

Elkem ASA

Nordic opportunities

28 November 2019

London



Agenda

Brief Introduction

Strategy

Market update

Results for 3rd quarter 2019

Morten Viga, CFO
morten.viga@elkem.no
Mobile +47 416 09 752

Odd-Geir Lyngstad, Investor Relations
odd-geir.lyngstad@elkem.no
Mobile +47 976 72 806



Brief Introduction

Michael Koenig new CEO from 1 December

- ◆ Changes to Elkem management and board of directors effective from 1 December 2019
 - ▶ Michael Koenig will assume the position of CEO of Elkem ASA
 - ▶ Hao Zhigang, current member of the board, has been appointed as new chairman of the board following Michael Koenig's resignation from the board
 - ▶ Dag Opedal, current member of the board, has been appointed as vice chairman of the board
 - ▶ Helge Aasen will step down after more than ten years in the position of CEO. Aasen has been elected new board member of Elkem ASA at the EGM 15 November 2019



- ◆ Koenig is 56 years old and has since January 2016 been the CEO of China National Bluestar
 - ▶ Chairman of the board of Elkem ASA since 2016
 - ▶ Extensive professional experience through various positions prior to joining Bluestar, including CEO of Bayer Group Greater China and head of Polycarbonates Business Unit of Bayer Material Science
 - ▶ Degree in chemical engineering from the Chemical Engineering Department of the TU Dortmund University in Germany
- ◆ Koenig will hold office and reside in Oslo, Norway

Elkem

More than 110 years of history as a technology provider

Founded in 1904 by Sam Eyde

Listed on **Oslo stock exchange** since March 2018



Total operating income

NOK **25.9** bn.



EBITDA

NOK **5.8** bn.



EBITDA margin

22%



Head office in Norway

27 plants worldwide



Employees worldwide

~ **6,200**



R&D centres in Norway,
France and China

>400 R&D people

Four strong business areas

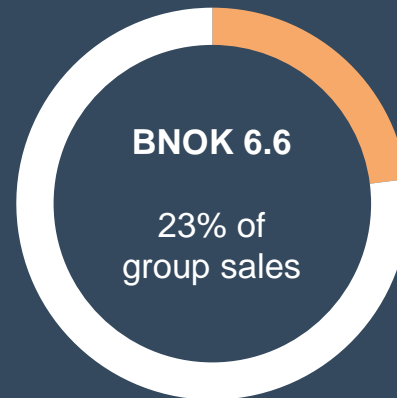
Silicones



End-markets

- Paper & Film Release
- Automotive
- Silicone Rubber
- Chemical Formulators
- Personal Care
- Textile
- Oil Field
- Construction

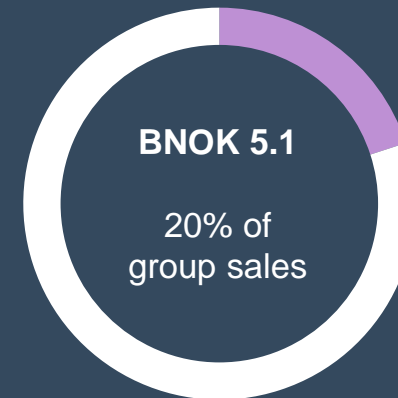
Silicon Materials



End-markets

- Chemicals
- Aluminium
- Electronics
- Solar
- Construction
- Refractories
- Oil & Gas

Foundry Products



End-markets

- Automotive
- Engineering
- Pipe and fittings
- Specialty Steel

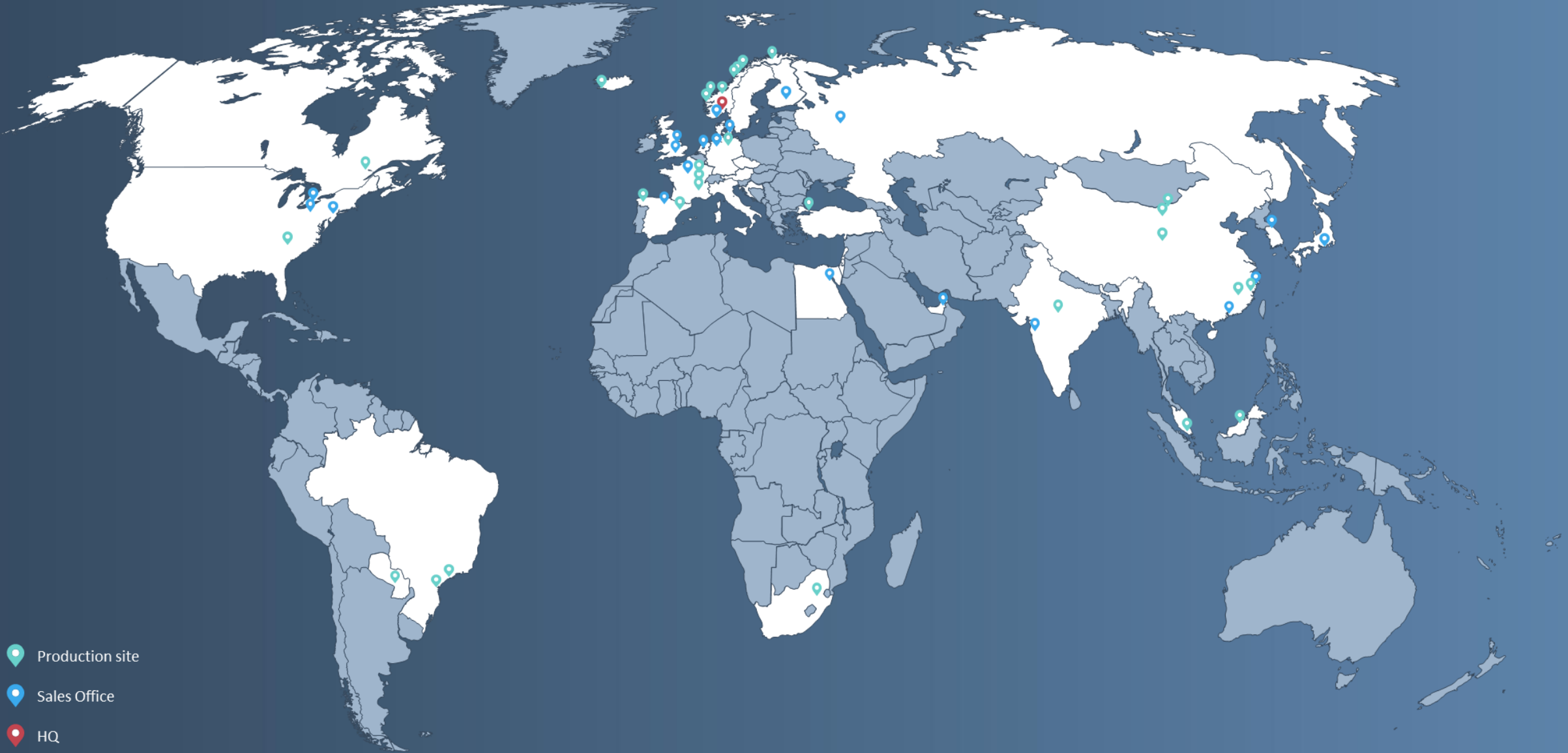
Carbon



End-markets

- Ferroalloys
- Silicon
- Aluminium
- Iron Foundries

The world of Elkem

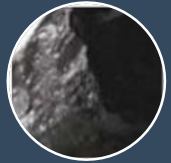


Our products are vital for modern societies

Low cost sustainable input factors



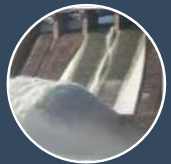
Quartz



Coal



Biocarbon



Power

High temperature/chemical production processes



Silicon and microsilica



Silicones



Foundry products



Carbon products

Examples of high value applications and markets



Strategy

Competitive strengths

- ◆ Elkem has strong markets positions, a fully integrated value chain and a strong financial position
- ◆ The strategy is to capitalise on competitive strengths to ensure profitable growth
- ◆ The goal is to improve and stabilise Elkem's financial results through cost efficiencies, specialisation and growth which are imbedded in the group's strategy



ESG

Sustainability

- ◆ Elkem has a zero harm philosophy
 - ▶ For health and safety, the target is zero recordable injuries
 - ▶ For environment, the strategy is to work towards our goal of zero emissions
- ◆ EcoVadis has given Elkem the Gold performance rating for the 2019 CSR assessment, ranking Elkem in the top 10 per cent
 - ▶ EcoVadis is a recognised provider of business sustainability ratings. The assessment is based on 21 main CSR criteria
 - ▶ Elkem has been assessed annually by EcoVadis since 2015



Sustainable and renewable energy

- All plants outside China run on hydro power



Reducing fossil carbon emissions

- Target to increase the use of biocarbon by 40% by 2030
- Elkem Foundry Paraguay has reached milestone of 100 % use of biocarbon, producing ferrosilicon with a neutral CO2 footprint



Leader in attractive markets

- ◆ Elkem is the largest silicones producers in China
- ◆ Elkem has leading positions in silicon metal and ferrosilicon outside China
- ◆ Elkem's is the only true global player in the carbon products segment



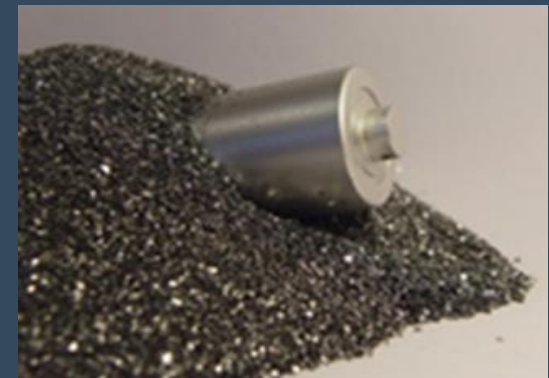
Silicones to electric vehicles

- Strong position in growing EV market



Solutions to batteries

- Uniquely positioned to supply solutions to the battery industry meeting today's challenges and tomorrow's opportunities combining graphite, silicon and silicones

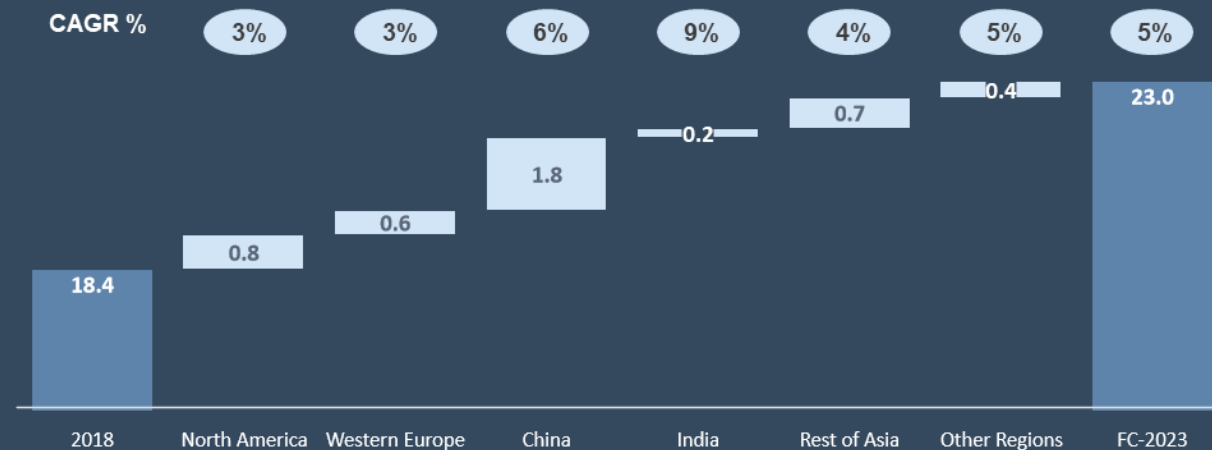


Strong presence in major growth markets

- ◆ The global demand for silicones is expected grow by 5% CAGR from 2018 to 2023
 - ▶ 60% of the growth is expected in China, India and rest of Asia
- ◆ Elkem is expanding its silicones offering in the Americas
 - ▶ Elkem is gaining specialty market share in the US and expands product offering to include upstream basic silicones
- ◆ Establishing market presence in Mexico and India, two major potential growth markets



Silicones - demand forecast



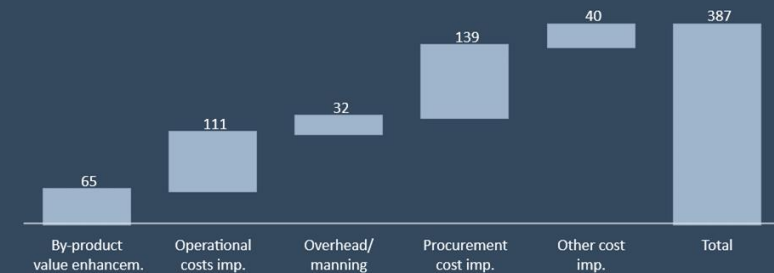
Integrated value chain and low cost positions



- ◆ Integrated value chain from quartz to highly specialised silicones
- ◆ Leading cost positions
 - ▶ Low cost positions in silicon metal and ferrosilicon based on economies of scale and access cost competitive energy
 - ▶ Good cost position for silicones in China based on size and state of the art plant
- ◆ Lean manufacturing philosophy based on Elkem Business System (EBS) and continuous improvement

Accelerated improvement programme

- Accelerated improvement programme initiated to counter weaker market conditions
- Target to realise effects of MNOK 500 in 2019
- The programme is progressing well and realised effects by end of 3Q-2019 amounted to MNOK 387



R&D capabilities for further specialisation



- ◆ Strong focus on further specialisation through R&D and bolt-on acquisitions
 - ▶ Significant opportunities in specialised products for battery insulation and high quality rubber for cables in electric vehicles
 - ▶ Continued development in key growth areas such as healthcare, medical and drug delivery devices, specialty products for hair care and paper/film
- ◆ Acquisition of Basel Chemie improves R&D capabilities and pipeline
 - ▶ Basel holds a very favourable silicones specialties position
 - ▶ Available capacity for growth at minimal investment

R&D centres

- Elkem has 13 innovation centres with > 400 R&D personell
- New R&D centre under construction in Lyon, France



Acquisition Basel Chemie

- Technology driven downstream silicones producer
- High-end speciality portfolio for skin care and colour cosmetic applications, and water repellents for the construction industry



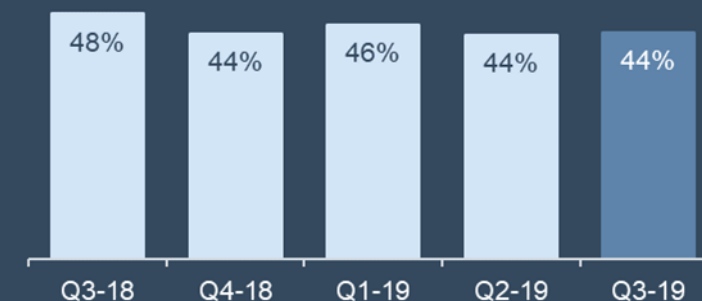
Strong financial position



Target metric	Targets	Comment
Revenue growth	5 – 10%	Grow faster than market through specialisation, organic growth and acquisitions
EBITDA margin (%)	15 – 20%	Target average margin through the economic cycle
Reinvestments % of D&A	80 – 90%	Ensure appropriate and disciplined capital allocation following long-term plans
Debt leverage ratio	1.0x – 2.0x	Ensure efficient and robust capital structure
Dividend target	30 – 50% of net income	Stable and predictable over time

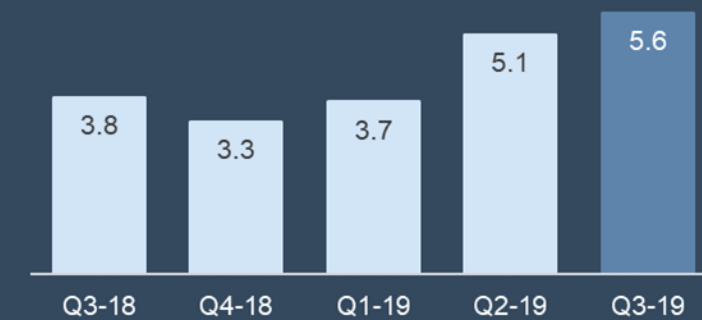
Strong equity

- Total equity was BNOK 13.0 as at 30 September 2019
- Equity ratio of 44%



Conservative leverage profile

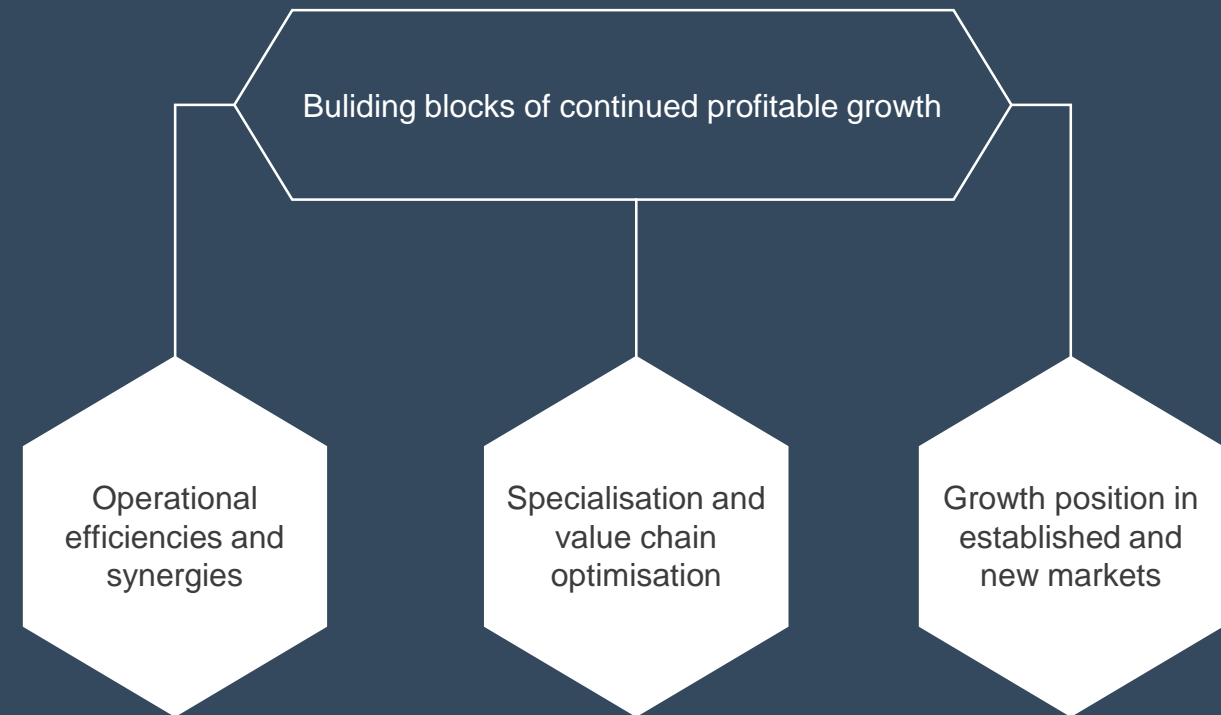
- Net interest bearing debt (NIBD) was BNOK 5.6 as at 30 September 2019
- Leverage ratio of 1.8x



Strategy

Continue transition into a specialty chemicals company

- Continuous improvement to ensure cost competitiveness
- Leverage on integrated value chain and take out synergies
- Growth through specialisation, organic growth and acquisitions
- Further specialisation to improve and stabilise margins
- Strengthen position in new and established markets
- Access to complementary and next generation technologies



Silicones

optimising the value chain

Estimated industry EBITDA margins

0-15 %

15-25 %

> 25 %

Pricing volatility

High

Low/medium

Low

Upstream

Siloxane

Intermediates

Core products

Downstream

Volume specialities

Value specialities

Siloxane is generally not marketable but transformed into silicone intermediates

Core products/intermediates include DMC, gum, HCR, linears and construction sealants

Volume specialities generally include products for personal care, consumer applications and automotive

Value specialities generally include products for health care and electronics

Market update

Automotive sales declining in all regions

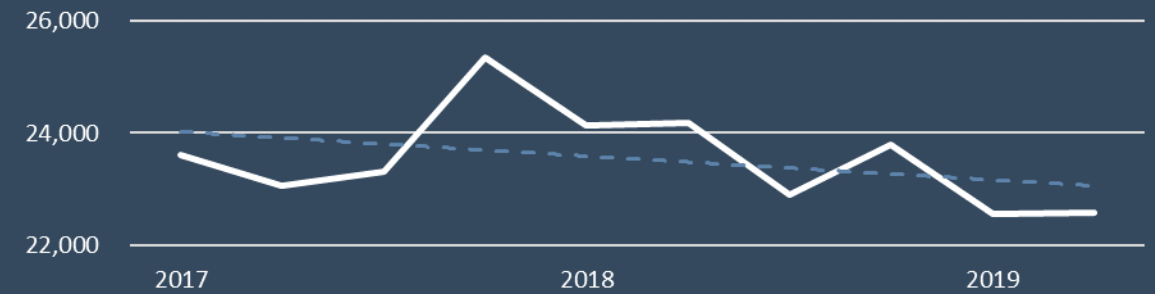
- ◆ Automotive weak in all major regions
 - ▶ World sales down 7% in 1H-2019 compared to 1H-2018
 - ▶ Sales in Europe down 4% in 1H-2019 compared to 1H-2018
 - ▶ Stable sales in China compared corresponding period last year, but average quarterly sales was down 4% compared to 2017

- ◆ Weakness in car sales largely explained by economic factors and uncertainty by move towards zero emission targets

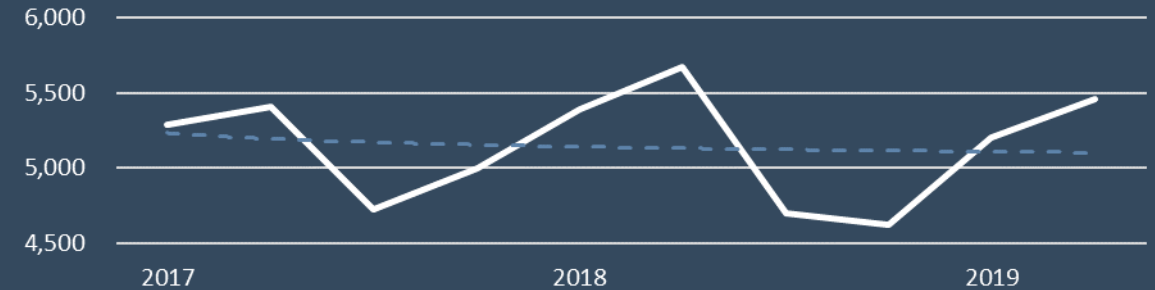
- ◆ Weakness in automotive impacts several of Elkem's business segments
 - ▶ Silicones used in gaskets, cables, coating to airbags etc.
 - ▶ Silicon metal used as an alloying material for aluminium to automotive
 - ▶ Foundry alloys used in car parts requiring special properties

- ◆ Increased production levels in September and October in Germany
 - ▶ Higher production may indicate that the decline is levelling off
 - ▶ The German market is important to all Elkem divisions

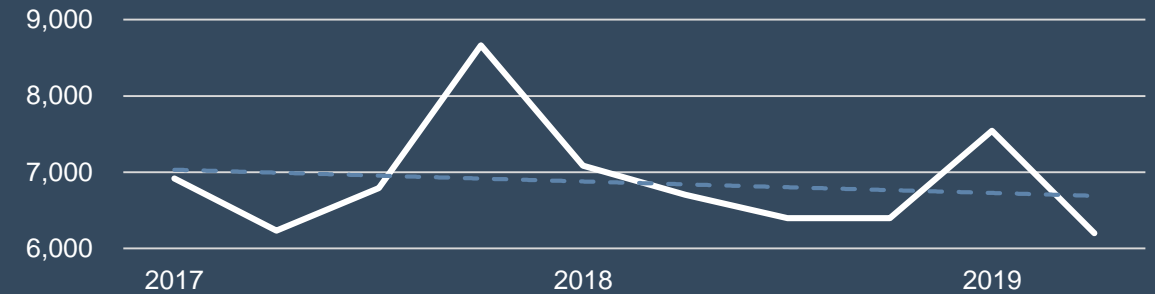
Light vehicles sales – World (quarterly unit sales in 1,000) (*)



Light vehicles sales – Europe (quarterly unit sales in 1,000) (*)



Light vehicles sales – China (quarterly unit sales in 1,000) (*)



Source: LMC Automotive

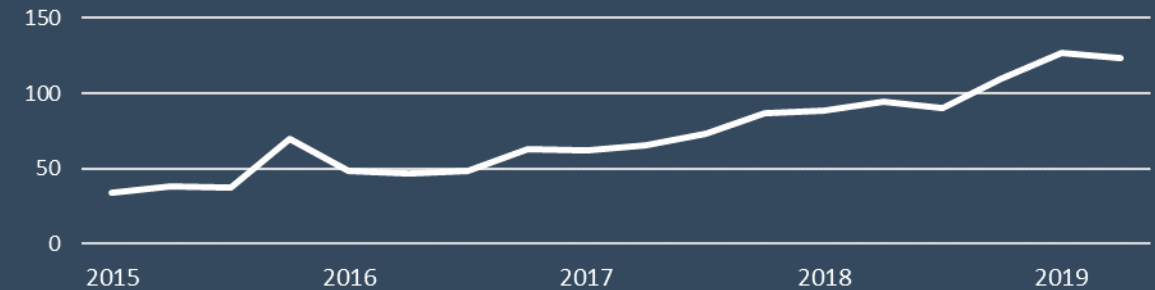
(*) Due to seasonal variations, trendlines have been added to illustrate downward trend since 2017

Sales of EVs increasing in main markets

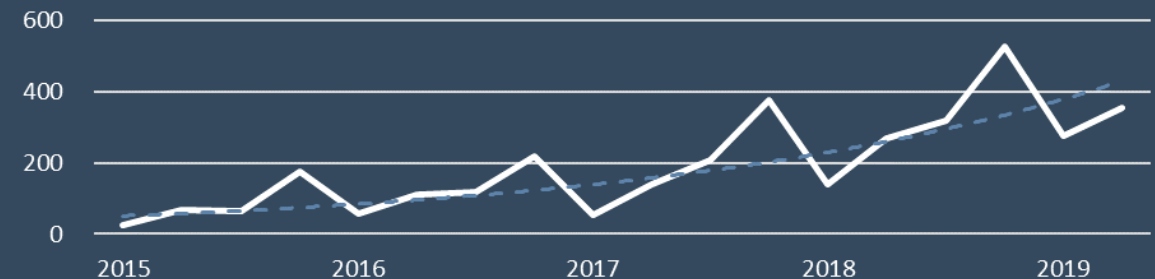
- ◆ Total EV sales in Europe is rising
 - ▶ Sales increased by almost 40% from 1H-2018 to 1H-2019 and has close to doubled since 1H-2017
 - ▶ EV's share of total car sales was approx. 3% in 1H-2019 up from approx. 2% in 1H-2018
- ◆ EV sales in China expected to rise rapidly
 - ▶ Sales in 1H-2019 increased by more than 50% compared to 1H-2018 and was approx. 5% of total car sales
 - ▶ EVs expected to account for 7-10% of total vehicles sales in China in 2020 and to further grow to 15-20% in 2025 and 40-50% in 2030
- ◆ Increased sales of EVs is positive for Elkem, in particular Silicones
 - ▶ An EV contains on average four times more silicones than a traditional fossil fuel car
- ◆ Elkem is the largest silicones producers in China and well positioned to benefit from the expected growth the Chinese EV market



Total EV sales in Europe (quarterly unit sales in 1.000)



Total EV sales in China (quarterly unit sales in 1.000)



Source: European Automobile Manufacturers Association (ACEA) and China Association of Automobile Manufacturers

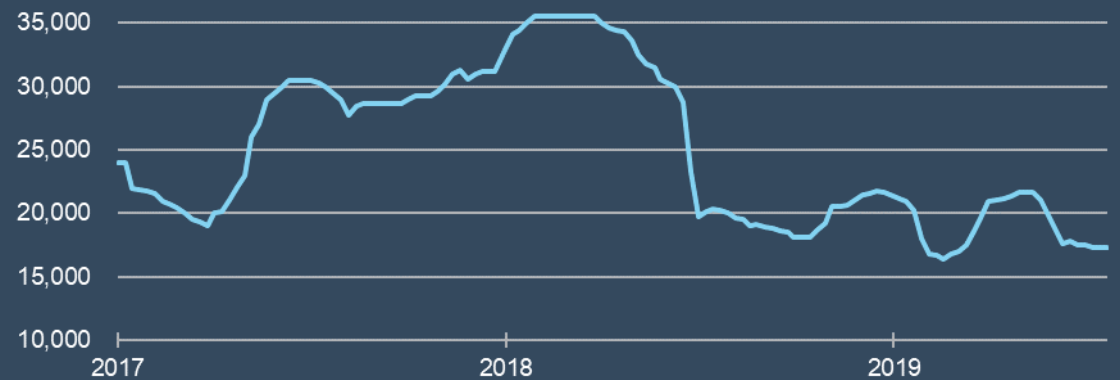
Silicones

lower, but stable prices for DMC

- ◆ DMC prices in China declined shortly before the Chinese national holiday in October
- ◆ Prices have then remained stable and are expected to remain stable also going forward
- ◆ Downstream silicones markets still relatively weak
- ◆ Construction seasonally lower, but real estate under construction continue to show a growing trend
- ◆ Signs that US tariffs for Chinese imports of silicones will ease, would be beneficial Elkem Xinghuo and Chinese silicones market in general if realised



DMC reference price China (RMB/mt)

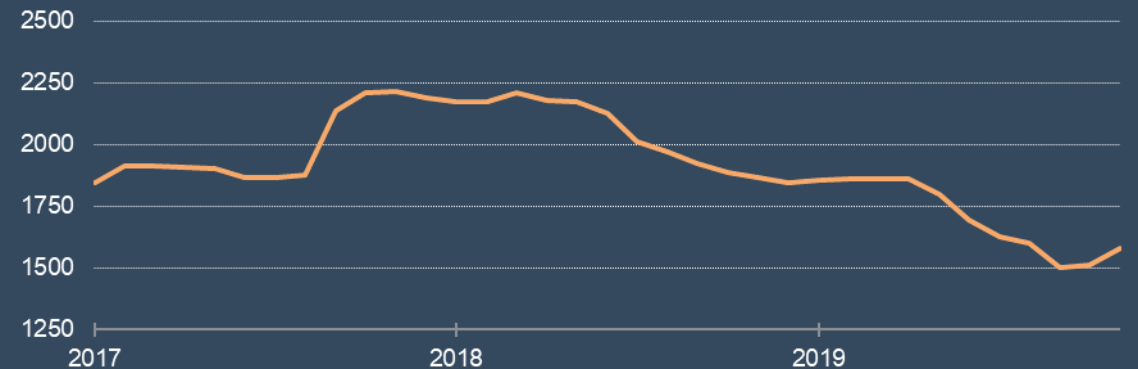


Silicon prices have started to increase

- ◆ Market prices have increased in October and November
- ◆ CRU reference price in Europe up 5% since the end of third quarter
- ◆ Weak price levels primarily driven by low demand, especially due to weakness in automotive
- ◆ Current price levels not considered sustainable as many producers are estimated to be loss making
- ◆ Significant production curtailments have been announced in Europe, Canada and South Africa. Market balance expected to improve



CRU silicon 99 price EU (EUR/mt)



Ferrosilicon recent price increase

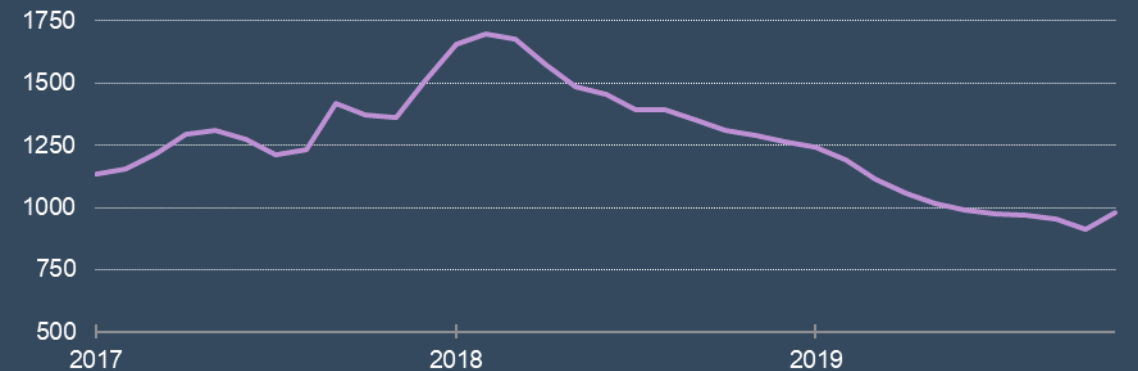
- ◆ Market price for ferrosilicon increased in November following a decline in October
 - ▶ Prices up 7% in November
 - ▶ Current price 3% higher than end of third quarter
- ◆ Current price level not considered sustainable long-term
- ◆ Foundry markets affected by weak steel market and weakness in automotive
 - ▶ EU steel demand falling 4% year-on-year, much related to automotive
- ◆ Significant production curtailments have been announced in Europe and US

Carbon lower metals production

- ◆ Market for electrodes and carbon material affected by production curtailments in metals production
- ◆ Market conditions likely to remain soft due to continued production curtailments



CRU ferrosilicon 75 price EU (EUR/mt)



Results for 3rd quarter 2019

Robust results in challenging markets

- ◆ Elkem delivers robust results in a challenging market environment
- ◆ Total operating income was NOK 5,540 million in the third quarter, down 5% from the corresponding quarter last year
- ◆ EBITDA was NOK 640 million including a negative impact of MNOK 42 due to changed revenue periodisation for Norwegian CO2 compensation
- ◆ Earnings per share was NOK 0.35 in the quarter and NOK 1.44 YTD
- ◆ Michael Koenig will assume the position of CEO from 1 December 2019, as Helge Aasen's steps down after more than 10 years in the position



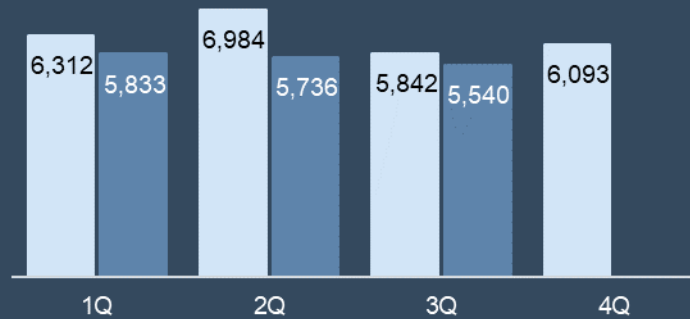
Elkem group

results impacted by weak markets

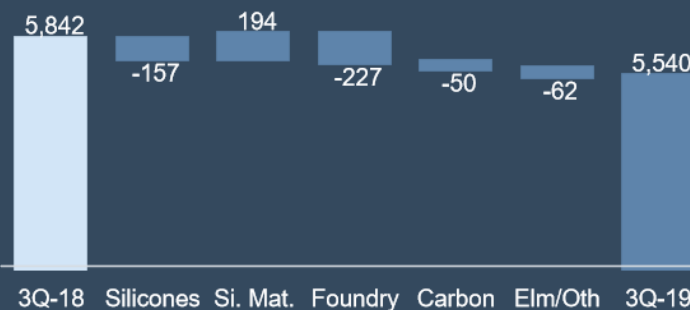
EBITDA impacted negatively in the quarter by MNOK 42 due to changed revenue periodisation of Norwegian CO2 compensation

Total operating income

– down 5% compared to the corresponding quarter last year

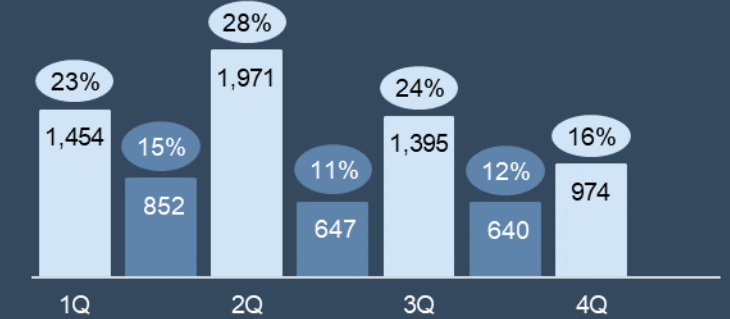


– Silicon Materials up due to higher volumes while the other divisions are down

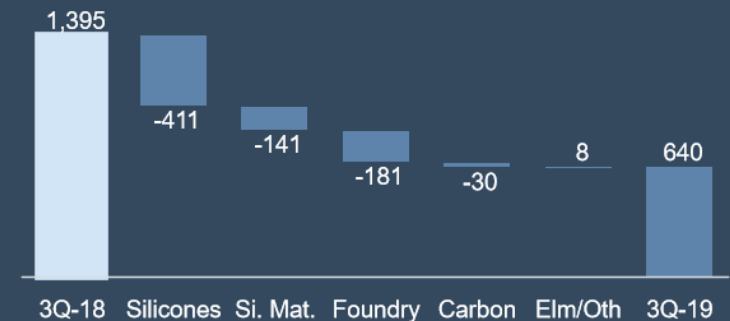


EBITDA

– down 54% vs. third quarter last year mainly due to lower prices



– all divisions have been impacted by the weaker market conditions



Elkem group financial position remain strong

- ◆ Total operating income has been restated due to a change in accounting policy regarding net presentation of the sale of power. There is no impact to EBITDA
- ◆ Other items MNOK 35
 - ▶ Mainly consisted of positive currency effects on working capital items of MNOK 39
- ◆ Net financial items MNOK -25
 - ▶ Net interest expenses MNOK 57 which included leasing effects (IFRS 16)
 - ▶ Currency gain of MNOK 40 mainly related to group receivables in CNY
- ◆ Tax MNOK -62
 - ▶ Tax rate of 22% in the quarter. Norway and other countries with same or higher tax rates account for a major share of profit before income tax

Consolidated key figures

<i>(NOK million, except where specified)</i>	3Q 2019	3Q 2018	YTD 2019	YTD 2018	FY 2018
Total operating income	5,540	5,842	17,109	19,138	25,230
EBITDA	640	1,395	2,139	4,819	5,793
EBIT	282	1,078	1,097	3,883	4,522
Other items	35	86	211	-268	-380
Net financial items	-25	-98	-160	-295	-327
Profit (loss) before income tax	282	1,065	1,132	3,318	3,792
Tax	-62	-142	-263	-332	-425
Profit (loss) for the period ⁽¹⁾	206	915	838	2,964	3,337
Key ratios					
EPS (NOK per share)	0.35	1.57	1.44	5.10	5.74
Equity ratio (%)	44%	48%	44%	48%	44%
Net interest bearing debt (NIBD) ⁽²⁾	5,573	3,788	5,573	3,788	3,264
Leverage ratio	1.8	0.6	1.8	0.6	0.6
Reinvestments % of D&A	44%	64%	62%	73%	84%
ROCE (annualised) (%)	7%	26%	9%	33%	28%

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

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

Silicones

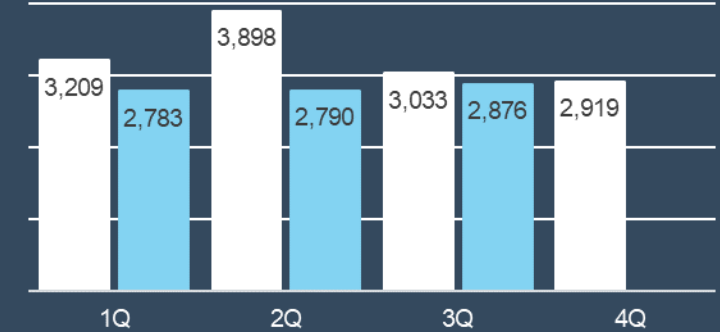
lower prices, good volumes

- ◆ Total operating income of MNOK 2,876, down 5% from third quarter last year
 - ▶ Lower operating income was due to lower sales prices in China, partly offset by higher volumes compared to third quarter 2018, which was impacted by maintenance stop in China

- ◆ EBITDA of MNOK 441, down 48% from third quarter last year
 - ▶ Lower EBITDA was mainly explained by lower sales prices in China
 - ▶ The French operation was back to normal production in the third quarter, but utilisation rate in China was below full capacity due to market conditions and production stop in connection with the 70th anniversary of the People's Republic of China

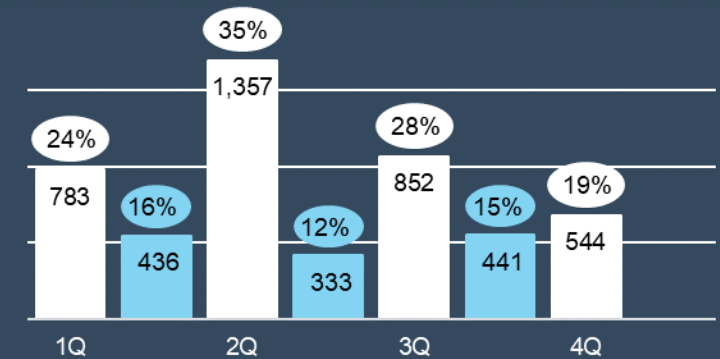
Total operating income

NOK million



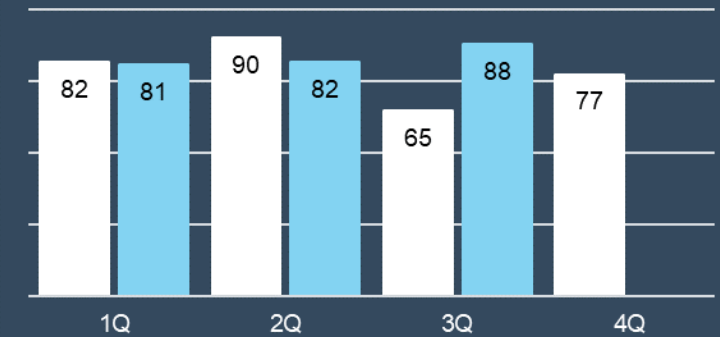
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

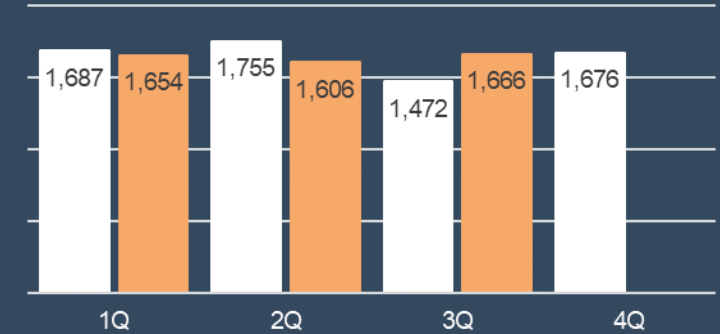
Silicon Materials

higher sales volumes in weak markets

- ◆ Total operating income of MNOK 1666, up 13% compared to third quarter last year
 - ▶ Higher operating income explained by higher sales volumes compared to third quarter 2018, but partly countered by lower prices for silicon metal
- ◆ EBITDA of MNOK 96, down 59% compared to third quarter last year
 - ▶ The reduction in EBITDA was mainly explained by lower sales prices. In addition, maintenance stops and furnace upgrades at Rana and Bremanger have impacted the results. These maintenance stops will continue into the fourth quarter
 - ▶ In addition, EBITDA was negatively impacted by MNOK 29 due to changed revenue periodisation for Norwegian CO2 compensation

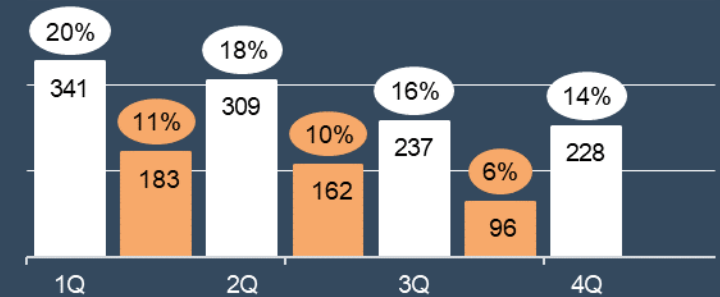
Total operating income

NOK million



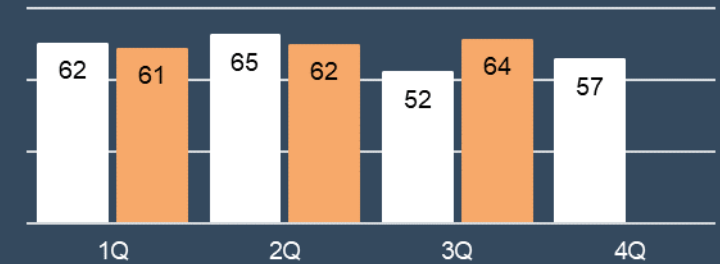
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

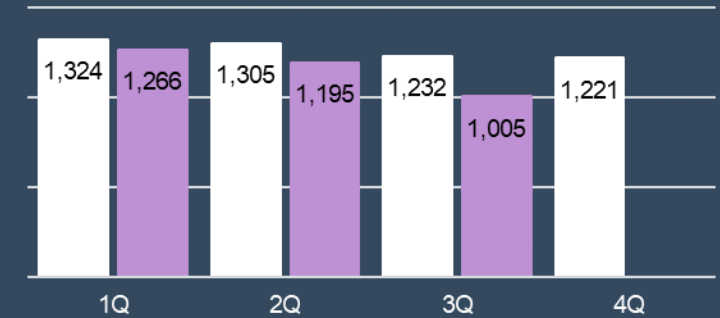
Foundry Products challenging market conditions persist

- ◆ Total operating income of MNOK 1,005, down by 18% from third quarter last year
 - ▶ Lower operating income was due to lower sales prices for ferrosilicon and lower sales volumes. One furnace at Iceland was idled through July and August and weakness in automotive gives lower sales of foundry alloys

- ◆ EBITDA of MNOK 67, down 73% from third quarter last year
 - ▶ EBITDA reduction explained by lower sales prices for ferrosilicon and negative sales mix effects due to reduced sales of specialty foundry alloys
 - ▶ EBITDA was negatively impacted by MNOK 13 due to changed revenue periodisation for Norwegian CO2 compensation

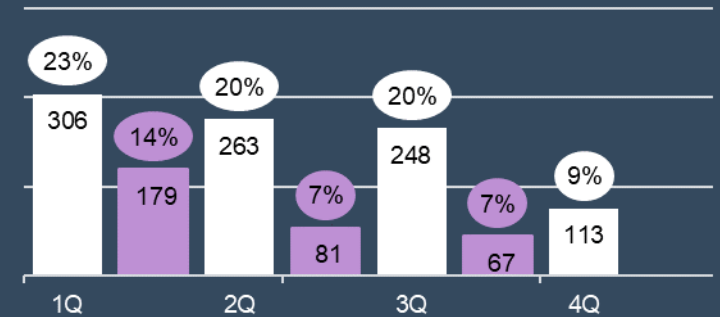
Total operating income

NOK million



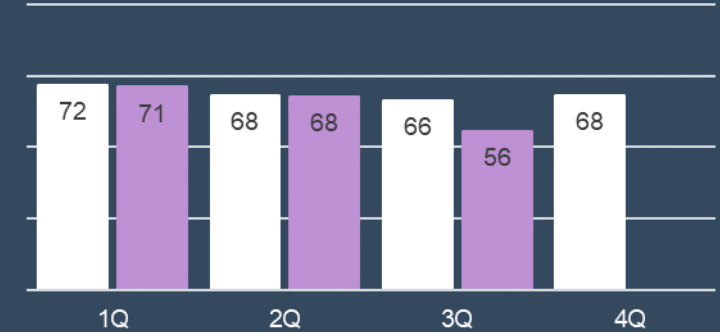
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



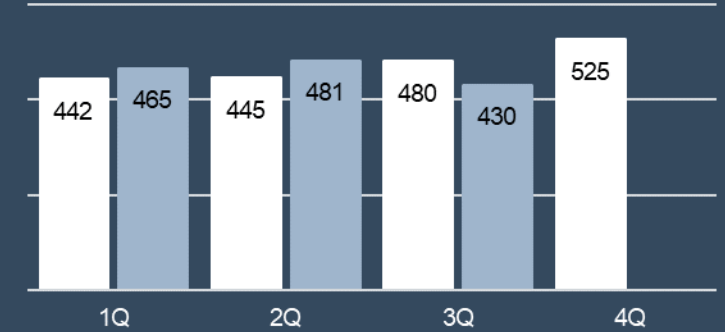
■ 2018 ■ 2019

Carbon impacted by weaker metal markets

- ◆ Total operating income MNOK 430, down 10% from third quarter last year
- ◆ EBITDA MNOK 68, down 31% from the corresponding quarter last year
- ◆ Lower total operating revenue and EBITDA explained by lower sales volumes as the market was negatively impacted by production curtailments among metals producers

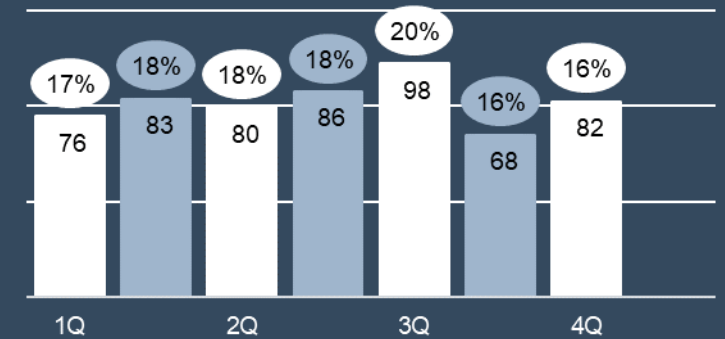
Total operating income

NOK million



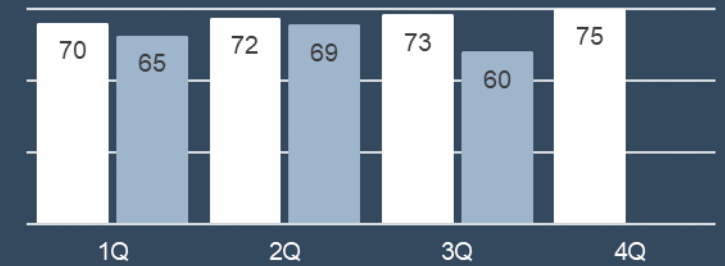
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

Elkem group

stable equity, EPS impacted by weak markets

◆ Earnings per share (EPS)

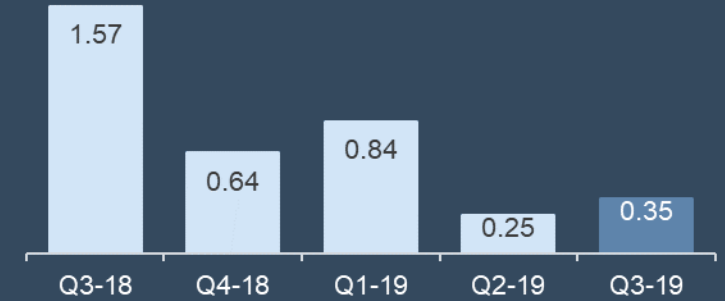
- ▶ EPS amounted to NOK 0.35 in the third quarter
- ▶ EPS YTD 2019 was NOK 1.44

◆ Total equity amounted to BNOK 13.0 as at 30 September 2019

- ▶ Equity ratio of 44%
- ▶ Equity increased by BNOK 0.4 from 30 June 2019, while the equity ratio remained unchanged

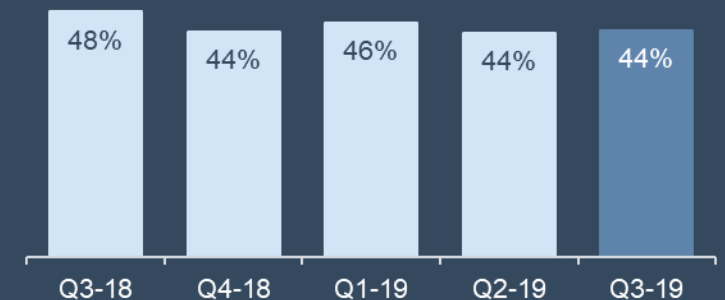
Earnings per share (EPS)

NOK per share



Equity ratio

In %

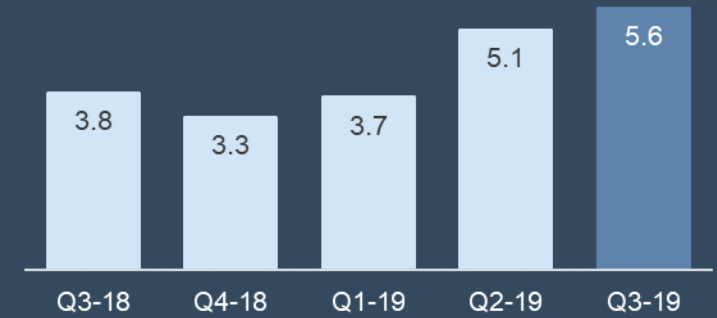


Elkem group leverage in line with target

- ◆ Leverage ratio of 1.8x based on LTM EBITDA of BNOK 3.1
- ◆ Net interest bearing debt (NIBD) of BNOK 5.6 as at 30 September 2019
 - ▶ NIBD has increased by BNOK 0.5 from 30 June 2019 mainly due to the acquisition of Basel Chemie and translation effects of weaker NOK
- ◆ Well distributed debt maturity profile
 - ▶ Debt maturities in 2019 and 2020 mainly consisting of local Chinese bank bills, back-up facilities in place

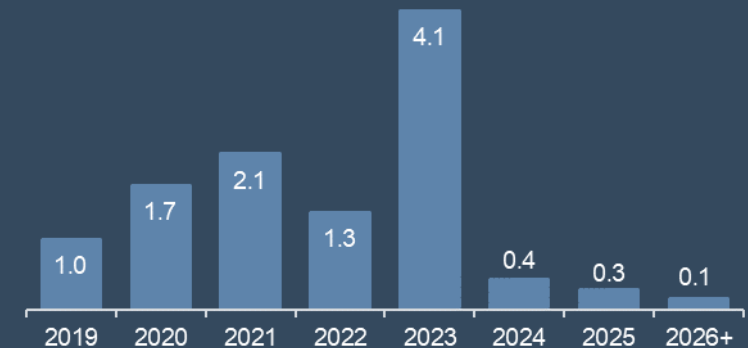
Net interest-bearing debt (NIBD)

NOK billion



Maturity profile

NOK billion



Elkem group good cash flow generation

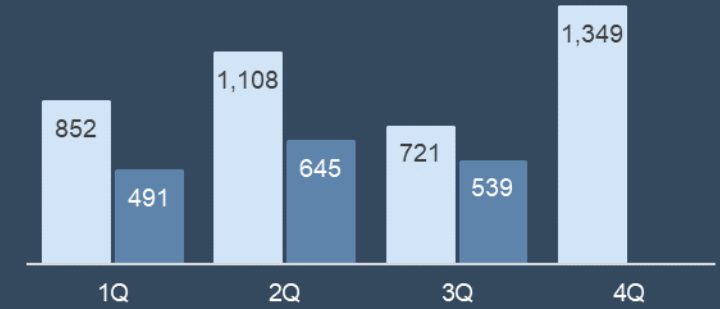
- ◆ Cash flow from operations⁽¹⁾ was MNOK 539 in the third quarter, down from the corresponding quarter last year due to lower operating profit
 - ▶ Lower operating profit has been partly offset by positive working capital movements. Elkem keeps strong focus on working capital optimisation

- ◆ Investments amounted to MNOK 455
 - ▶ Reinvestments of MNOK 155 in the third quarter, below normal levels and expected to be higher in fourth quarter
 - ▶ Strategic investments of MNOK 299, primarily Silicones specialisation projects, furnace upgrades for Silicon Materials and upgrade/expansion projects for Carbon

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

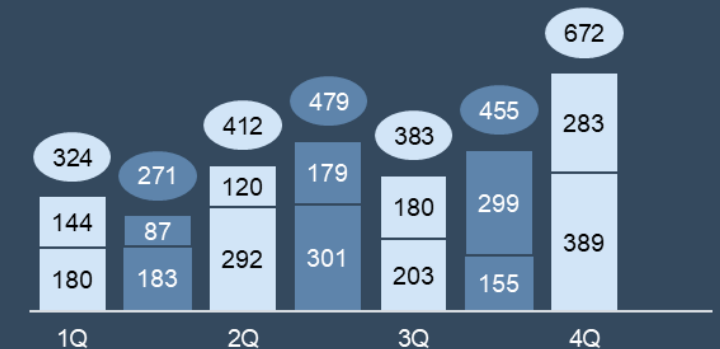
Cash flow from operations

NOK million



Investments

NOK million



Outlook for the fourth quarter

- ◆ Continued weak outlook in main market segments due to macro-economic uncertainty
- ◆ The price for silicones in China improved during third quarter but has had a declining trend beginning of fourth quarter. Seasonally lower demand from construction is expected
- ◆ Elkem has had reduced silicones production early fourth quarter due to government imposed production restrictions in connection with PRC's 70th years anniversary and delayed start-up. The negative EBITDA impact is estimated to NOK 60 million
- ◆ Silicon metal prices in Europe are at all time low levels and are expected to recover due to significant production curtailments
- ◆ Ferrosilicon prices in Europe also expected to recover due to significant production curtailments and lower imports. A volume recovery for foundry alloys will largely depend on the demand development in automotive
- ◆ Carbon market sentiment expected to remain at current level
- ◆ The accelerated improvement programme combined with lower raw material costs are expected to partly mitigate negative market impact
- ◆ Elkem will continue to provide guiding on market outlook, but will align with market practice and not give specific EBITDA guiding



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.

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