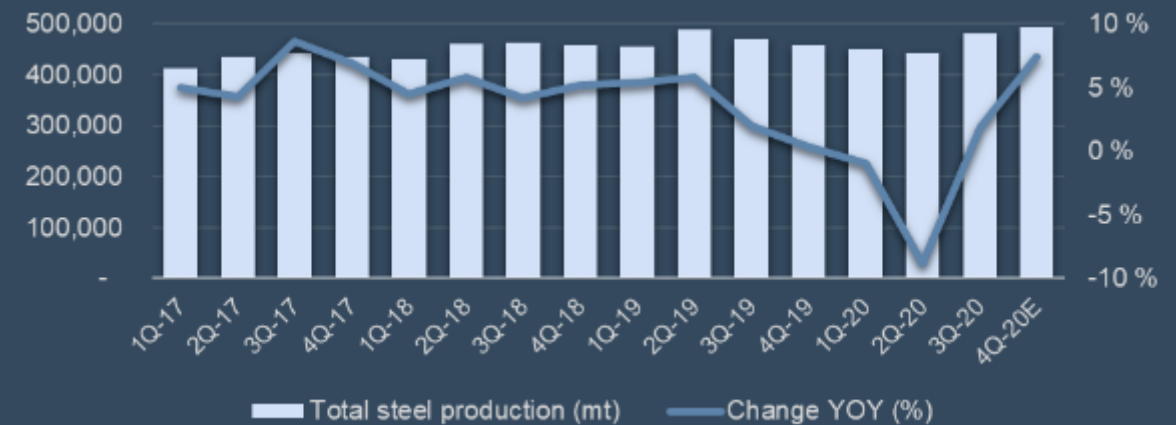


# Carbon market update, global steel production continues to increase

- ◆ Steel markets and ferroalloys are key demand drivers for carbon products
- ◆ Global steel production estimated to grow by 3% in Q4-2020 vs Q3-2020
  - ▶ EU and North America are driving the increase in production
  - ▶ Industry forecasts for 2021 predict continued year-over-year growth
- ◆ Higher steel production has resulted in increased demand and higher sales prices for ferroalloys during Q4



## World steel production

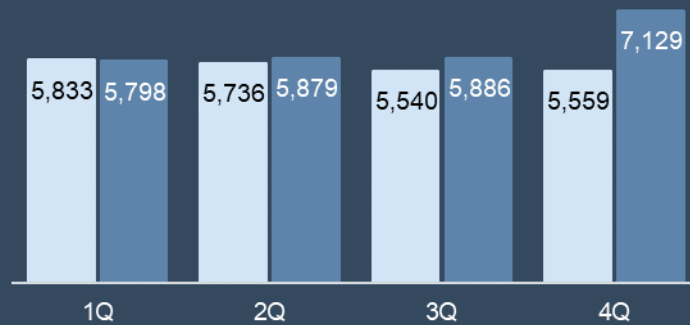


# Elkem group

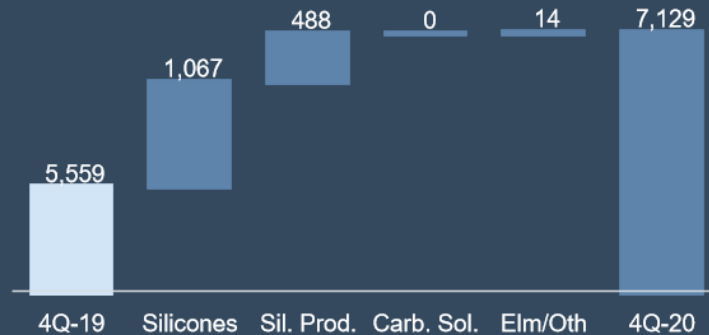
good results driven by specialisation, operational improvements and all-time high sales

## Total operating income

- Total operating income was all-time high and up 28% from 4Q-2019



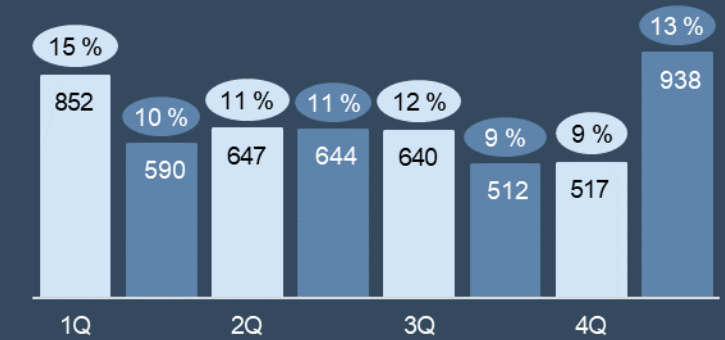
- Increase driven by all-time high sales volumes, leveraging on strong market positions



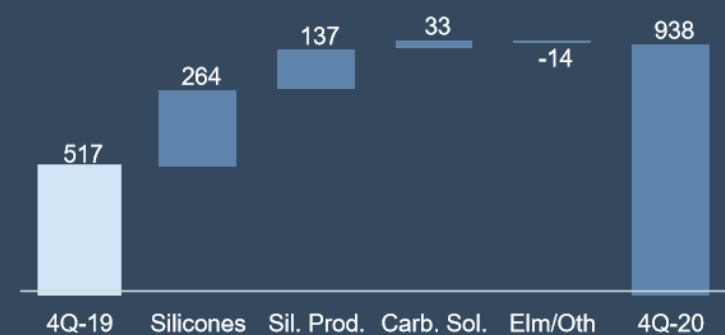
■ 2019 ■ 2020

## EBITDA

- Up 81% from 4Q-2019



- Strong performance across all segments



# Elkem group improved key ratios

- ◆ EBITDA MNOK 938
  - ▶ Segment Other included realised currency hedging losses of MNOK 40
- ◆ The Productivity Improvement Programme proceeds ahead of plan
  - ▶ By end of 4Q-2020 the annual run rate was MNOK 201
  - ▶ Annual improvements of MNOK 350 to be reached by end of 2021
- ◆ Other items MNOK -134
  - ▶ Mainly consisted of negative currency effects of MNOK -128 from working capital items and change in fair value of commodity contracts MNOK -41, partly offset by reversal of restructuring provision MNOK 40
- ◆ Net financial items MNOK -49
  - ▶ Mainly explained by net interest expenses MNOK -59 partly offset by currency gains of MNOK 12 due to translation effects on EUR loans
- ◆ Tax MNOK -165
  - ▶ Taxes in 4Q-2020 were mainly related to countries with taxable profit, while tax losses carried forward were not capitalised

## Consolidated key figures

<i>(NOK million, except where specified)</i>	4Q 2020	4Q 2019	YTD 2020	YTD 2019	FY 2019
Total operating income	7,129	5,559	24,691	22,668	22,668
EBITDA	938	517	2,684	2,656	2,656
EBIT	449	92	957	1,189	1,189
Other items	-134	-16	-130	195	195
Net financial items	-49	-79	-229	-239	-239
Profit (loss) before income tax	279	2	584	1,134	1,134
Tax	-165	26	-306	-237	-237
Profit (loss) for the period <sup>(1)</sup>	106	17	239	855	855
<b>Key ratios</b>					
EPS (NOK per share)	0.18	0.03	0.41	1.47	1.47
Equity ratio (%)	41 %	45 %	41 %	45 %	45 %
Net interest bearing debt (NIBD) <sup>(2)</sup>	8,058	5,722	8,058	5,722	5,722
Leverage ratio	3.0	2.2	3.0	2.2	2.2
Reinvestments % of D&A	117 %	125 %	81 %	80 %	80 %
ROCE (annualised) (%)	10 %	2 %	5 %	7 %	7 %

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

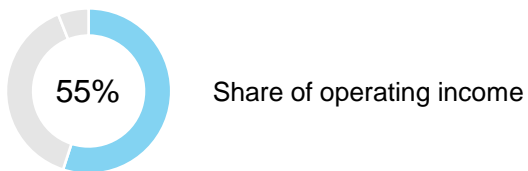
(2) Excluding receivables from related parties, loans to external parties, accrued interest income and non-current other restricted deposits



# Silicones

## stronger markets and good operations

- ◆ Total operating income of MNOK 3,891 up 38% from fourth quarter last year
  - ▶ Increased operating income explained by higher sales volumes and price recovery in China
- ◆ EBITDA of MNOK 577, up 84% from fourth quarter last year
  - ▶ Significant improvement explained by strong sales volumes, higher sales prices and strong operational performance
- ◆ All-time high sales volumes reflecting attractive market positions and stronger demand in all major regions, particularly in specialty segments



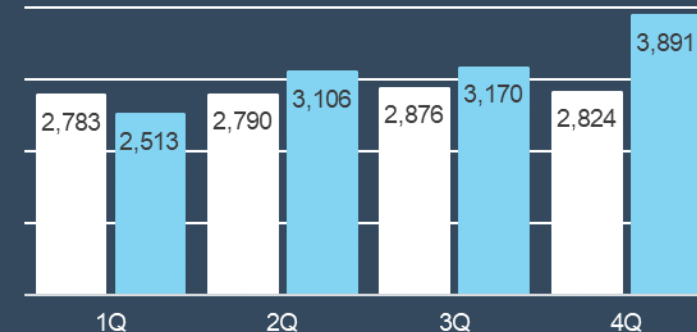
Share of operating income from external customers ex. Other



Share of EBITDA ex. Other and Eliminations

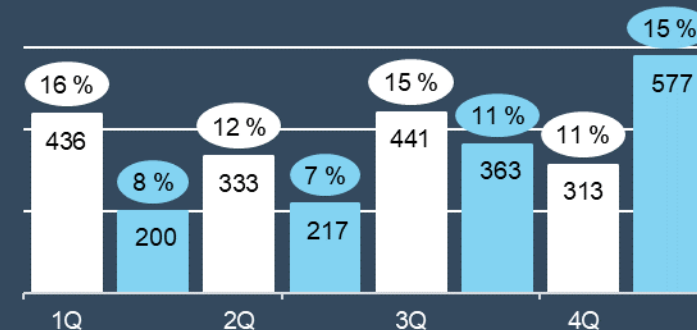
### Total operating income

NOK million



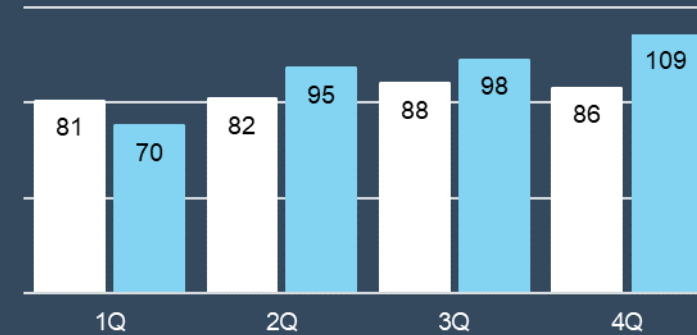
### EBITDA and margin

NOK million and %



### Sales volume

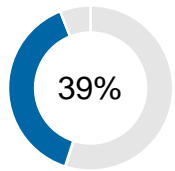
In 1,000 mt



■ 2019 ■ 2020

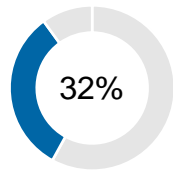
# Silicon Products improvements reflecting strong market positions

- ◆ Total operating income of MNOK 3,084 up 19% from fourth quarter last year
  - ▶ Strong increase mainly explained by higher sales volumes
- ◆ EBITDA of MNOK 318, up 76% compared to fourth quarter last year
  - ▶ Explained by strong sales volumes and good operational performance. EBITDA also impacted by higher realised sales prices
- ◆ Sales volume are all-time high reflecting strong positions in standard and specialised product grades



Share of operating income

Share of operating income from external customers ex. Other

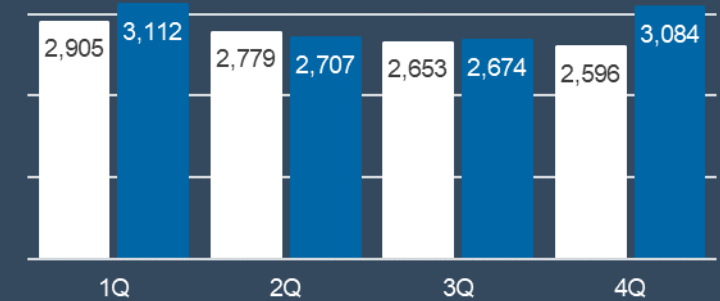


Share of EBITDA

Share of EBITDA ex. Other and Eliminations

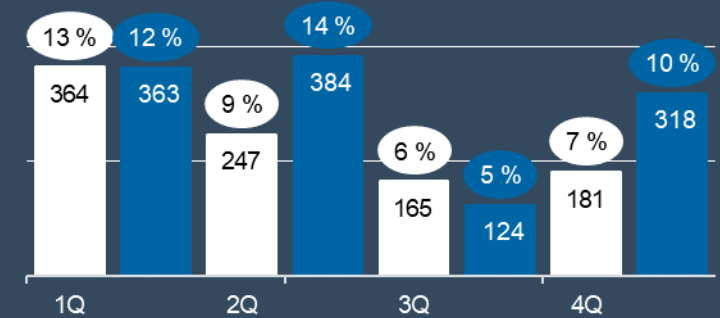
## Total operating income

NOK million



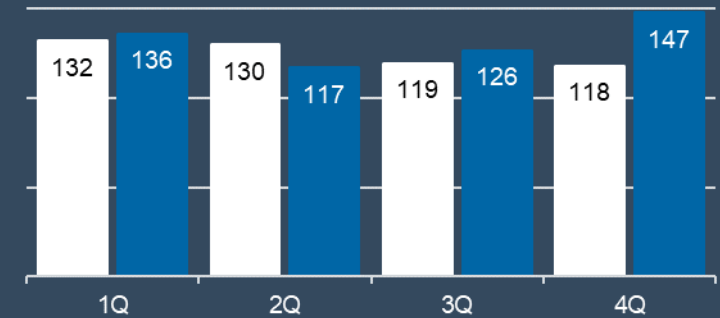
## EBITDA and margin

NOK million and %



## Sales volume

In 1,000 mt

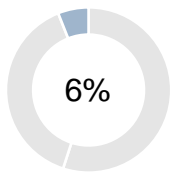


■ 2019 ■ 2020

# Carbon Solutions

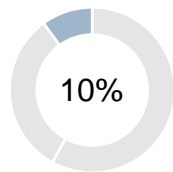
## strong quarter and best annual result ever

- ◆ Total operating income MNOK 461, in line with the fourth quarter last year
  - ▶ Stable volumes and sales prices
- ◆ EBITDA of MNOK 106, up 46% from fourth quarter last year
  - ▶ Improved EBITDA explained by better product mix with higher sales of specialty products, and good cost management
- ◆ The sales volume was in line with the corresponding quarter last year
  - ▶ Crude and stainless-steel markets continue to recover



Share of operating income

Share of operating income from external customers ex. Other

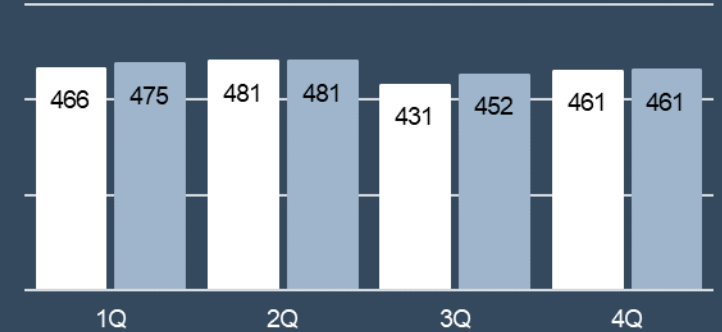


Share of EBITDA

Share of EBITDA ex. Other and Eliminations

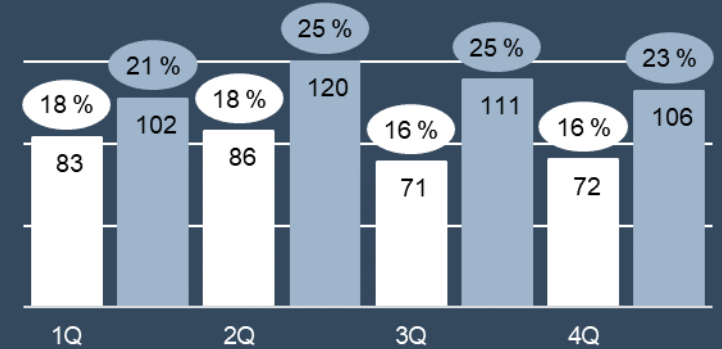
### Total operating income

NOK million



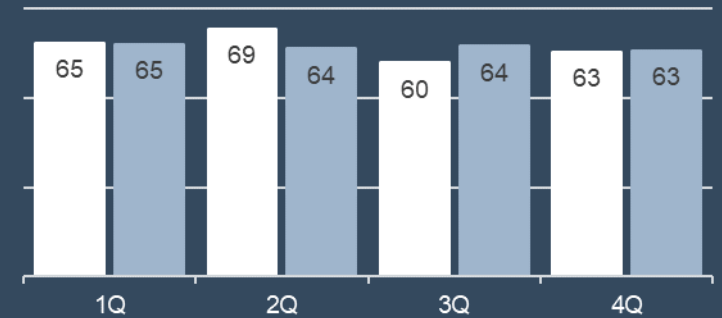
### EBITDA and margin

NOK million and %



### Sales volume

In 1,000 mt



■ 2019 ■ 2020

# Elkem group

## proposed dividend of NOK 0.15 per share

### ◆ Earnings per share (EPS)

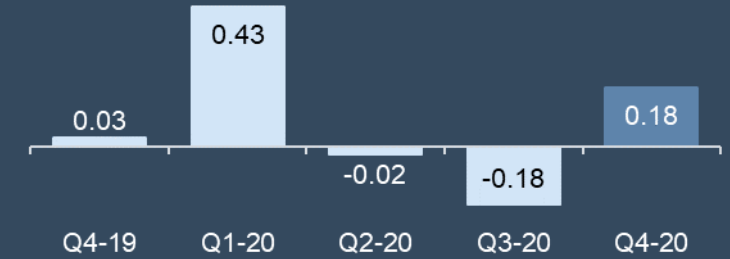
- ▶ EPS amounted to NOK 0.18 in the fourth quarter and NOK 0.41 YTD
- ▶ Improvement in EPS reflected stronger underlying results, but included negative impact from other items and high taxes
- ▶ Proposed dividend NOK 0.15 per share, 36% of profit for the period

### ◆ Total equity amounted to BNOK 12.6 as at 31 December 2020, marginally down from year-end 2019

- ▶ Equity ratio of 41%
- ▶ Lower equity ratio compared to 31.12.2019 mainly explained by increased value of total assets due to currency translation effects

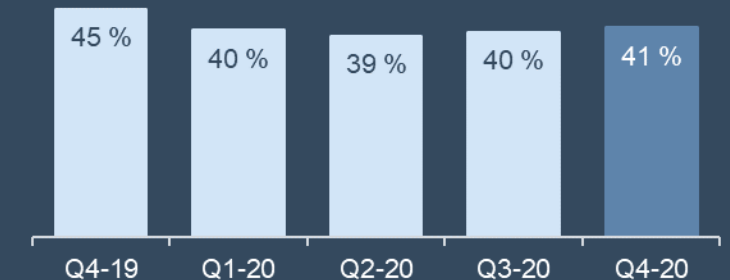
### Earnings per share (EPS)

NOK per share



### Equity ratio

In %



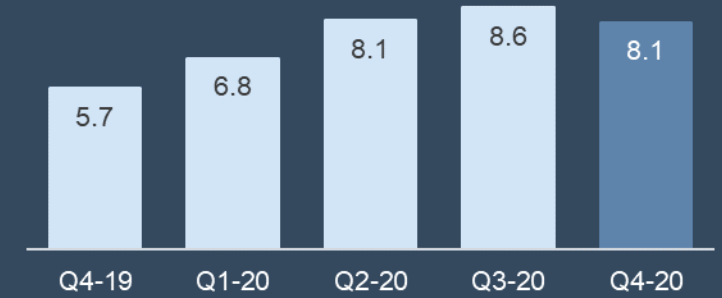
# Elkem group improved leverage ratio

- Net interest bearing debt (NIBD) was BNOK 8.1 as at 31 December 2020
  - Leverage ratio was 3.0x based on LTM EBITDA of BNOK 2.7
  - The leverage ratio clearly improved from 3.8x in the previous quarter explained by higher EBITDA and lower NIBD

- Debt maturities in 2021 well managed
  - Debt maturities in China consist of local working capital financing, which are regularly rolled over
  - 3-year loan facility of BNOK 2.0 signed in July 2020 to cover the loans maturing in December 2021

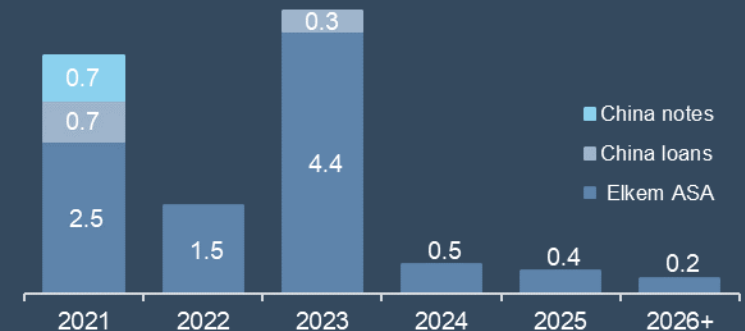
## Net interest-bearing debt (NIBD)

NOK billion



## Maturity profile

NOK billion



*China notes net of restricted deposits*



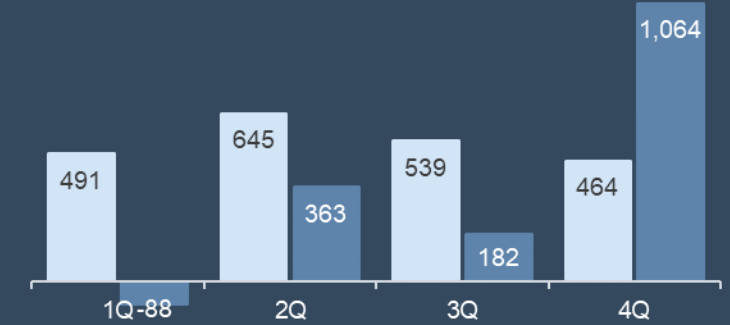
# Elkem group strong cash flow

- ◆ Cash flow from operations<sup>(1)</sup> was MNOK1,064 in the fourth quarter, significantly improved from the corresponding quarter last year
  - ▶ Explained by improved EBITDA combined with all-time low working capital levels
  
- ◆ Investments ex. M&A amounted to MNOK 817 in the fourth quarter 2020
  - ▶ Reinvestments was MNOK 558 in the quarter, amounting to 117% of D&A. Reinvestments YTD were 81% of D&A
  - ▶ Strategic investments of MNOK 259, primarily Silicones R&D centre and other specialisation projects

(1) Cash flow from operations is according to Elkem management definition and includes reinvestments

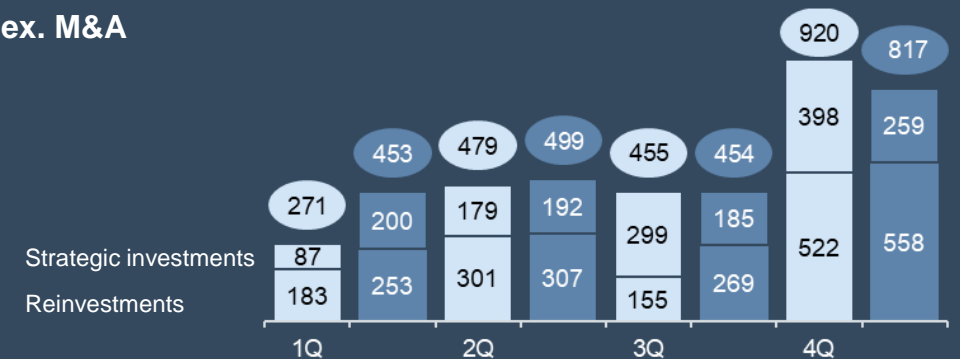
## Cash flow from operations

NOK million



## Investments ex. M&A

NOK million



■ 2019 ■ 2020

# Outlook for the first quarter

- ◆ Elkem is entering 2021 from a robust position, continuing to improve on specialisation and operational excellence as a basis for further growth
- ◆ The market sentiment is positive but macroeconomic uncertainty still persists
- ◆ Silicones prices in China at attractive levels early 2021. Silicones demand in Europe and North America picking up. Chinese New Year will negatively impact the first quarter results
- ◆ Prices for silicon and ferrosilicon have continued to rise early first quarter. Full impact gradually reflected in contract prices. Demand is currently strong
- ◆ Steel and ferroalloys markets continue to improve, positively impacting the underlying market conditions for carbon products



# Important notice

Any statement, estimate or projection included in this presentation (or upon which any of the conclusions contained herein are based) with respect to anticipated future performance (including, without limitation, any statement, estimate or projection with respect to the condition (financial or otherwise), prospects, business strategy, plans or objectives of the company and/or any of its affiliates) may prove not to be correct.

No representation or warranty is given as to the completeness or accuracy of any forward-looking statement contained in this presentation or the accuracy of any of the underlying assumptions. Nothing contained herein shall constitute any representation or warranty as to the future performance of the company, any financial instrument, credit, currency rate or other market or economic measure.

Information about past performance given in this presentation should not be relied upon as, and is not, an indication of future performance.



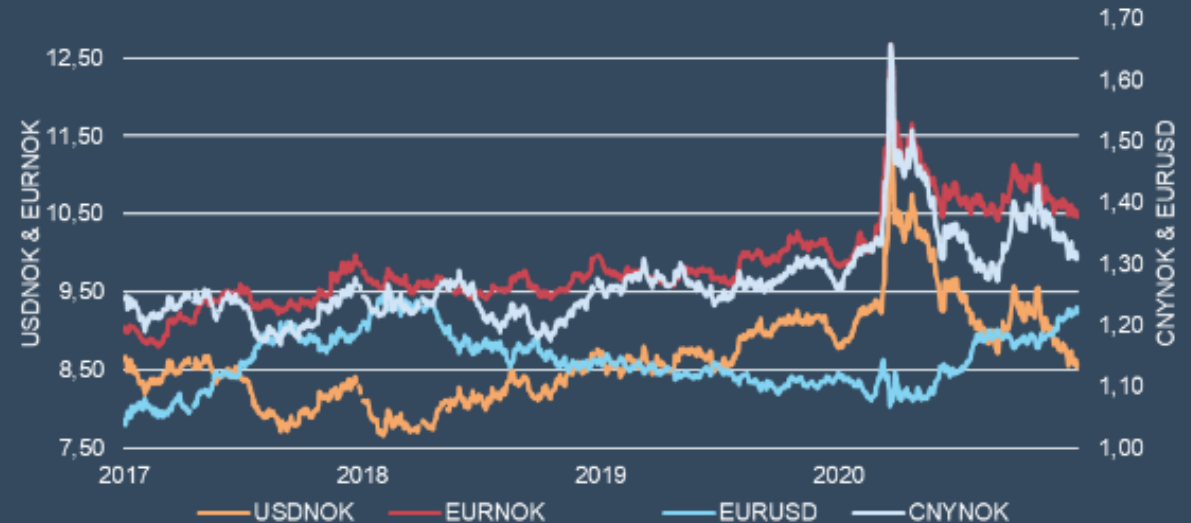
# Appendix



# Currency sensitivity

- ◆ The cash flow is exposed to operating income and costs in different currencies. The main currencies are EUR and USD
  - ▶ EUR - net cash flow approx. MEUR 310
  - ▶ USD - net cash flow approx. MUSD 150
- ◆ Current cash flow hedging programme
  - ▶ 90% hedging of net cash flows occurring within 0-3 months
  - ▶ 45% hedging of forecasted net cash flows within 4-12 months
- ◆ Before hedging activities, a 10% strengthening or weakening of NOK versus all other currencies would have an EBITDA effect of approx. MNOK 600 over the coming 12 months

## Currency development



- During 4Q-2020 the Norwegian krone (NOK) strengthened against major currencies compared to 3Q-2020
- In 4Q-2020, the NOK was on average close to 7% weaker against EUR, 5% weaker against CNY and 1% stronger against USD compared to 4Q-2019



# Other financial sensitivities

## POWER

- ◆ Electric power is a key input factor in Elkem's production. Total consumption for the group was 6.4 TWh in 2020. Near term exposure to spot power prices is limited
  - ▶ Norway, hedging programme mainly consisting of long-term contracts covering 80% of the power consumption for the current and next year
  - ▶ Outside Norway, power prices are mostly based on long term contracts or regulated power tariffs
- ◆ Elkem applies hedge accounting for most of its power contracts. Fair value changes of financial contracts which are not included in the hedging portfolio are booked in Other items

## SALES PRICES

- ◆ Changes in sales prices could significantly affect operating income and EBITDA
  - ▶ 1% margin change for silicones products is expected to affect result by MNOK 130 per year
  - ▶ 10% price change on silicon metal is expected to affect result by approx. MNOK 80 per year<sup>(1)</sup>
  - ▶ 10% price change on ferrosilicon is expected to affect result by approx. MNOK 160 per year<sup>(1)</sup>

<sup>(1)</sup> Cost absorption effects of 25% are assumed for both silicon and ferrosilicon

