

ELKEM FOURTH QUARTER RESULTS 2018

12 February 2019



Agenda

- Helge Aasen, CEO
 - Highlights
 - Business update
 - Outlook

- Morten Viga, CFO
 - Financial performance

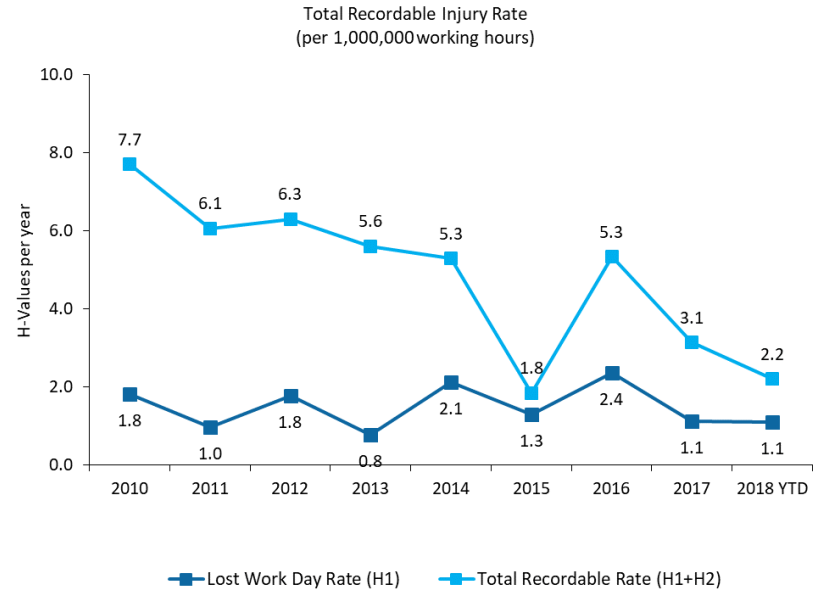
Fourth quarter concludes an extraordinary year

- Elkem completes a strong 2018, but fourth quarter earnings hampered by weaker market sentiment
- Total operating income of NOK 6,265 million, in line with fourth quarter 2017
- EBITDA of NOK 974 million, down 10% from fourth quarter 2017, mainly due to special items and one-off effects of approx. MNOK 55
- Strong financial position with low leverage, strong cash position and long-term maturity profile
- The board has proposed a dividend of NOK 2.60 per share based on an extraordinary strong year combined with leverage below target



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
- Health and safety performance also tend to correlate with operational performance
- The total recordable injury rate in 2018 is 2.2
 - 15 H1 injuries and 14 H2 injuries for own employees
 - Elkem's second best year ever
- No environmental issues



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

Delivering on strategy – 2018 highlights



- Strong growth in 2018 – operating income up 21%
- Leading positions in China – silicones capacity further increased and strengthened positions in specialty markets
- Foundry Products with expansions in China and Paraguay
- Cost position enhanced by furnace upgrades at Yongdeng and energy recovery project at Salten
- Value chain integration delivering synergies, especially within R&D in silicones
- Promising development for synthetic graphite to batteries by the Carbon division
- All time high EBITDA of MNOK 5,793 in 2018, low leverage and strong liquidity

Growth and specialisation

Elkem continues to pursue its strategy for growth and specialisation within all product areas

- High focus on R&D with more than 80 new products launched by the Silicones division in 2018. New R&D centre to be built in Lyon
- Several silicones specialisation projects ongoing, particularly for battery applications and electric cable in China and France
- Plan to develop the ferrosilicon plant in Paraguay into specialty foundry products
- New downstream silicones facility in India, as a first step in a growth strategy
- Actively searching for M&A opportunities, particularly bolt-on acquisitions in silicones

STRONG POSITION IN EV BATTERIES

- Sealing and bonding for electrical vehicle (EV) batteries
 - Application developed by Elkem generated revenue of more than EUR 30 million in 2018
 - Estimated to reach approx. EUR 45 million in 2019
 - The application is now being implemented on new EV models
 - In addition, the application is being tailormade and developed to meet qualification requirements from other car manufacturers



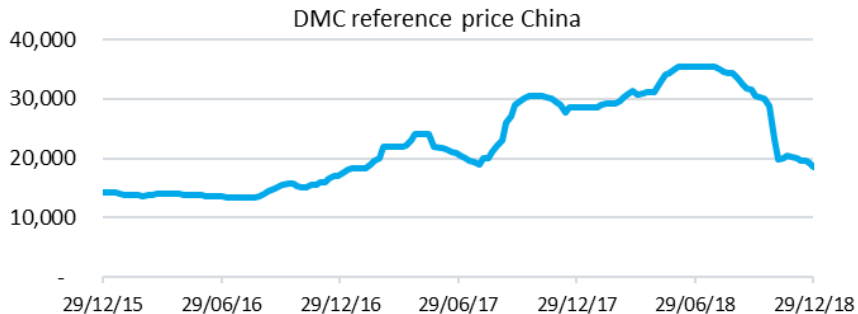
Operational efficiencies and synergies

- Accelerated improvement programme initiated to counter weaker market conditions
 - Cost initiatives based continuous improvement methodology
 - Strict prioritisation of reinvestments and other investments
- Step wise debottlenecking project evaluated in Xinghuo
 - Full scale upstream expansion to be evaluated later based on market development
- New agreements with Vattenfall and TrønderEnergi Kraft for approx. 525 GWh per year from 2020 to 2026 to secure stable energy costs for Norwegian smelters
- Focus on working capital improvements – project ongoing
 - Working capital reduced from 21% of revenues by end of 3Q-2018 to 17% by end of 4Q-2018

Silicones - market update

SHARP DECLINE IN CHINESE DMC PRICES IN 4Q-2018

- DMC prices in China down by more than 30% since end of 3Q-2018
- DMC prices of approx. RMB 18,500-19,000 by end of 4Q-2018
- Prices have levelled off but remain weak ahead of Chinese New Year
- Approx. 50% of Elkem's sales volumes are commodity products



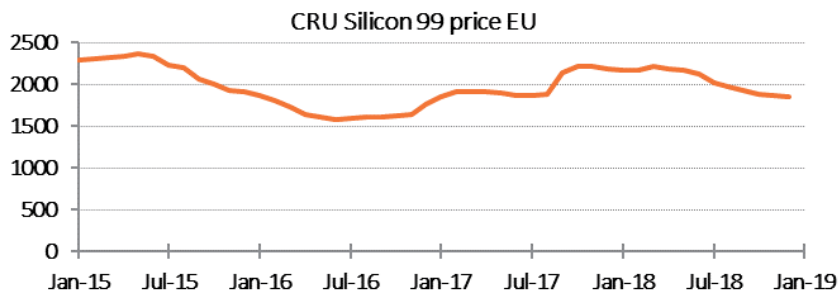
RESPONSE TO CHANGING MARKET CONDITIONS

- Elkem continues its focus on specialisation
 - Annual contracts for downstream specialities closed at same or higher price levels than 2018, constitute close to 50% of expected 2019 sales
 - Promising new initiatives in rubber and coating products, such as liquid silicon rubber for medical applications and silicones for artificial leather
- New siloxane capacity announced, mainly in China
 - No new capacity expected before late 2019 or early 2020
 - Increased uncertainty about commissioning of new capacity due to weak markets and the US - China trade conflict

Silicon and ferrosilicon – market update

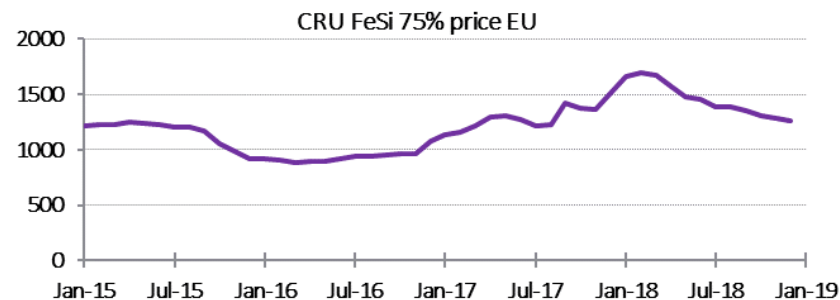
SILICON – PRICES EXPECTED TO STABILISE

- Reference price for silicon (Si99) of EUR 1,845 by end of 4Q-18
 - Average prices down by 5% from previous quarter
 - Lower prices due to new capacity and weaker demand
- Leading industry players taking out capacity
 - Approx. 15% of Western capacity idled
 - Elkem has temporarily idled approx. 15% of its total silicon metal capacity



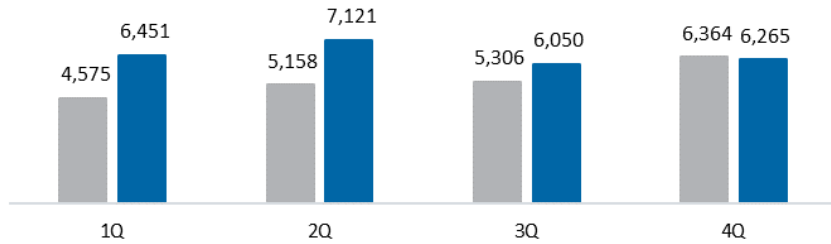
FERROSILICON – PRICES DOWN FROM GOOD LEVELS

- Reference price for ferrosilicon (FeSi75) EUR 1,262 by end of 4Q-18
 - Average prices down by 7% from previous quarter
- Elkem's high purity grades trade at premium to CRU prices
- Foundry alloys are specialised products with prices independent of ferrosilicon prices and constitute approx. 50% of the sales for the Foundry Products division

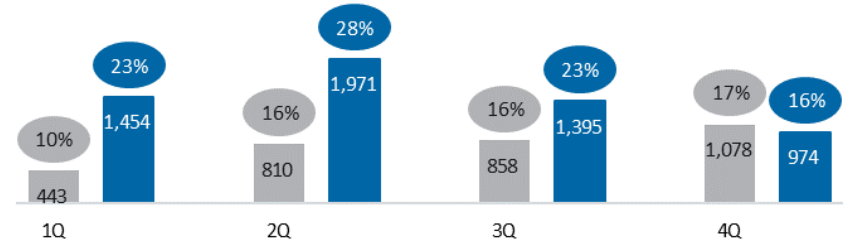


Elkem group - Good quarter in challenging markets

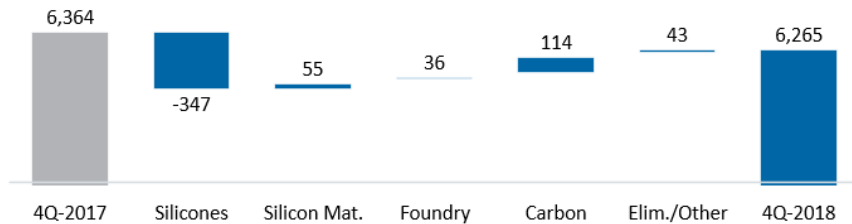
OPERATING REVENUE IN LINE WITH 4Q LAST YEAR ...



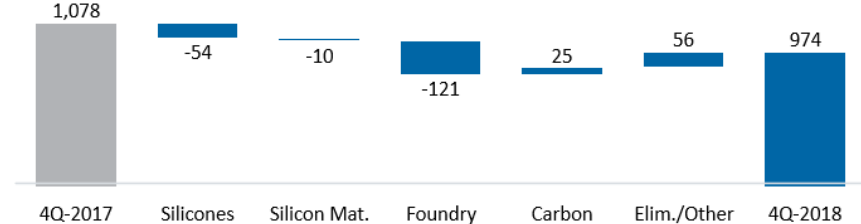
SLIGHTLY LOWER EBITDA AND EBITDA MARGIN ...



... SILICONES PARTLY OFFSET BY OTHER DIVISIONS



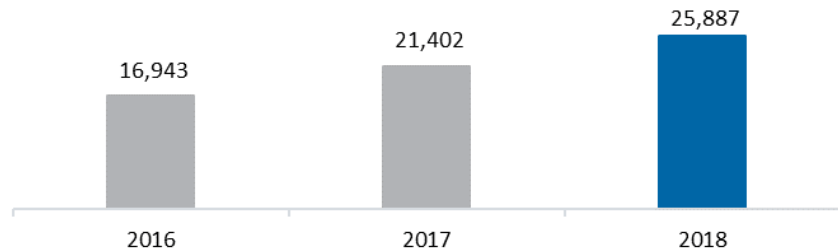
... DUE TO LOWER VOLUMES AND SPECIAL ITEMS



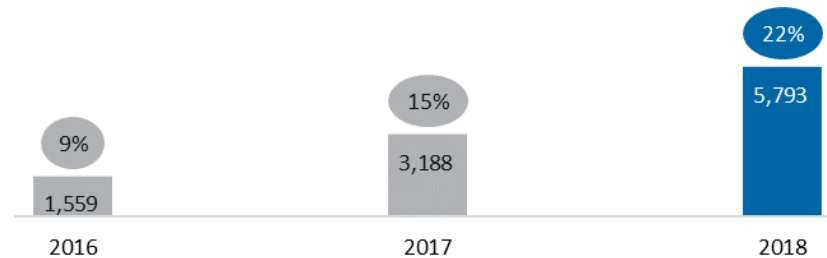
(*) Waterfall based on external sales

Elkem group – 2018 an extraordinary year

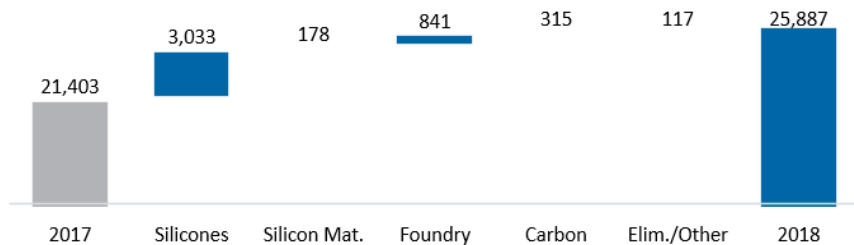
OPERATING INCOME INCREASED BY 21% FROM 2017 ...



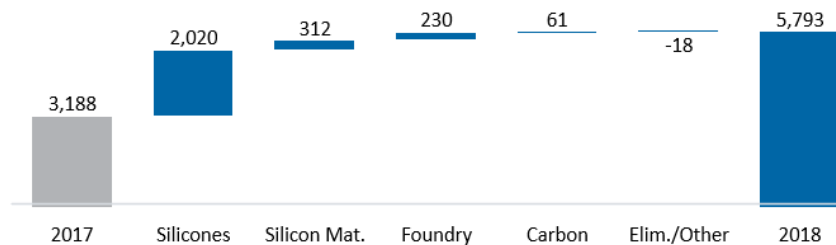
RECORD HIGH EBITDA AND EBITDA MARGINS ...



... MAINLY EXPLAINED BY SILICONES AND FOUNDRY



... MAINLY DUE TO HIGHER SALES PRICES AND VOLUMES



Elkem group - Excellent financial position

CONSOLIDATED KEY FIGURES

<i>(NOK million, except where specified)</i>	4Q 2018	4Q 2017	YTD 2018	YTD 2017	FY 2017
Total operating income	6,265	6,364	25,887	21,403	21,403
EBITDA	974	1,078	5,793	3,188	3,188
EBIT	639	768	4,522	1,927	1,927
Other items	-112	66	-380	44	44
Net financial items	-32	-108	-327	-452	-452
Profit before income tax	474	726	3,792	1,519	1,519
Tax	-93	-59	-425	-269	-269
Profit (loss) for the period ⁽¹⁾	374	655	3,337	1,211	1,211
Key ratios					
EPS (NOK per share)	0.64	1.13	5.74	2.08	2.08
Equity ratio	44%	34%	44%	34%	34%
Net interest bearing debt (NIBD) ⁽²⁾	3,264	8,111	3,264	8,111	8,111
Leverage	0.6	2.5	0.6	2.5	2.5
Reinvestments % of D&A	117%	110%	84%	72%	72%
ROCE (annualised)	16%	21%	28%	13%	13%

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

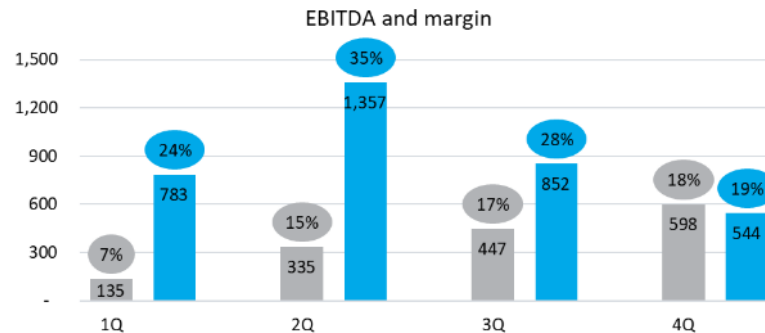
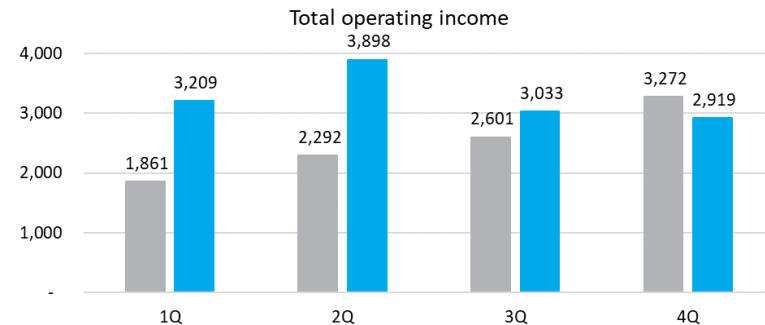
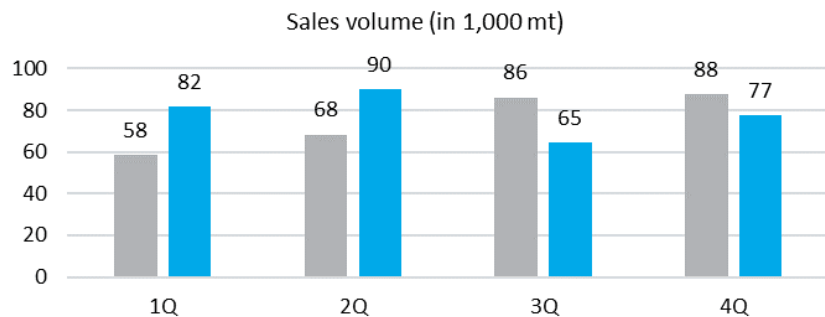
(2) Excluding non-current restricted deposits and interest-bearing financial assets

COMMENTS

- Other items NOK -112 million
 - Mainly consist of negative change in fair value of power contracts NOK -170 million due to higher power prices. Gain on currency hedging of NOK 60 million. Other items was NOK 2 million
- Net financial items NOK -32 million
 - Net finance expenses of NOK 77 million, partly offset by fx gains of NOK 45 million
- Tax NOK -93 million
 - Effective tax rate has increased from previous quarters as Xinghuo Silicones is in tax position from 4Q-2018

Silicones – Weaker market sentiment

- Sales revenue down 11% compared to 4Q last year due to lower sales of core products in China
- Lower sales prices for core products partly compensated by higher prices for specialities
- Positive effects from lower raw material prices in China

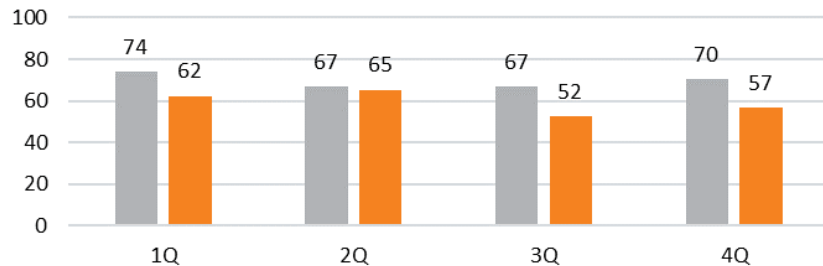


■ 2017 ■ 2018

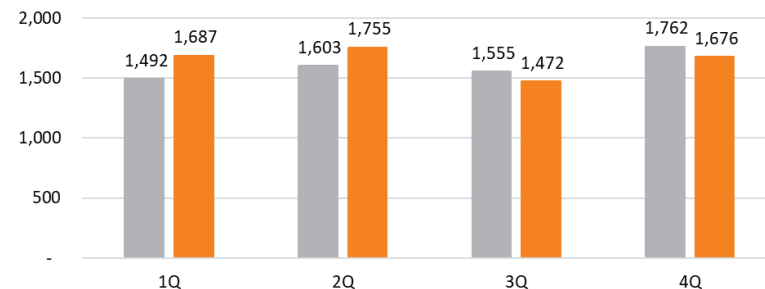
Silicon Materials – Good result in declining market

- Stable revenue and EBITDA compared 4Q to last year
- Lower sales volumes due to Yongdeng upgrade
- Realised sales prices higher than 4Q last year despite lower reference prices
- Generally higher raw material costs

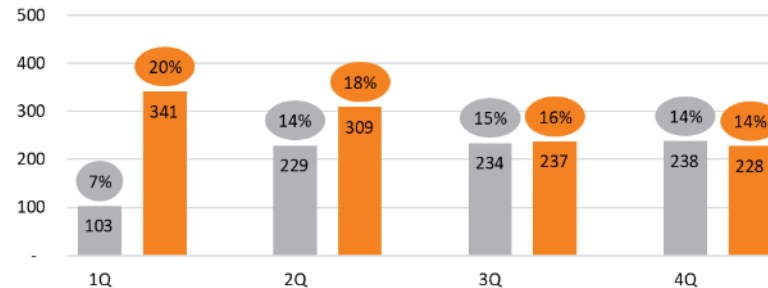
Sales volume (in 1,000 mt)



Total operating income



EBITDA and margin

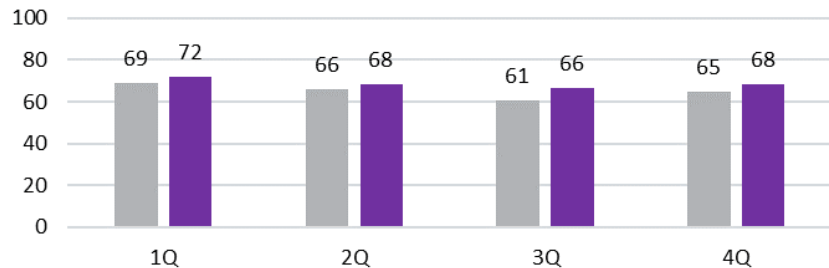


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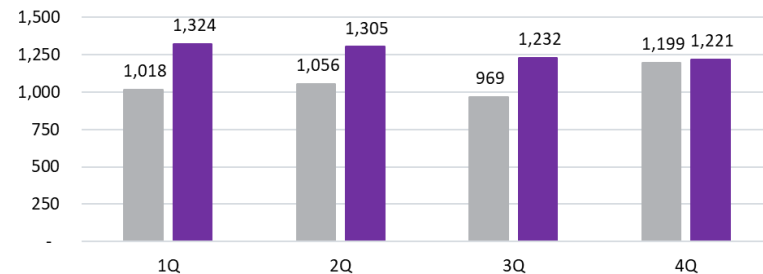
Foundry Products – Affected by special items

- Stable operating income compared to 4Q last year
- Sales prices and volumes fairly stable compared to 4Q last year
- EBITDA in 4Q negatively impacted by special items and one-offs of MNOK 45

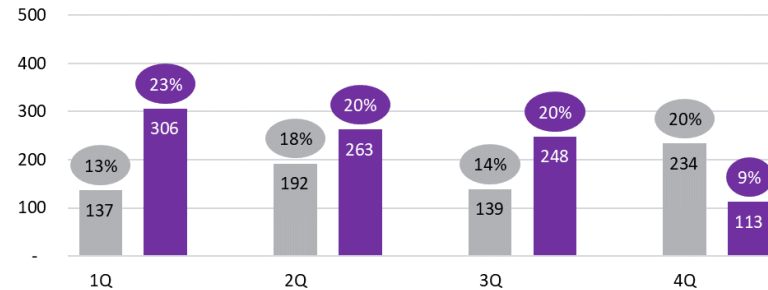
Sales volume (in 1,000 mt)



Total operating income



EBITDA and margin

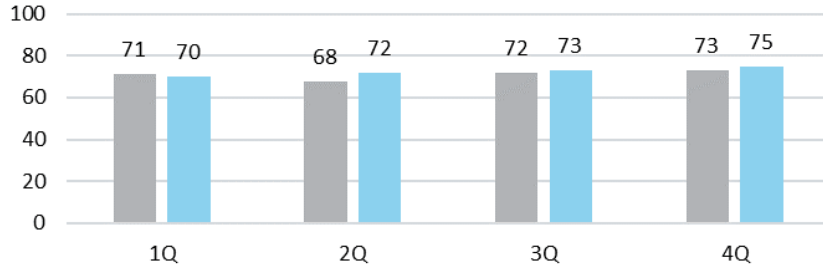


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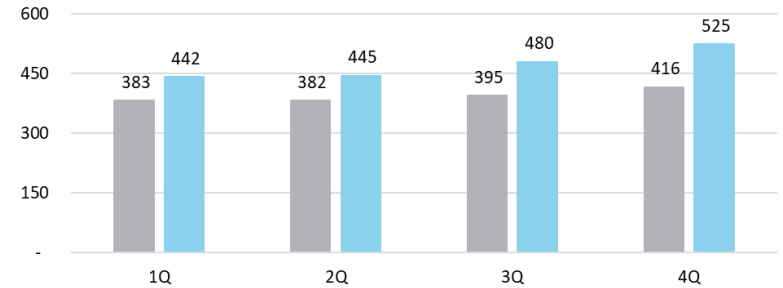
Carbon – Best year ever

- The division's best year ever, record high revenue and EBITDA
- Revenue growth driven by higher sales prices, partly offset by increased raw material costs
- EBITDA in 4Q negatively impacted by special items and one-offs of MNOK 10

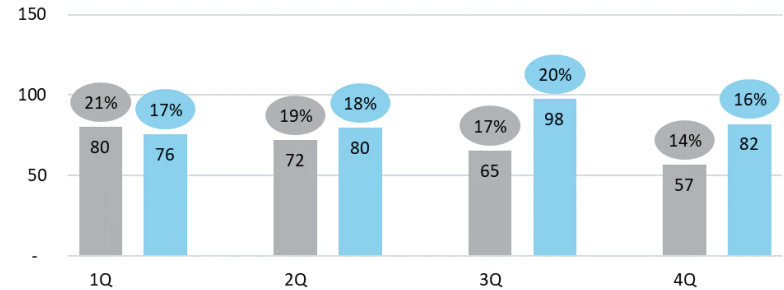
Sales volume (in 1,000 mt)



Total operating income



EBITDA and margin

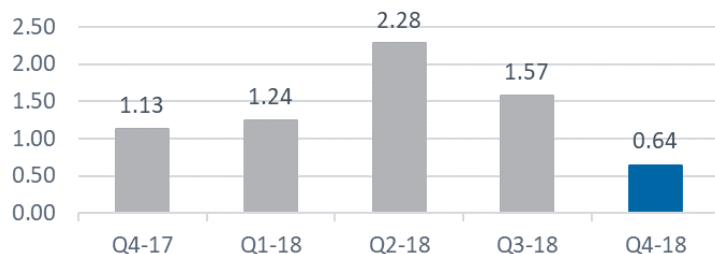


■ 2017 ■ 2018

Elkem group - Dividend in line with policy

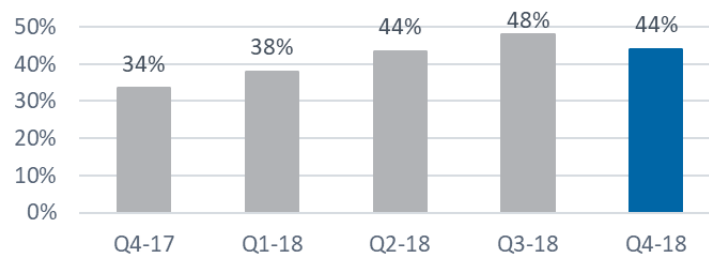
EARNINGS PER SHARE (EPS) – NOK PER SHARE

- EPS per share amount to NOK 0.64 in 4Q-2018
 - EPS YTD 2018 is NOK 5.74
- Proposed dividend of NOK 2.60 per share, amounting to 45% of net profit



EQUITY RATIO

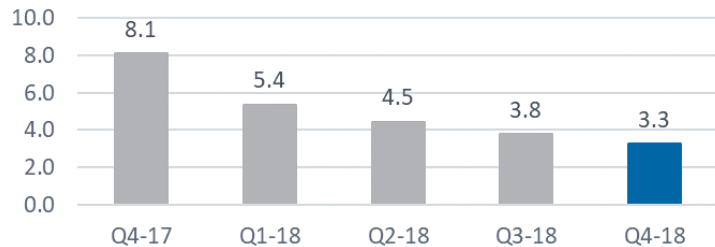
- Equity amounts to NOK 13.7 billion by end of 4Q-2018
 - Increase of NOK 5.2 billion from IPO proceeds and net profit
- Equity ratio of 44%, slightly down from 3Q-2018 due to increased total assets



Elkem group – Low leverage and financial flexibility

NET INTEREST BEARING DEBT (NIBD)⁽¹⁾

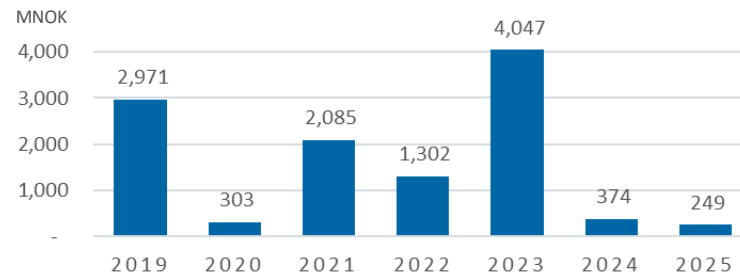
- Net interest bearing debt of NOK 3.3 billion by end of 4Q-18
 - Leverage ratio of 0.6x based on LTM EBITDA NOK 5.8 billion
- New loans in the Norwegian bond and Schuldschein markets
 - Replacing bridge facility for refinancing of local Chinese bank debt
- Expected net interest expenses of approx. NOK 50 million per quarter



⁽¹⁾ NIBD is excluding other non-current restricted deposits and interest-bearing financial assets. Pension liabilities not included.

MATURITY PROFILE

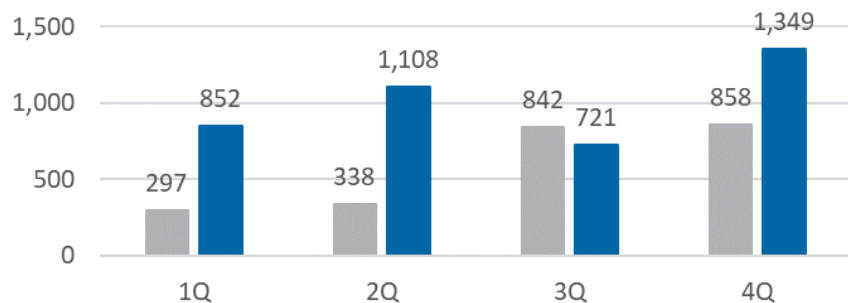
- New 3-year bond loan NOK 1,750 million in the Norwegian market and EUR 215 million in the Schuldschein market on 3 to 7-year maturities
 - Maturity profile adjusted for settlement of EUR 123.5 million and Chinese debt repayments of RMB 650 million in January 2019
- Debt maturities in 2019 mainly consist of local Chinese bank facilities, expected to be rolled over



Elkem group - Solid cash flow generation

CASH FLOW FROM OPERATIONS

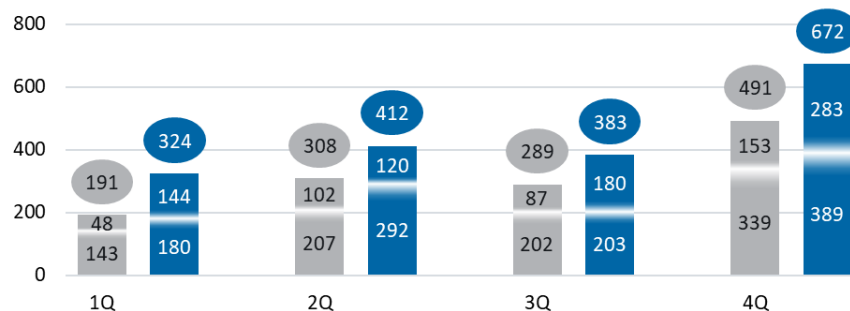
- Cash flow from operations⁽¹⁾ was NOK 1,349 million in 4Q-2018, up from the corresponding quarter last year
- Improved cash flow from operations compared to 4Q-2017 mainly explained by positive changes in working capital
 - A non-recourse factoring agreement was established in 4Q-18 reducing account receivables by NOK 480 million



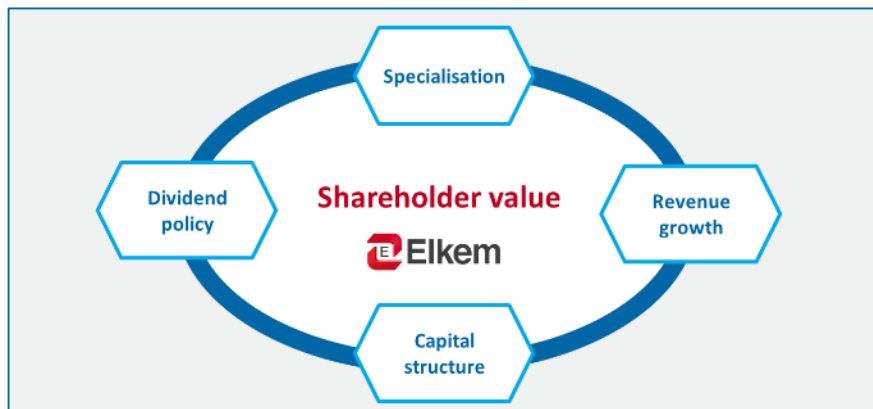
■ 2017 ■ 2018

INVESTMENTS

- Reinvestments of NOK 389 million in 4Q-18
 - Reinvestments in 2018 of NOK 1,064 million, 84% of depreciations
- Strategic investments of NOK 283 million in 4Q-18, primarily specialisation projects and mainly in China



Elkem meeting its financial targets



Target metric	Financial target	Performance LTM 4Q-2018	
Revenue growth	5 - 10%	21%	✓
EBITDA margin (%)	15 - 20%	22%	✓
Reinvestments % of DA	80 - 90%	84%	✓
Debt leverage ratio	1.0 - 2.0x	0.6	✓
Dividend target	30 - 50% of net profit	NA	✓

- Strong revenue growth in 2018, explained by higher volumes and very high prices for silicones in China for parts of the year
- EBITDA margin exceeds target driven by extraordinary conditions in China. All divisions above or within the 15-20% range
- Reinvestments in line with target
- Debt leverage still lower than target – adjusted for proposed dividend leverage is 0.8x
- Proposed dividend for 2018 is NOK 2.60 per share, which amounts to 45% of net profit

Outlook

- Elkem's fundamental position continues to be strong based on favourable market positions and strong financials
- Current market sentiment is weak, partly due to seasonality e.g. in construction
- Market prices have stabilised and are likely to increase after first quarter
- 1Q-2019 expected to be weaker than 4Q-2018, mainly due to temporary production curtailments, lower average realised sales prices due to time-lag and effects of Chinese New Year
- Subsequent quarters in 2019 likely to improve based on expected higher sales volumes, price recovery, lower raw material costs and accelerated improvement programmes



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Appendix

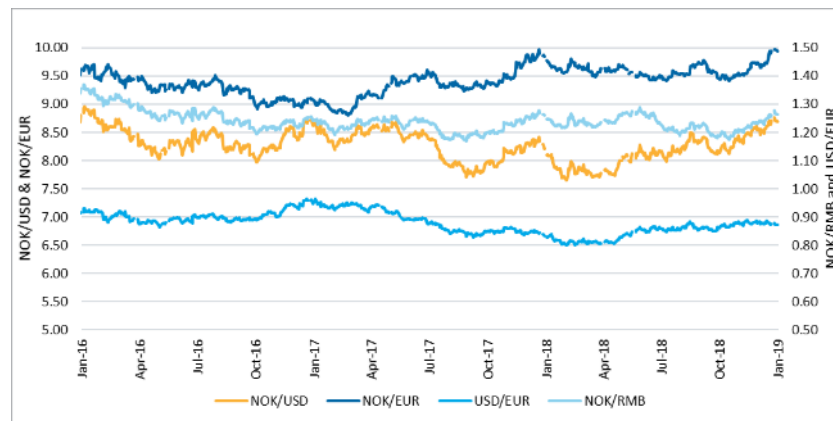
Currency and currency sensitivity

CURRENCY

- Cash flow is exposed to revenues and costs in different currencies. The main currencies are EUR and USD
 - EUR - net cash flow approx. EUR 360 million
 - USD - net cash flow approx. USD 120 million
- 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. NOK 600 million

CURRENCY DEVELOPMENT

- The NOK has been relatively stable against the major currencies in 2018
- Compared to 4Q-2017, the NOK is unchanged on average against EUR and 3% weaker on average against USD



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 2017. 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 against Other

SALES PRICES

- Changes in sales prices could significantly affect revenue and EBITDA
 - 1% margin change for silicones products is expected to affect result by NOK 120 million per year
 - 10% price change on silicon metal is expected to affect result by approx. NOK 120 million per year⁽¹⁾
 - 10% price change on ferrosilicon is expected to affect result by approx. NOK 150 million 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

DELIVERING YOUR POTENTIAL

