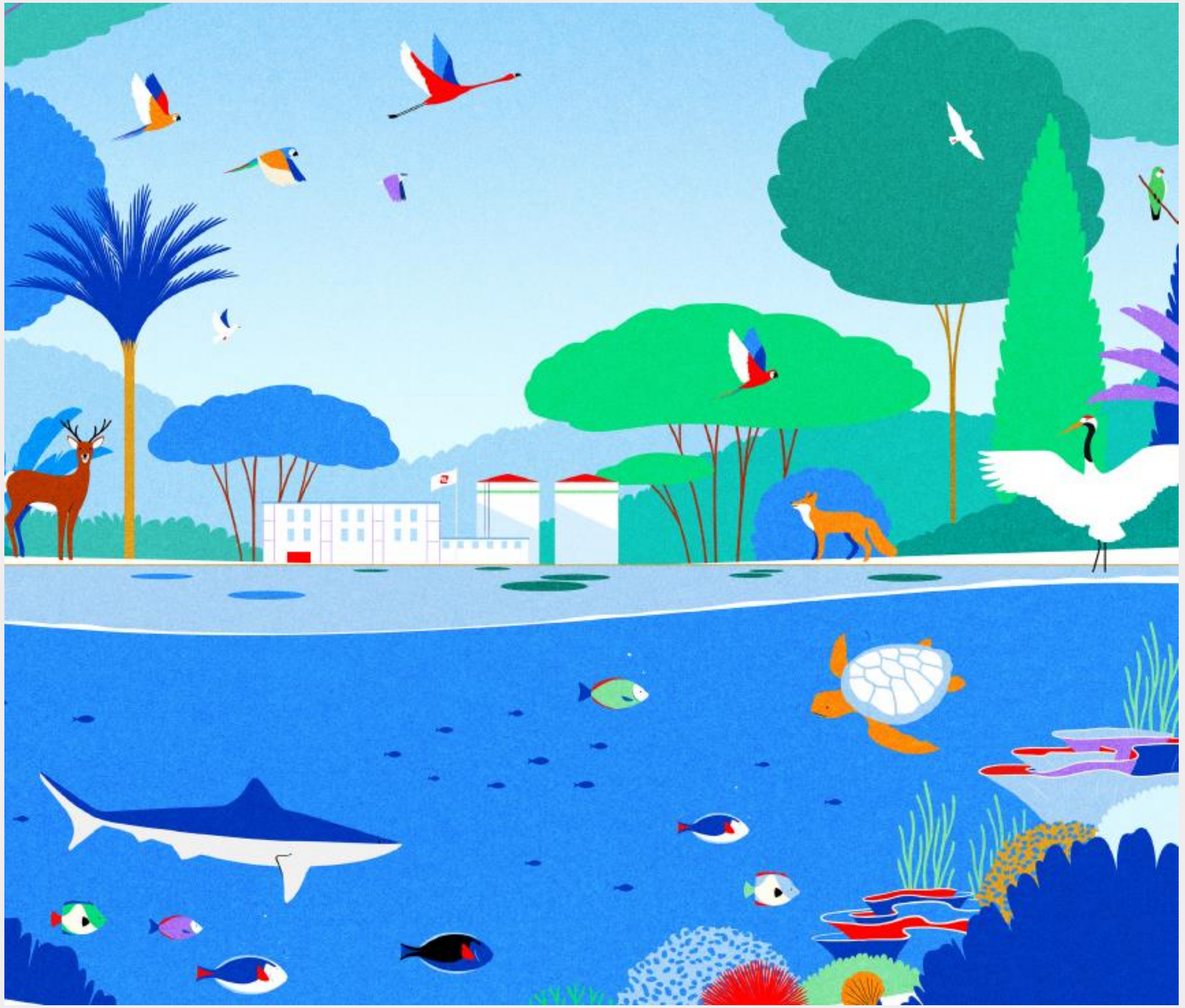
Elkem

Elkem Green Bond Allocation Report

2023



Allocation and impact reporting

Introduction

In August 2023, Elkem issued its first senior unsecured green bonds. The transaction was another step in the company's green transformation.

The proceeds from the bond issuance will be used in line with Elkem's Green Bond Framework. Elkem will fully allocate the funds to refinance investments in silicon smelter waste heat recovery plants and biocarbon reductant production sites.

The Green Bond Framework

Sustainability is an important part of Elkem's corporate strategy. The goal is to reach net zero emissions by 2050 while growing the supplies of products critical for the green transition. The Green Bond Framework enables Elkem to raise debt capital to support investments contributing to climate change mitigation and achieving the targets of the company's climate roadmap.

The Green Bond Framework is aligned with the International Capital Market Association's (ICMA) Green Bond Principles (as of 2021 with June 2022 Appendix 1).

The four core components of the Green Bond Principles along with its recommendation of external review form the basis of the Framework:

1. Use of Proceeds
2. Process for Project Evaluation and selection
3. Management of Proceeds
4. Reporting

S&P Global Shades of Green has provided a second-party opinion, which is publicly available at Elkem's website. This Framework may over time be updated, however new versions of the Framework shall have no implications for the Green Bonds that have been issued under this Framework.

PwC has performed a limited assurance of the allocation report, in line with ISAE 3000, see page 5 for the Limited Assurance Report.

Elkem

Terms and conditions

The deal was carried out in two tranches of NOK 650 million and NOK 350 million, respectively, both with a maturity of five years. The first tranche of NOK 650 million bears a coupon of 3-month NIBOR plus 1.55% per year, while the second tranche of NOK 350 million has a fixed coupon of 5.75 % per annum. Both tranches are listed on the Oslo Stock Exchange.

Allocation Report and Use of Proceeds

The net proceeds from any issuance of green bonds under the Framework will be used to finance and/or refinance, in whole or in part, new or existing projects, assets and activities according to the Eligibility Criteria ("Eligible Green Projects") outlined in the Green Bond Framework
The Use of Proceeds and Allocation as per 31 December 2023 shows all outstanding debt financing issued under the Green Bond Framework, the respective allocation of proceeds to the category of Eligible Green Projects. 100 % of the funds from the Green Bond issuances of NOK 1 000 million have been allocated as of 31 December 2023.

Use of proceeds and Allocation Report
December 31st

Issuance/Date of signing	August 2023	August 2023
Maturity	August 2028	August 2028
ISIN	NO0013005306	NO0013007401
Currency	NOK	NOK
Amount issued (million)	650	350
Unallocated (%)	0 %	0 %
Allocated (%)	100 %	100 %
Finance (%)	0 %	0 %
Refinance (%)	100 %	100 %
Green project		
Renewable energy & Energy efficiency (%)	87.5%	87.5%
Pollution prevenation and control (%)	12.5%	12.5%

Impact Report

The impact reporting aims to disclose the environmental impact of the Green Projects financed under this Framework, based on Elkem's financing share of each project. 100 % of the allocation has been used to refinance two projects, Heat Recovery Plant at Elkem Salten and Biocarbon pilot plant in Canada.

Renewable energy & Energy efficiency

Energy efficiency and sustainable sourcing of energy is of utmost importance to ensure security of supply, while at the same time reducing Elkem's global greenhouse gas (GHG) footprint. Parts of Elkem's value chain are highly energy intensive, with silicon, ferrosilicon and foundry alloys being produced in high temperature electric arc furnaces. Elkem has therefore set three objectives within energy: (a) improving the energy efficiency of existing facilities and equipment, (b) reducing the energy intensity of main products, and (c) increasing energy recovery from processes that generate surplus heat.

Elkem has a long-term strategy to increase energy recovery as part of its programme to reduce CO2 emissions. 87.5 % of the funds from the two green bond issuances in August 2023 have been allocated to reinvestment in Elkem Salten Energy Recovery Plant. Elkem Salten is the latest energy recovery project in Elkem, increasing the total energy recovery capacity equivalent to 270 GWh annually of electrical energy, which equals the electricity consumption of more than 15,000 Norwegian households. The main investment was done in 2021, but subsequent maintenance costs have been included in the allocation.

Pollution prevention and control

The remaining 12.5% of the allocation has been used for refinancing of the industrial pilot plant for biocarbon production in Canada. As the use of carbon sources is essential to the production of silicon and ferrosilicon, Elkem aims to increase the share of biocarbon to reduce fossil CO2 emissions. Biocarbon produced from biomass is renewable and does not contribute to net CO2 emissions provided there is a sustainable balance between harvesting and growth of trees. Elkem aims to use residuals and not use virgin fiber in its biocarbon production.

When finalised, the environmental impact of the pilot itself is expected to give a reduction of approximately 6000 Mt of fossil CO2 emissions per year. The reduction in fossil CO2 emissions will come into effect when the material is used in the FeSi Furnace, and this will first be tested in 2024. As of the reporting date no impact indicators are available.

Impact Indicators

Green Project category	Impact indicators	31.12.2023
Renewable energy & Energy efficiency	Annual energy recovery (GWh)	995 (heat+electricity)

Independent limited assurance report

To the ESG Steering Committee of Elkem ASA

Independent statement regarding Elkem ASA's Green Bond Allocation Report 2023

We have been engaged by Elkem ASA (the «Company») to undertake a limited assurance engagement on selected information about the allocation of proceeds in the Company's Green Bond Allocation Report 2023 (Subject Matter Information). The scope of our work was limited to assurance over:

- the description of process and systems for evaluation and selection of the green projects as described in the Green Bond Framework and
- allocating proceeds from the Green Bond to such investments and expenditures, as described in the Green Bond Allocation Report 2023 section «Allocation Report and Use of Proceeds» on page 2.

The Green Bond Allocation Report 2023 is prepared using the criteria described in the «1. Use of proceeds» section in the Green Bond Framework pr August 2023. The "Use of proceeds" section is attached to the Green Bond Allocation Report 2023.

Our assurance does not extend to any other information in the Green Bond Allocation Report 2023 than the section «Allocation Report and Use of Proceeds». We have not reviewed and do not provide any assurance over any information reported regarding the impact report on page 3-4.

Management's Responsibility

The ESG Steering Committee is responsible for ensuring that the Company has implemented appropriate guidelines for green bond management and internal control.

The ESG Steering Committee is responsible for evaluation and selection eligible green projects, for the use and management of bond proceeds, and for preparing a «Green Bond Allocation Report» that is free for material misstatements, whether due to fraud or error, in accordance with the Company's «Green Bond Framework».

Our Independence and Quality Management

We have complied with the independence and other ethical requirements as required by relevant laws and regulations in Norway and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply the International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* and accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibilities

Our responsibility is to express a conclusion on the Subject Matter Information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 revised – «Assurance Engagements other than Audits or Reviews of Historical Financial Information», issued by the International

Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the Subject Matter Information is free from material misstatement.

A limited assurance engagement in accordance with ISAE 3000 involves assessing the suitability in the circumstances of management's use of the Criteria as the basis for the preparation of the Subject Matter Information, assessing the risks of material misstatement of the Subject Matter Information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the Subject Matter Information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgment and, among others, included an assessment of whether the criteria used are appropriate. Our procedures also included making inquiries primarily of persons responsible for the management of bond proceeds and the process for selection of eligible green projects and meetings with representatives from the Company who are responsible for the allocation reporting; obtaining and reviewing relevant information that supports the preparation of the allocation reporting; assessment of completeness and accuracy of the allocation reporting.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Subject Matter Information has been prepared, in all material respects, in accordance with the Criteria.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on the limited assurance procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the section «Allocation Report and Use of Proceeds» disclosed in the Green Bond Allocation Report 2023 has not been prepared, in all material respects, in accordance with the relevant Criteria.

Oslo, 22 March 2024
PricewaterhouseCoopers AS

Anders Ellefsen
State Authorised Public Accountant (Norway)

Annex: Use of proceeds

Allocation of net proceeds

An amount equal to the net proceeds from Green Bonds issued by Elkem will finance or refinance, in whole or in part, investments undertaken by Elkem, its subsidiaries, or partnership arrangements that are in accordance with the Green Project categories defined in the next pages (Green Projects). Green Projects may take the form of capital expenditures, operating expenditures and equity investments1, which together will form a portfolio of assets eligible for financing and refinancing with Green Bonds. The overarching goal of the Green Projects is to contribute to climate change mitigation and achieving the targets of the company's climate roadmap.

Exclusions

Green Bond proceeds will not be directly allocated to projects for which the purpose is fossil energy production, weapons and defence, gambling, pornography, or tobacco.

Financing and refinancing

An amount equal to the net proceeds can finance both existing and new Green Projects financed by Elkem. New financing is defined as allocated amounts to Green Projects financed within the reporting year, and refinancing is defined as allocated amounts to Green Projects financed prior to the reporting year.

The distribution between new financing and refinancing will be reported in Elkem's Green Bond Reporting. Operating expenditures qualify for refinancing with a maximum look-back period of three years prior to the issuance date of the Green Bond.

Green project categories

Green project category	Eligibility criteria	SDG contribution	Context
Renewable energy & Energy efficiency	Financing and refinancing of capital and operating expenditures dedicated to: • Develop, build, and operate facilities for waste heat recovery (“Energy Recovery Plants”) for the production of electricity, steam and hot water • Upgrading Energy Recovery Plants for the purpose of improving the efficiency • Repair and maintenance of Energy Recovery Plants • Energy efficiency improvements in targeted areas of existing facilities and equipment by at least 30% • R&D targeting the development of new solutions for renewable energy and energy efficiency	 	**Energy management** Energy efficiency and sustainable sourcing of energy is of utmost importance to ensure security of supply, while at the same time reducing Elkem's global greenhouse gas (GHG) footprint. Parts of Elkem’s value chain are highly energy intensive, with silicon, ferrosilicon and foundry alloys being produced in high temperature electric arc furnaces. Elkem has therefore set three objectives within energy: (a) improving the energy efficiency of existing facilities and equipment, (b) reducing the energy intensity of main products, and (c) increasing energy recovery from processes that generate surplus heat. As part of Elkem’s energy management efforts, major Elkem sites are certified or in the process of being certified on Energy Management according to the ISO 50001 standard. One example of the practical energy efficiency actions undertaken is replacing old, inefficient electrical motors with new efficient motors with variable frequency drives. Moreover, Elkem has a long-term strategy to increase energy recovery as part of its climate program. Several of its major production sites have production processes that generate surplus heat with high enough temperatures to be recovered. This heat can be used to generate new electricity for the grid, as well as steam or hot water for internal or external use in production or as district heating. The latest addition of energy recovery capacity came online at the Elkem Salten plant in 2021, increasing the total recovery capacity by 270 GWh annually of electrical energy, equal to the consumption of more than 15,000 Norwegian households. Elkem considers constructing more energy recovery facilities if their business cases prove interesting.
Pollution prevention and control	Financing and refinancing of capital and operating expenditures dedicated to: • Develop, construct and operate facilities for the production of biocarbon reduction materials for which the feedstock is based on wood-based waste and/or side streams from forestry and industry, or wood-based materials from certified sources in accordance with the SFI, FSC or PEFC • Develop, construct and operate carbon capture facilities related to silicon smelters • R&D targeting the development of new solutions for circular economy and to significantly improve the product carbon footprint	  	**Shifting towards biocarbon-based production** As the use of carbon sources are essential to the production of silicon and ferrosilicon, it is critical to increase the share of biocarbon to reduce fossil CO_2 emissions. Biocarbon is the carbon that is naturally absorbed and stored by plants and trees, and a high share of biocarbon is important in order to reduce the climate impact of Elkem’s processes and transition towards carbon neutral production. Elkem’s goal is to replace fossil carbon with biocarbon in its smelting processes and reach a biocarbon share of 50% of CO_2 emissions by 2031. Each of Elkem’s six Norwegian plants has developed a roadmap to reach the goal but undersupply of biocarbon is a key challenge. The industrial pilot plant for biocarbon production in Canada is an example of Elkem’s efforts to address this and secure sufficient supply. Elkem’s biocarbon policy outlines its commitment to sustainable forest management and the requirements for procuring bio-based reductants in Elkem. The company sources over 90% of its purchases of biocarbon from suppliers certified according to the Forest Management Council (FSC), or certification schemes with equivalent requirements The industrial plant in Canada uses biocarbon reduction materials based on residues from forests certified according to the North American Sustainable Forestry Initiative (SFI) standard. Elkem is also actively engaged in new technology development and industrial partnerships to promote the shift towards increased use of biocarbon from waste sources in the production.