

First quarter results 2019

Agenda

Helge Aasen, CEO

Highlights

Business update

Outlook

Morten Viga, CFO

Financial performance



Solid margins despite challenging market conditions

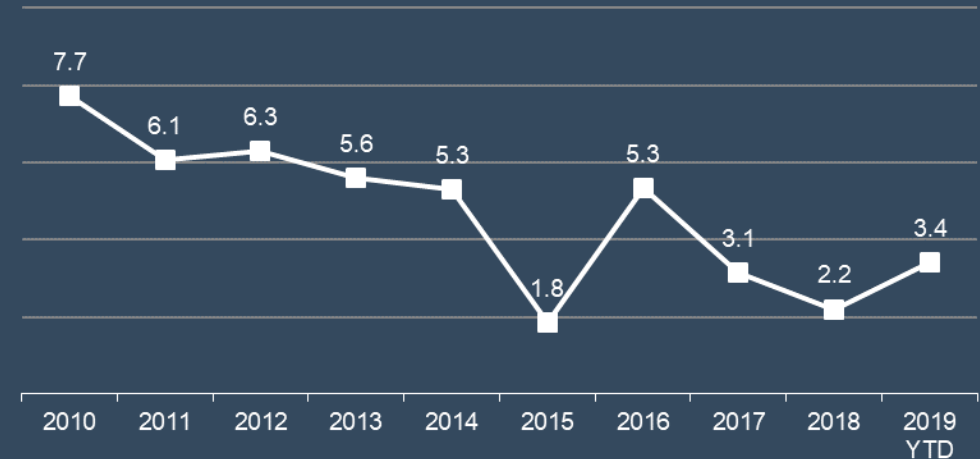
- ◆ First quarter result in line with expectations, affected by weak market conditions and reduced capacity utilisation
- ◆ Total operating income of NOK 6,007 million, down 7% from first quarter 2018
- ◆ EBITDA of NOK 852 million, down 41% from first quarter 2018
- ◆ Lower operating income and EBITDA mainly due to lower Chinese silicone prices in the quarter
- ◆ Silicones market in China improving after Chinese New Year
- ◆ Earnings per share NOK 0.84



Health and safety our main priority

- ◆ Elkem has a zero harm philosophy when it comes to health and safety. The target is zero H1 & H2 incidents
- ◆ The total recordable injury rate in 1Q-2019 is 3.4
 - ▶ Regretfully the Xinghuo plant in China had a fatality 19 February 2019. The incident has been thoroughly investigated and corrective actions have been implemented
 - ▶ 6 H1 injuries and 5 H2 injuries for own employees
- ◆ No environmental issues

Total recordable injury rate (H1 & H2 per 1,000,000 working hours)



H1 – Number of lost time injuries per 1,000,000 working hours
H2 – Number of medical treatment and restricted work injuries per 1,000,000 working hours

Strategic focus areas 2019

- ◆ Further developing attractive market positions e.g. in speciality silicones in China and foundry products in Paraguay
- ◆ Construction of a new pilot plant for synthetic graphite for batteries, leveraging on strong R&D capabilities
- ◆ Bolt-on acquisitions to enhance growth and specialisation in silicones
- ◆ Deliver realised effects of MNOK 500 on accelerated cost improvement programme
- ◆ Evaluate debottlenecking of Xinghuo Silicones to expand capacity and further improve cost position
- ◆ Continued focus on specialisation
 - ▶ Significant opportunities in specialised products for battery insulation and high quality rubber for cables in EVs
 - ▶ New product launches e.g. sealants for window and door frame in China with significant market potential
 - ▶ Increased market penetration leveraging on Chinese platform for growth into personal care products in skin care and colour cosmetics

Competitive strengths



Silicones

optimising the value chain

Estimated industry margins

5 – 20%

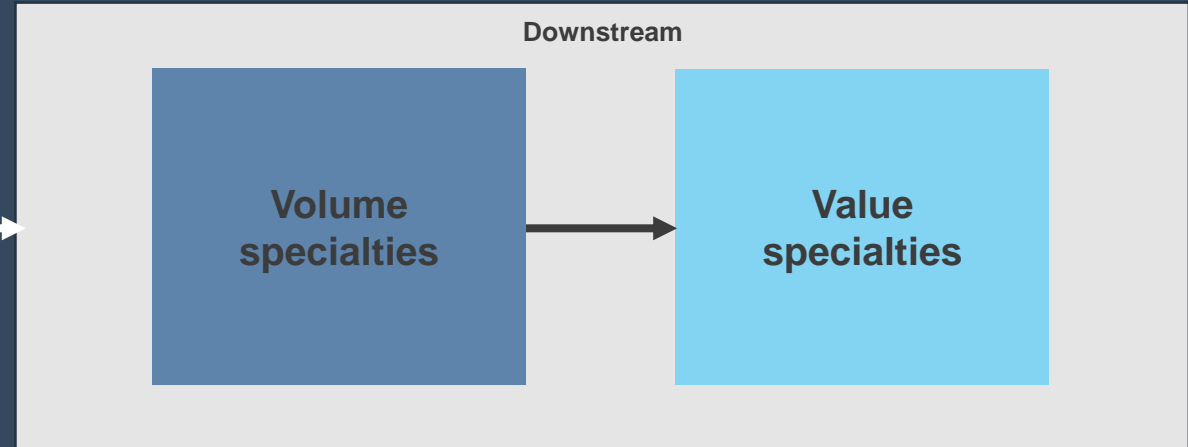
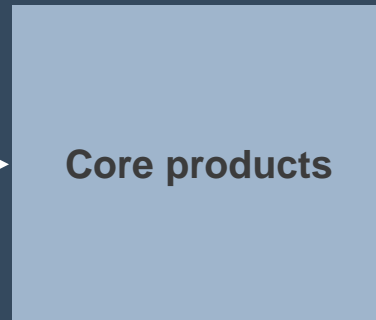
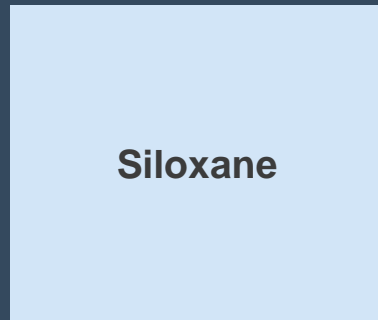
15 - 25%

> 25%

Upstream

Intermediates

Downstream



Siloxane is generally not marketable but transformed into silicone intermediates

Core products/intermediates include DMC, D4, D5, D6, linears etc.

Volume specialties generally include products for personal care and construction

Value specialties generally include products for health care and electronics

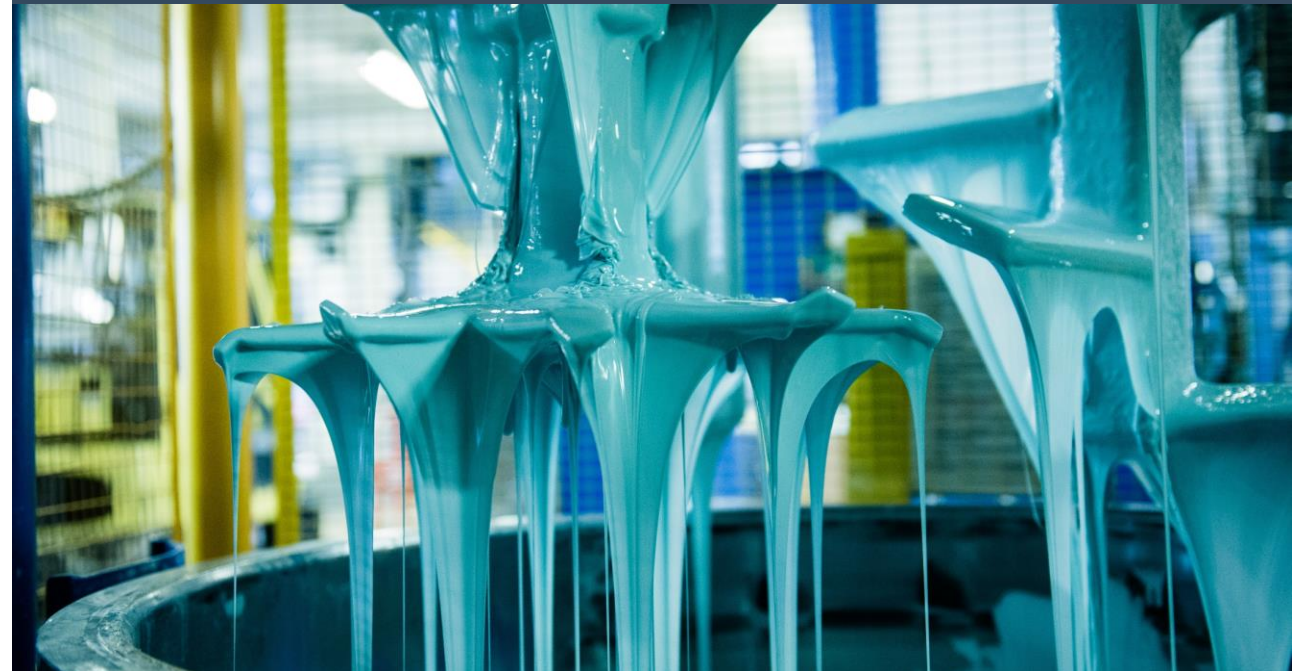
Silicones growth and specialisation

- ◆ The global demand for silicones is expected grow by more than 5% CAGR from 2018 to 2023
 - ▶ More than 60% of the growth will be in China, India and rest of Asia
 - ▶ Elkem is well positioned to capitalise on expected growth opportunities based on the leading market position in China. Elkem is also establishing presence in India with a new downstream facility

- ◆ Global demand for siloxane was estimated to 2.3 million tons in 2018
 - ▶ This is expected to grow by 0.6 million tons to 2.9 million tons in 2023
 - ▶ Estimated new capacity under construction indicates a balanced supply and demand development
 - ▶ High entry barriers due to integrated business models and proprietary technology

Source: McKinsey

Silicones - demand forecast

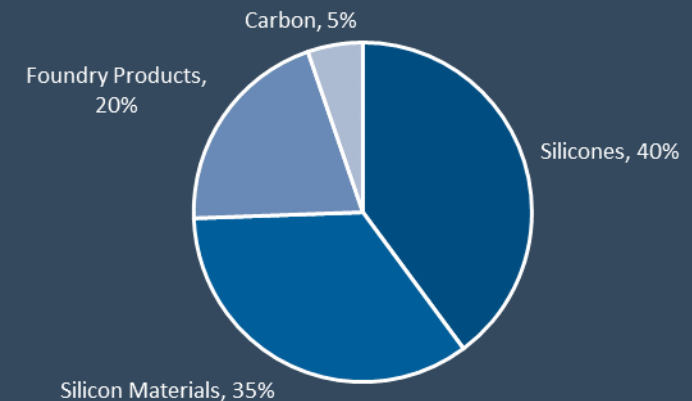


Operational improvements proceeding as planned

- ◆ Continuous improvement is one of Elkem's core values and part of EBS
- ◆ An accelerated improvement programme targeting realised effects of MNOK 500 in 2019 has been initiated to counter weaker market conditions
- ◆ The programme is based on continuous improvement methodology with detailed cost road maps for each division and cost category
 - ▶ yield/efficiency
 - ▶ revenue mix
 - ▶ operational costs
 - ▶ overhead/manning and
 - ▶ indirect procurement costs
- ◆ Main impact is expected in 2Q to 4Q 2019



Divisions' share of accelerated improvement targets



Market update

mixed pricing picture, demand picking up

◆ Silicones

- ▶ DMC prices in China down by approx. 10% (avg.) from fourth quarter
- ▶ Wait-and-see attitude before Chinese New Year (CNY)
- ▶ Strong demand and rising prices after CNY
- ▶ Strong market for speciality products which constitute approx. 50% of Elkem's sales

◆ Silicon metal

- ▶ Prices stable at low level
- ▶ Pricing affected by overcapacity and high stock levels in China
- ▶ Stronger demand from silicones/chemicals and solar/polysilicon segments but weaker from aluminium due to weakness in automotive

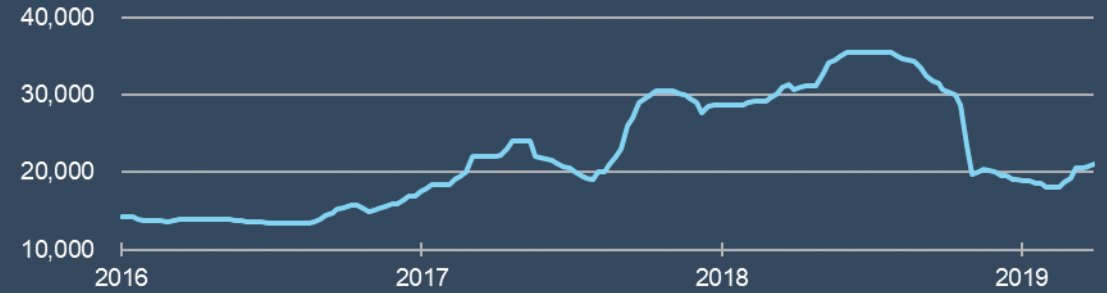
◆ Ferrosilicon

- ▶ Prices down by approx. 10% since fourth quarter
- ▶ Overcapacity and low EU steel consumption and output affecting prices

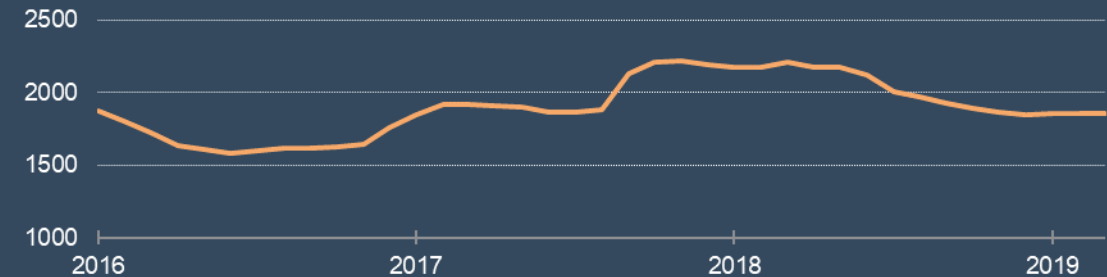
◆ Carbon

- ▶ Stable based on strong positions in fundamentally attractive markets

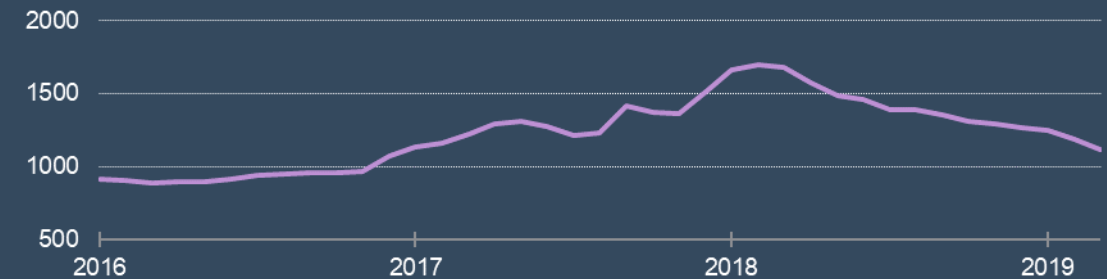
DMC reference price China (RMB/mt)



CRU silicon 99 price EU (EUR/mt)



CRU ferrosilicon 75 price EU (EUR/mt)

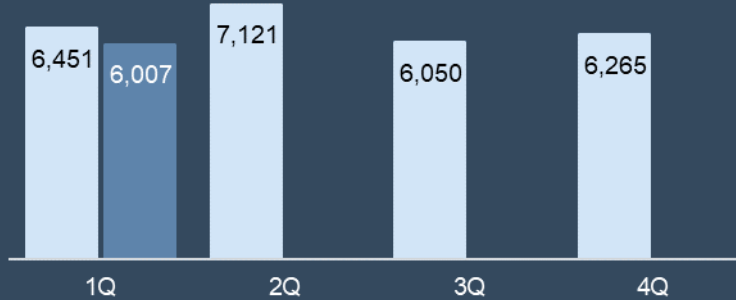


Elkem group

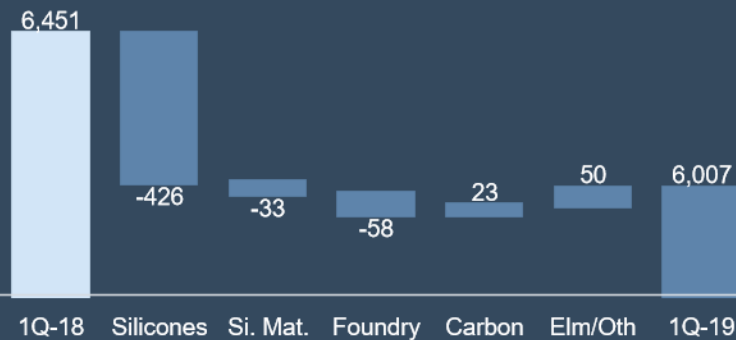
weaker than previous quarters but in line with expectations

Total operating income

– is down from first quarter last year

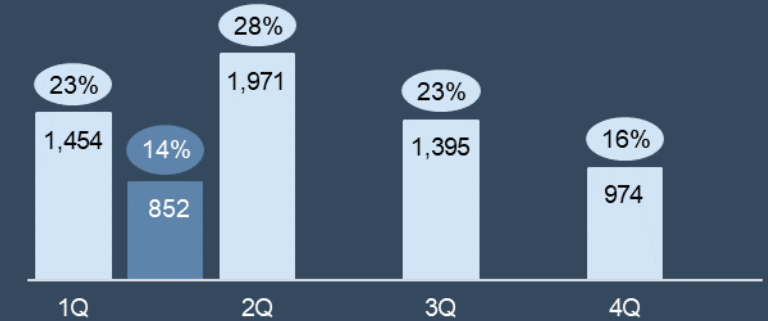


– mainly explained by lower revenue for Silicones division

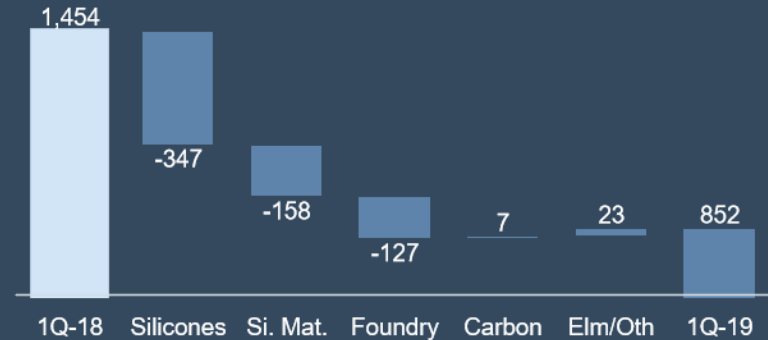


EBITDA

– is reduced from first and fourth quarter last year



– mainly due to lower market prices



Elkem group strong financial position

- ◆ Other items MNOK 151
 - ▶ Main item is positive value change of power contracts of MNOK 161 explained by lower short-term power prices combined with higher long-term power prices since the preceding quarter

- ◆ Net financial items MNOK -27
 - ▶ Net interest expenses of MNOK 61 incl. leasing effects following implementation of IFRS 16
 - ▶ Currency gain of MNOK 34 mainly related to group receivables in CNY and loans in EUR

- ◆ Tax MNOK -143
 - ▶ Tax rate of 22%, which is higher than normal due to profit distribution and gains on power contracts in Norway. Tax rate expected to be lower in coming quarters (16% on an annual basis)

Consolidated key figures

<i>(NOK million, except where specified)</i>	1Q 2019	1Q 2018	YTD 2019	YTD 2018	FY 2018
Total operating income	6,007	6,451	6,007	6,451	25,887
EBITDA	852	1,454	852	1,454	5,793
EBIT	514	1,150	514	1,150	4,522
Other items	151	-201	151	-201	-380
Net financial items	-27	-119	-27	-119	-327
Profit (loss) before income tax	640	829	640	829	3,792
Tax	-143	-100	-143	-100	-425
Profit (loss) for the period ⁽¹⁾	490	723	490	723	3,337
Key ratios					
EPS (NOK per share)	0.84	1.24	0.84	1.24	5.74
Equity ratio (%)	46%	38%	46%	38%	44%
Net interest bearing debt (NIBD) ⁽²⁾	3,685	5,369	3,685	5,369	3,264
Leverage ratio	0.7	1.3	0.7	1.3	0.6
Reinvestments % of D&A	54%	59%	54%	59%	84%
ROCE (annualised) (%)	12%	30%	12%	30%	28%

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

(2) Excluding non-current restricted deposits and interest-bearing financial assets

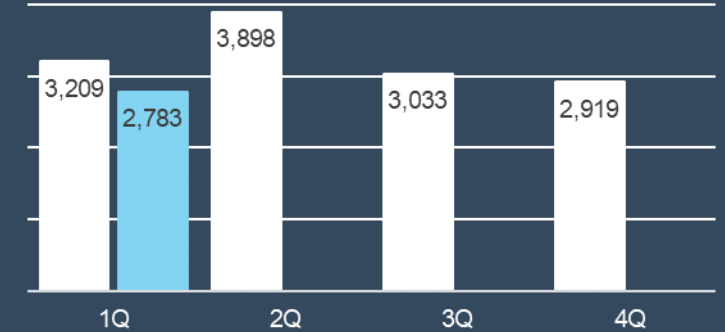
Silicones

strong quarter for specialties

- ◆ Total operating income down 13% from first quarter last year
- ◆ EBITDA of MNOK 436, down from high levels last year
- ◆ Lower income and EBITDA mainly explained by lower sales prices for core/intermediary products, particularly in China
- ◆ Strong performance for specialty products following price increases
- ◆ Positive impact from lower raw material costs, mainly silicon metal

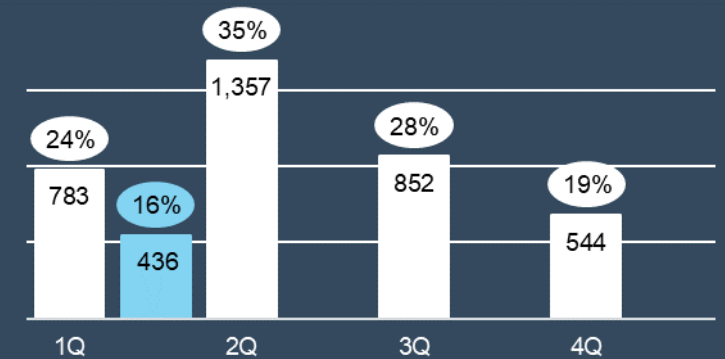
Total operating income

NOK million



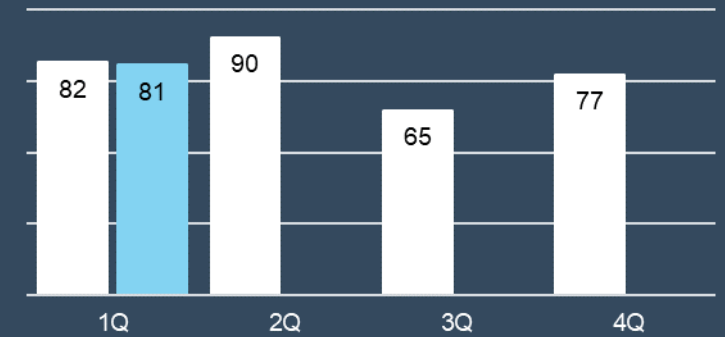
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



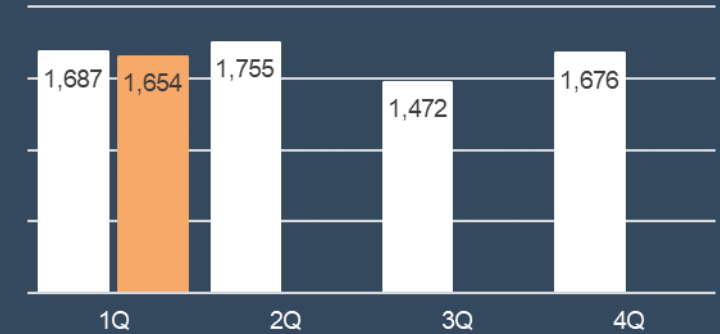
■ 2018 ■ 2019

Silicon Materials affected by overcapacity

- ◆ Total operating income in line with first quarter last year
- ◆ EBITDA down 46% compared to first quarter last year
- ◆ Lower EBITDA mainly explained by lower sales prices and higher costs, particularly for carbon materials and electrodes
- ◆ Stable sales volumes and stronger demand from silicones and solar/electronics. Excess consumer and producer inventories following weak demand in second half 2018 are currently being consumed

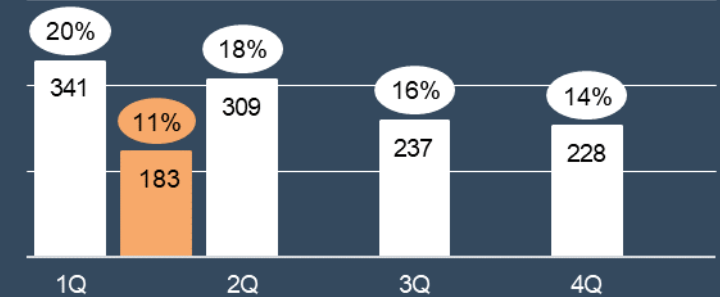
Total operating income

NOK million



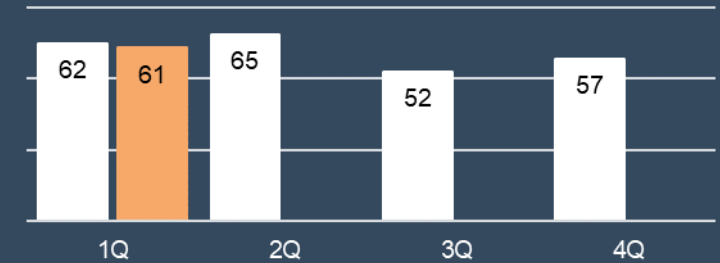
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

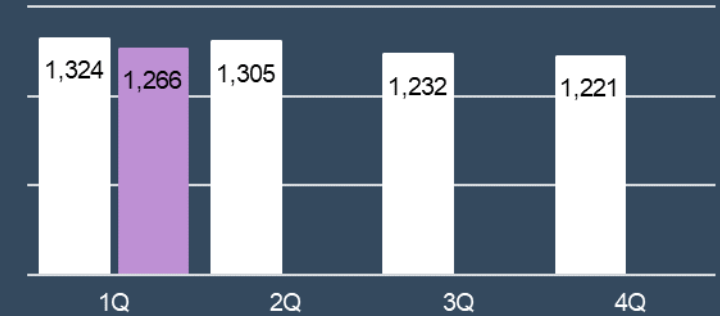
Foundry Products

weak ferrosilicon markets

- ◆ Total operating income down 4% from first quarter last year
- ◆ EBITDA down 42% to MNOK 179
- ◆ Lower EBITDA mainly explained by lower sales prices for ferrosilicon, negative sales mix effects and higher raw material costs
- ◆ The market sentiment is still weak

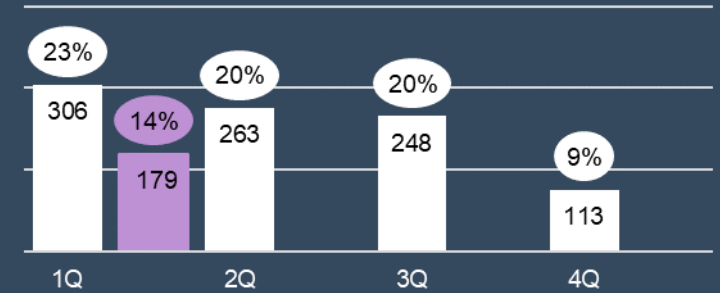
Total operating income

NOK million



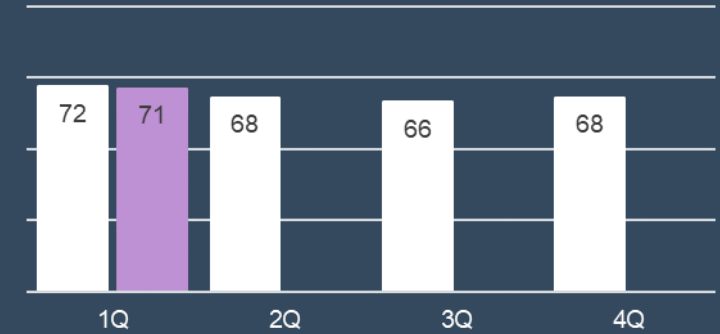
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

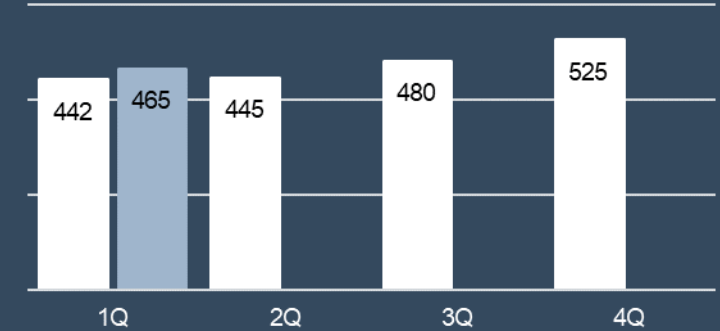
Carbon

higher operating income and result

- ◆ Total operating income up 5% from first quarter last year
- ◆ EBITDA up 9% to MNOK 83, generating a margin of 18%
- ◆ Higher income and EBITDA explained by higher sales prices and improved sales mix. Higher raw material costs partly offsetting higher sales prices
- ◆ Lower sales volumes mainly due to scheduled maintenance/project stops at several plants. Underlying markets conditions still strong

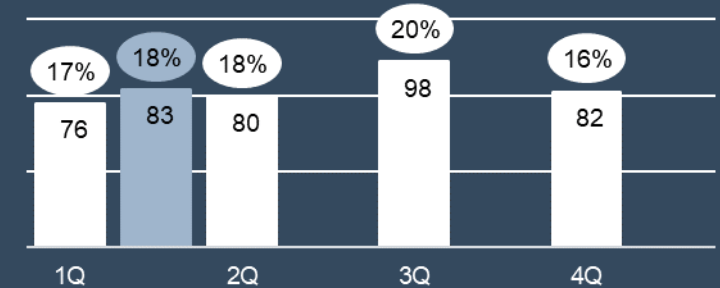
Total operating income

NOK million



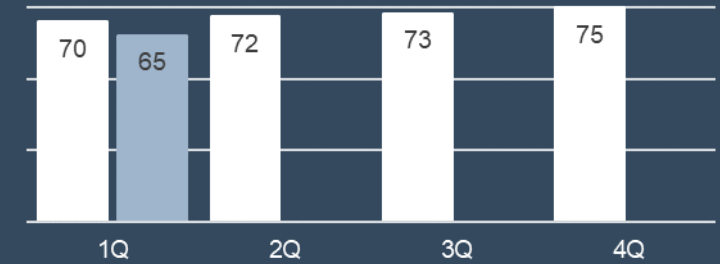
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

Elkem group strong equity and EPS

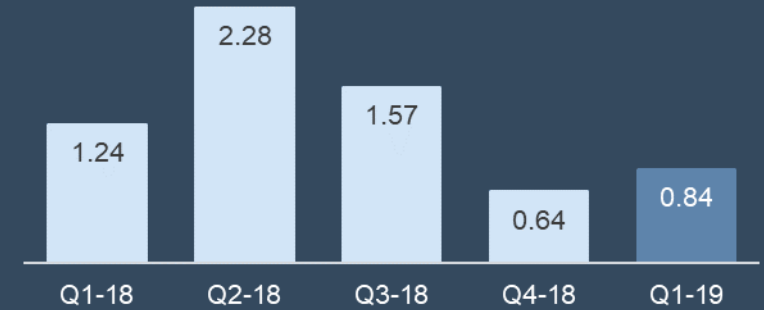
◆ Earnings per share (EPS)

- ▶ EPS amounts to NOK 0.84 in the first quarter

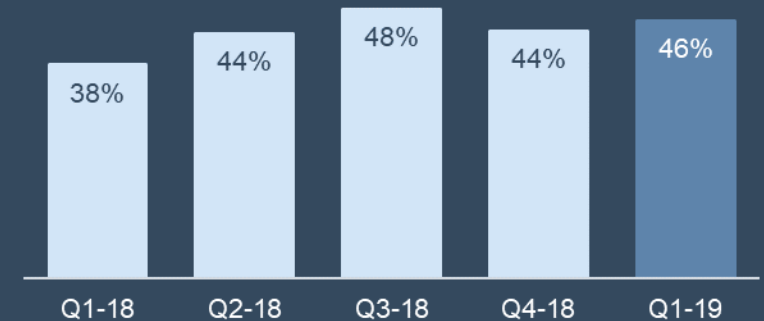
◆ Total equity amounts to BNOK 14.1 as at 31 March 2019

- ▶ Equity ratio of 46%
- ▶ Equity increased by BNOK 0.4 from 31 December 2018 due to profit for the period
- ▶ Adjusted for proposed dividend of BNOK 1.5 the equity ratio would be 43%

Earnings per share
(NOK)



Equity ratio in %

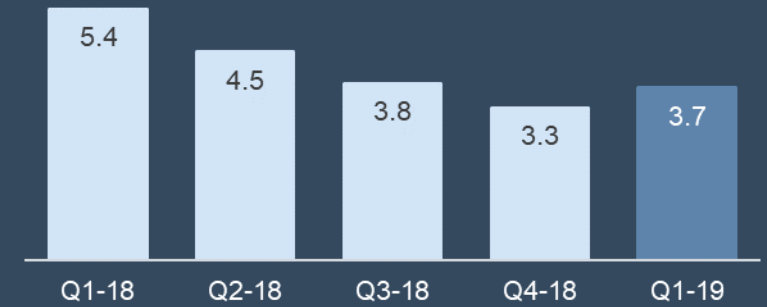


Elkem group

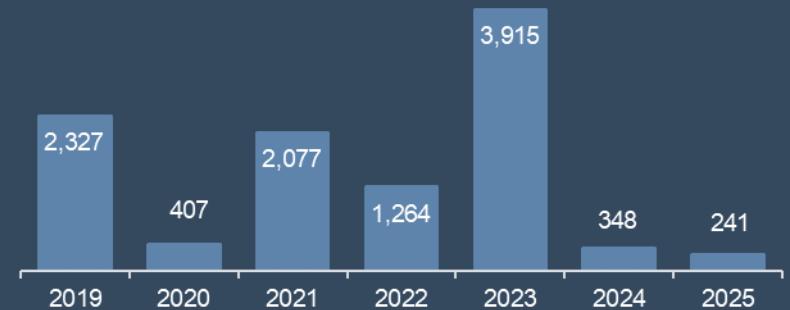
low leverage

- ◆ Net interest bearing debt of BNOK 3.7 by end of 1Q-19
 - ▶ Net interest-bearing debt increased by BNOK 0.4 from 4Q-18 mainly due to recognition of lease liabilities in accordance with IFRS 16
- ◆ Leverage ratio of 0.7x based on LTM EBITDA BNOK 5.2
 - ▶ Adjusted for proposed dividend payment of BNOK 1.5 the leverage would be 1.0x
- ◆ Satisfactory debt maturity profile following Norwegian bond and German Schuldschein transactions in 2018
 - ▶ Debt maturities in 2019 mainly consist of local Chinese bank facilities, expected to be rolled over

Net interest-bearing debt (NIBD) MNOK



Maturity profile MNOK



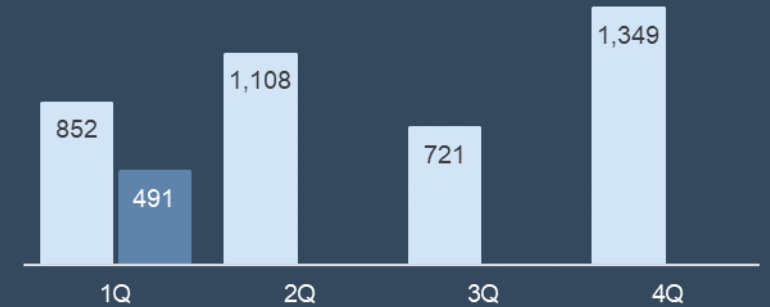
Elkem group seasonally low investments

- ◆ Cash flow from operations⁽¹⁾ was MNOK 491 in 1Q-2019, down from the corresponding quarter last year due to lower operating profit
 - ▶ Cash flow is negatively affected by seasonally higher working capital

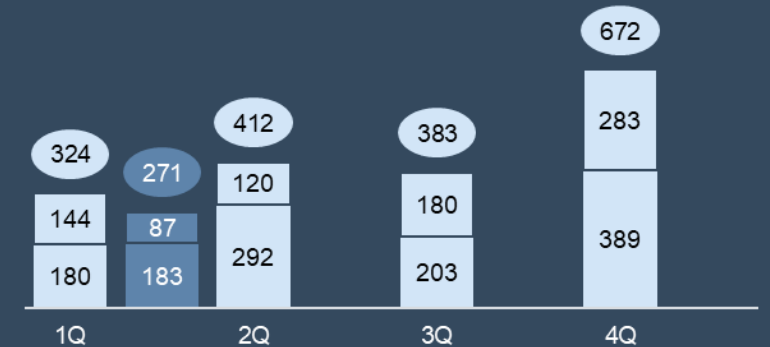
- ◆ Investments are seasonally low
 - ▶ Reinvestments of MNOK 183 million in first quarter
 - ▶ Reinvestment amounts to 54% of depreciations
 - ▶ Strategic investments of MNOK 87, primarily silicones specialisation projects

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

Cash flow from operations
MNOK



Investments
MNOK



Meeting targets in challenging markets

- Revenue growth for last twelve months (LTM) 1Q-2019 is 9% compared to the preceding LTM ending 1Q-2018
- EBITDA for LTM 1Q-2019 is 20%. All divisions are still above or within the 15-20% range
- Reinvestments LTM 1Q-2019 of 82%, in line with target
- Debt leverage of 0.7x still lower than target
 - Adjusted for proposed dividend the leverage would be 1.0x
- The proposed dividend for 2018 amounts to 45% of net profit for the year

Financial targets

Target metric	Financial target	Performance LTM 1Q-2019
Revenue growth	5 – 10%	9%
EBITDA	15 – 20%	20%
Reinvestments % of DA	80 – 90%	82%
Debt leverage ratio	1.0 – 2.0x	0.7x
Dividend target	30–50 % of net profit	45% for 2018



Outlook for the second quarter

- ◆ Elkem continues to benefit from fundamentally strong positions, holding up in a currently weak market sentiment
- ◆ Markets are expected to remain weak for silicon and ferrosilicon during second quarter
- ◆ Demand and pricing for silicones have developed favourably and is expected to improve in second quarter. Carbon is expected to continue to see good market conditions
- ◆ The Roussillon silicones plant in France will have a maintenance stop for four weeks in April/May, limited expected impact on results
- ◆ Second quarter EBITDA is expected to be stronger than first quarter, mainly due to better market conditions for silicones and cost improvements



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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 360
 - ▶ USD - net cash flow approx. MUSD 120
- ◆ 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



- The average NOK rates have weakened against the major currencies in 1Q-2019
- Compared to 1Q-2018, the NOK is 1% weaker against EUR, 9% weaker against USD and 3% weaker against CNY

Other financial sensitivities

POWER

- ◆ Electric power is a key input factor in Elkem's production. Total consumption for the group was 6.2 TWh in 2018. 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 contracts which are not included in the hedging portfolio is 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 120 per year
 - ▶ 10% price change on silicon metal is expected to affect result by approx. MNOK 120 per year⁽¹⁾
 - ▶ 10% price change on ferrosilicon is expected to affect result by approx. MNOK 150 per year⁽²⁾

(1) Cost absorption effects are assumed for both silicon metal and silicones. Neutral effect

(2) Sensitivities for ferrosilicon include 35% raw materials cost absorption

