

Elkem ASA

Presentation and
second quarter results 2019



Agenda

Brief Introduction

Strategy

Results for 2nd quarter 2019

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



Brief Introduction

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%



Employees worldwide

~6,200



27 plants worldwide
Headquarter in Norway



>400 R&D people
centres in Norway, France
and China

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

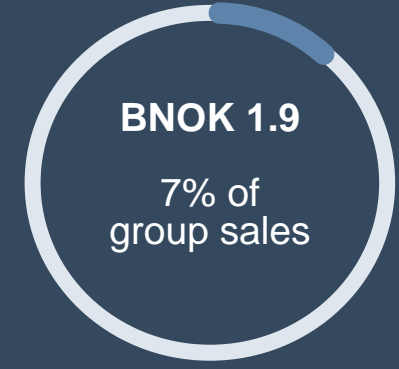
Foundry Products



End-markets

- Automotive
- Engineering
- Pipe and fittings
- Specialty Steel

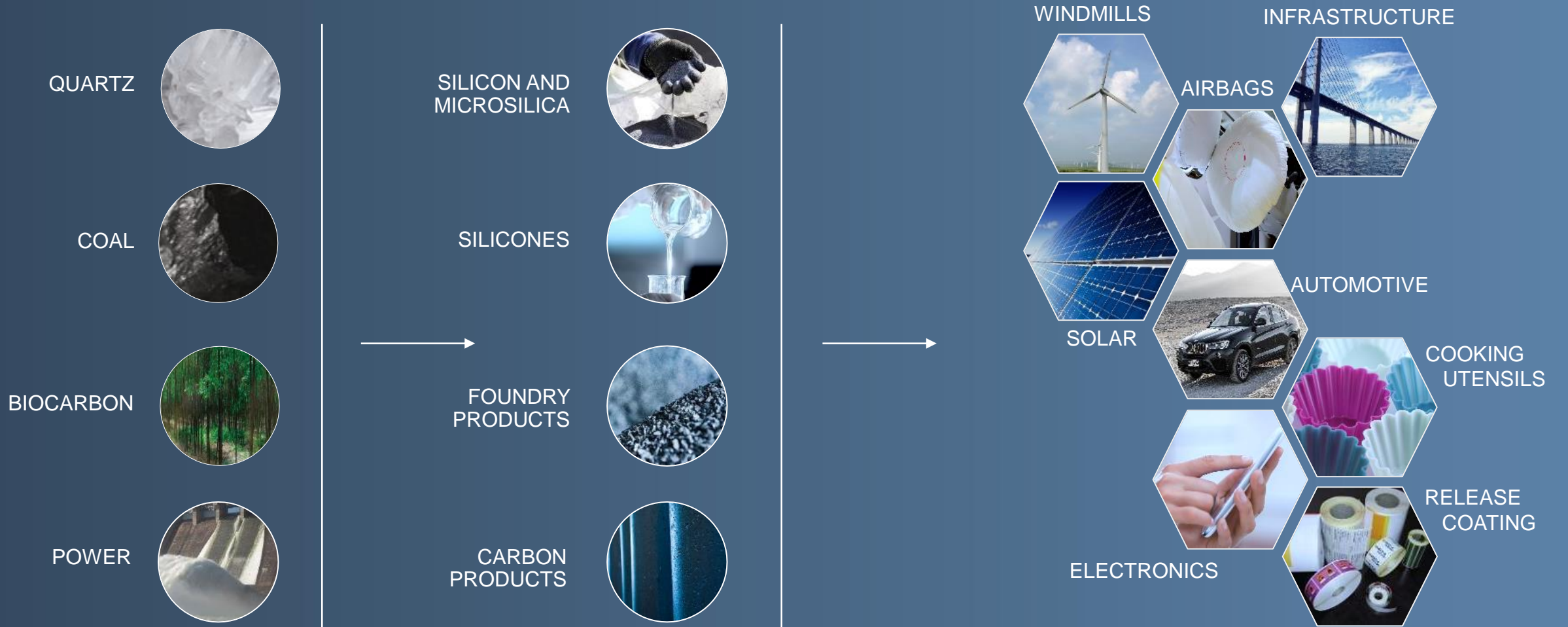
Carbon



End-markets

- Ferroalloys
- Silicon
- Aluminium
- Iron Foundries

Our products are vital for modern societies



LOW COST SUSTAINABLE
INPUT FACTORS

HIGH TEMPERATURE / CHEMICAL
PRODUCTION PROCESSES

EXAMPLES OF HIGH VALUE
APPLICATIONS AND MARKETS

Strategy

Strategy

Continue transition into a specialty chemicals company

Building blocks of continued profitable growth

Operational efficiencies and synergies

Growth and specialisation

China and new market opportunities

- ◆ Enhance growth
- ◆ Stable margins
- ◆ Reduce cyclical
- ◆ Leverage platform (synergies)
- ◆ Leverage technologies to enhance specialisation
- ◆ Solidify local presence and market positions
- ◆ Access to complementary and next generation technologies



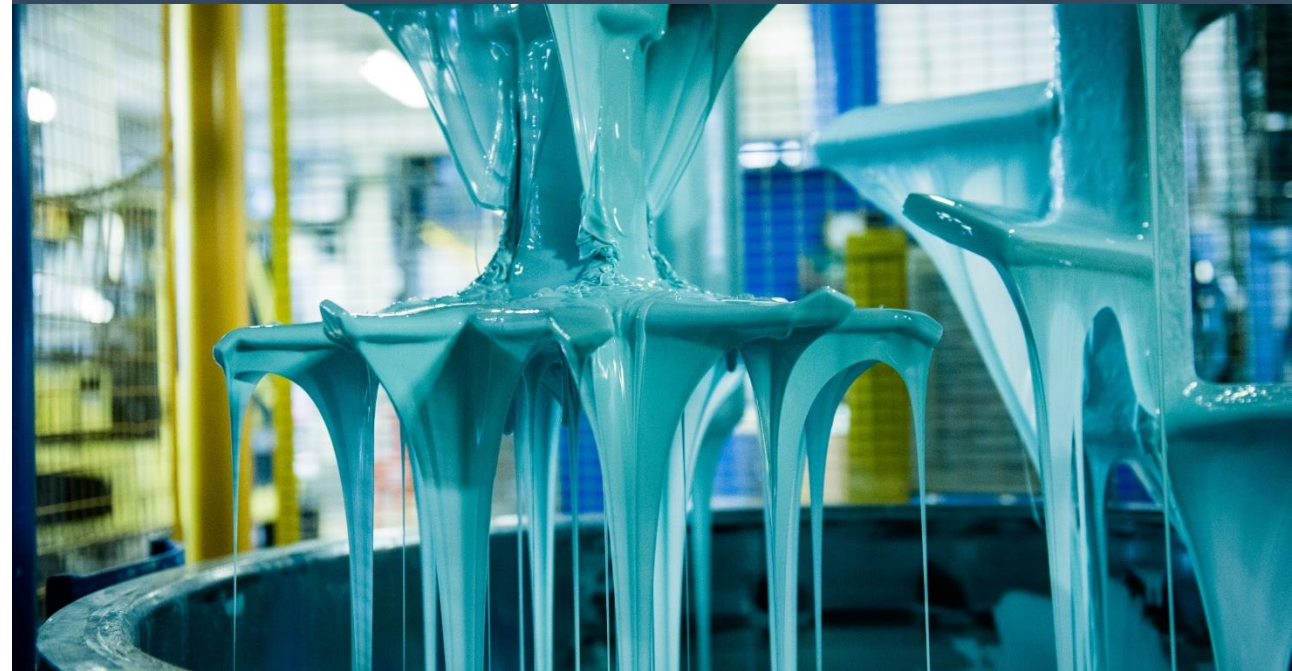
Silicones providing strong growth potential

- ◆ The global demand for silicones is expected to 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



Silicones

optimising the value chain

Estimated industry EBITDA margins

0 – 15%

15 - 25%

> 25%

Pricing volatility

High

Low/Medium

Low

Upstream

Intermediates

Downstream

Siloxane

Core products

Volume specialties

Value specialties

Siloxane is generally not marketable but transformed into silicone intermediates

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

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

Value specialties generally include products for health care and electronics

Technology driven acquisition of Basel Chemie

- ◆ Elkem has entered into a SPA to acquire the Korean company Basel Chemie
 - ▶ Acquisition price of USD 26.9 million
 - ▶ Basel's turnover in 2018 USD 7.7 million
 - ▶ Average EBITDA margin last three years 28%
 - ▶ Strong growth potential
- ◆ Basel holds a very favourable silicones specialties position
 - ▶ The main product is a world class silicone cross polymer gel for cosmetics
- ◆ The acquisition is strongly linked to Elkem's strategy
 - ▶ Improves R&D capabilities and pipeline
 - ▶ Most raw materials to be supplied by Elkem Xinghuo
 - ▶ Cross selling synergies by combining Elkem's current standard portfolio with Basel's specialty product range
 - ▶ Strengthening positions in building protection and cosmetics
 - ▶ Available capacity for growth at minimal investment
- ◆ Closing of the transaction is expected by the end of September 2019



- Established in 1999
- Technology driven downstream silicones producer with a high-end speciality portfolio for skin care and colour cosmetic applications, and water repellents for the construction industry
- Headquarter and manufacturing site in Korea



EV batteries and cables uniquely positioned to develop and supply solutions

- ◆ Elkem will invest MNOK 65 in a pilot plant for battery graphite
 - ▶ Leveraging leading research, graphite and production know-how, and sustainable production to supply growing European battery market
- ◆ Elkem shows consistent growth in silicones material for EV batteries and cables
 - ▶ In 2018 revenues from batteries and EVs exceeded MEUR 30
 - ▶ In 2019 this is expected to reach MEUR 50
- ◆ Ongoing development of silicon for batteries in close cooperation with partners and customers
 - ▶ Already small commercial sales of silicon to anode, Silgrain used in thermal batteries for e.g. space missions

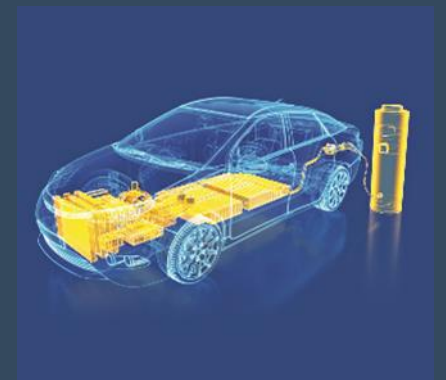
Carbon

- Graphite for anodes – developing large scale industrial production to meet market growth
- 100 years experience as a supplier of carbon solutions
 - High temperature process understanding
 - Raw material know-how
 - Sustainable green production at large scale



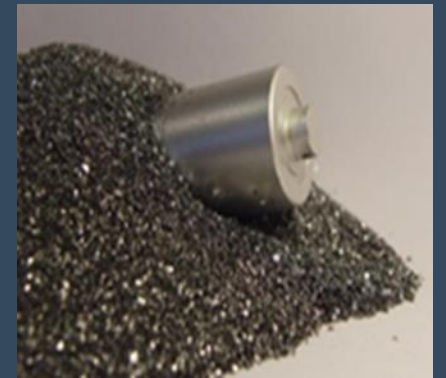
Silicones

- Silicones for battery packs and EVs – protect and enhance performance
- Strong specialty positions in automotive
 - Proven technologies
 - Products tailor made to customer technology



Silicon

- Silicon for tomorrow's anodes – leveraging best in class silicon know-how
- Ability to tailor make silicon powders
 - Opportunities for rapid ramp-up when demand materializes
 - Attractive cost position based on Silgrain
 - Sustainable green production at large scale



Well positioned to develop silicones market opportunities

◆ Expanding silicones offering in the Americas

- ▶ Elkem well positioned as a fully integrated, qualified producer across most industrial markets, bringing silicone solutions with a personal touch
- ▶ Elkem is gaining specialty market share in the US
- ▶ Local product offering in the US being expanded to include upstream basic silicones to meet growing North American demand
- ▶ Feedstock materials are supplied from St. Fons, France and Xinghuo, China

Facts Americas

- ◆ Market size > BUSD 4
- ◆ 27% of global market
- ◆ Growing at more than 4% per year
- ◆ High degree of specialisation
- ◆ High silicone spending per capita



◆ Further specialisation

- ▶ 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
- ▶ Expanding electronic silicone adhesive product line with the launch of a silicone gel for fast, high-volume potting of complex electronic modules, as well as encapsulation of electronic components

Weatherproof solution for buildings

- ◆ Sealant applied to the joint of glass, metal, stone etc.
- ◆ Ensures air tightness, water tightness and other performance
- ◆ Needs to withstand thermal expansion, cold contraction etc.

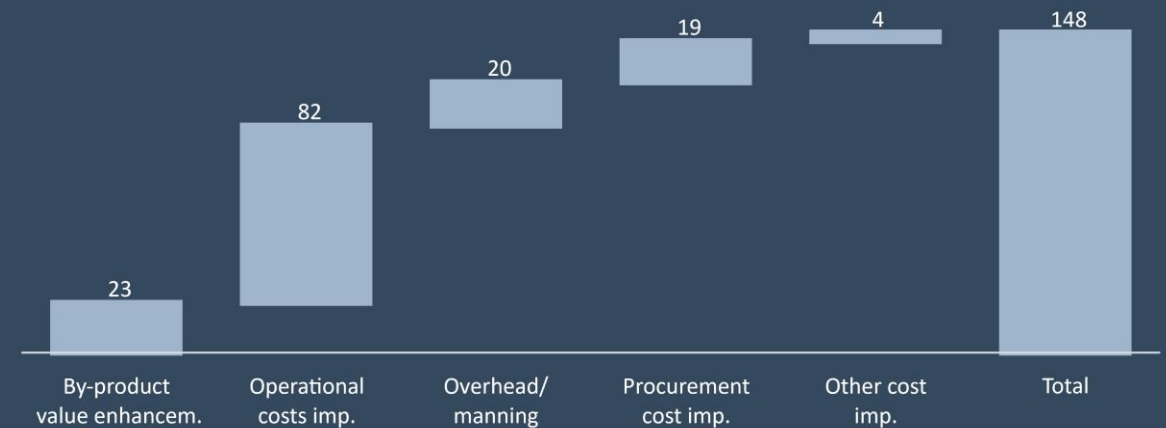


Operational improvements proceeding as planned

- ◆ The accelerated improvement programme was initiated early 2019 to counter weaker market conditions
- ◆ The target is to realise effects of MNOK 500 in 2019
- ◆ The programme is progressing according to plan and realised effects by end of 2Q-2019 amounted to MNOK 148
- ◆ Based on the weak market sentiment Elkem will further reinforce measures to reduce costs and improve working capital



Realised effects (MNOK)



Financial targets

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



Results for 2nd quarter 2019

Market downturn gives lower earnings

- ◆ Generally weak market conditions, particularly in automotive and construction
- ◆ Additional US tariffs on Chinese imports implemented from 10 May triggered a rapid decline in the Chinese silicones market
- ◆ Maintenance stop and delayed start-up in Silicones France had a negative financial impact of MNOK 185 in the quarter
- ◆ Consequently, and as announced, the financial performance in the second quarter has been weaker than expected
- ◆ Total operating income was NOK 5,882 million in the second quarter, down 17% from a strong corresponding quarter last year
- ◆ EBITDA was NOK 647 million, down 67% from the second quarter 2018.
- ◆ Earnings per share was NOK 0.25 in the quarter and NOK 1.09 YTD

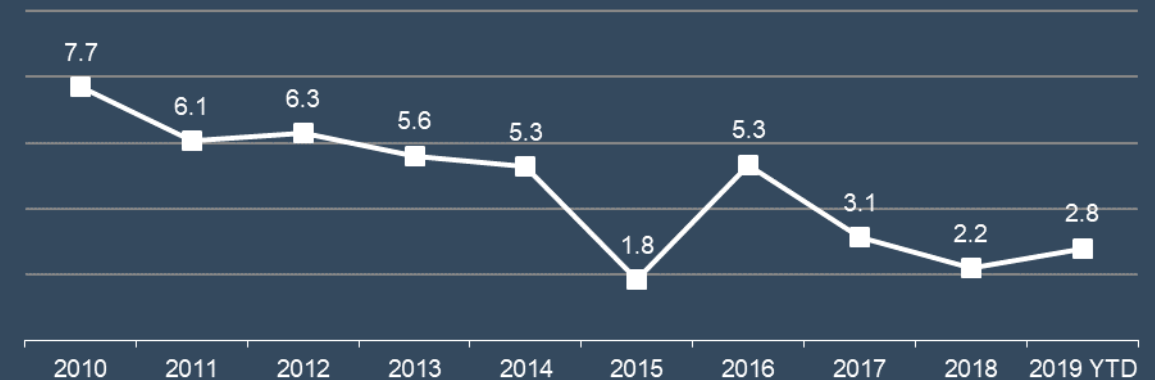


Environment, social and governance our key priorities

- ◆ Elkem has a zero harm philosophy
 - ▶ For health and safety, the target is zero recordable injuries (H1 & H2)
 - ▶ For environment, the strategy is to work towards our goal of zero emissions
- ◆ The total recordable injury rate as at 30 June 2019 was 2.8
 - ▶ This represents 18 recordable injuries, including 2 defined as high severity
- ◆ Elkem has several ongoing projects to reduce the environmental footprint and strengthen the competitive position
 - ▶ Construction started at the energy recovery project at Salten
 - ▶ Furnace upgrades at Bremanger and Salten to give substantial reduction in NOx and fugitive emissions
 - ▶ Increased share of biocarbon as reductant in smelting processes reduce fossil CO2 emissions



Total recordable injury rate



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

Weak market conditions driven by automotive and construction

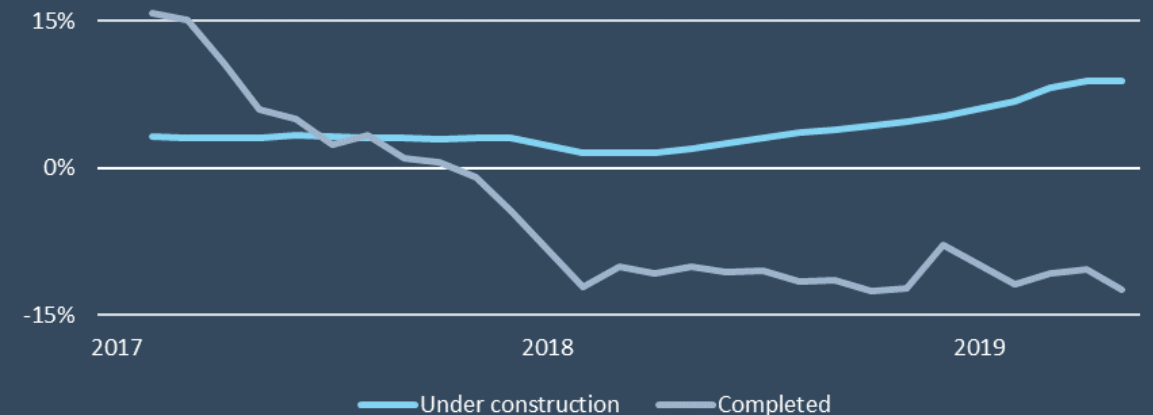
- ◆ Global car sales down YTD-2019
 - ▶ The sharpest sales decline was in China, but also other markets are down
 - ▶ Weak automotive markets impacts silicones (gaskets, hoses etc.), silicon metal (aluminium alloys) and ferrosilicon (steel alloys)
 - ▶ However, higher sales of EVs provide a strong potential for Elkem due to the content of silicones in batteries and cables
- ◆ Construction in China has been weak, but real estate under construction is picking up based on stronger domestic incentives
 - ▶ The activity in construction mainly affects silicones (sealants, adhesives and coatings) and ferrosilicon (steel, pipes etc.)
- ◆ Segments for consumer goods, luxury linked products and agrochemicals are less impacted
 - ▶ Elkem has long-term agreements with renowned multi-national cosmetics companies
 - ▶ Consumer goods account for approx. 30% of the Silicones division's sales

Growth rates automotive



Source LMC Automotive

Growth rates for real estate in China



Source: National Bureau of Statistics of China

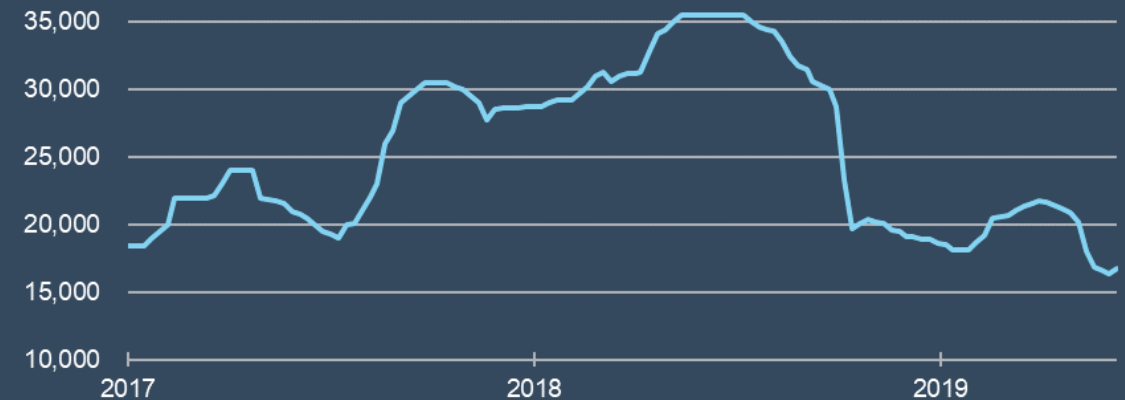
Silicones

additional US tariffs triggering decline

- ◆ Additional US tariffs triggered another steep decline in DMC prices in China
 - ▶ All silicones from China to the US are taxed 28%
 - ▶ In addition, many other products containing silicones are affected
- ◆ The tariffs have created increased uncertainty and Chinese downstream customers temporarily halted orders in May and June
 - ▶ Demand is picking up in July, but at low prices
- ◆ Also, the Chinese market is generally impacted by seasonal weakness in construction in June and July due to wet season
- ◆ Speciality products show stable price development, but volumes are negatively impacted by weakness in e.g. automotive
- ◆ Underlying demand development still considered robust supported by mega-trends



DMC reference price China (RMB/mt)

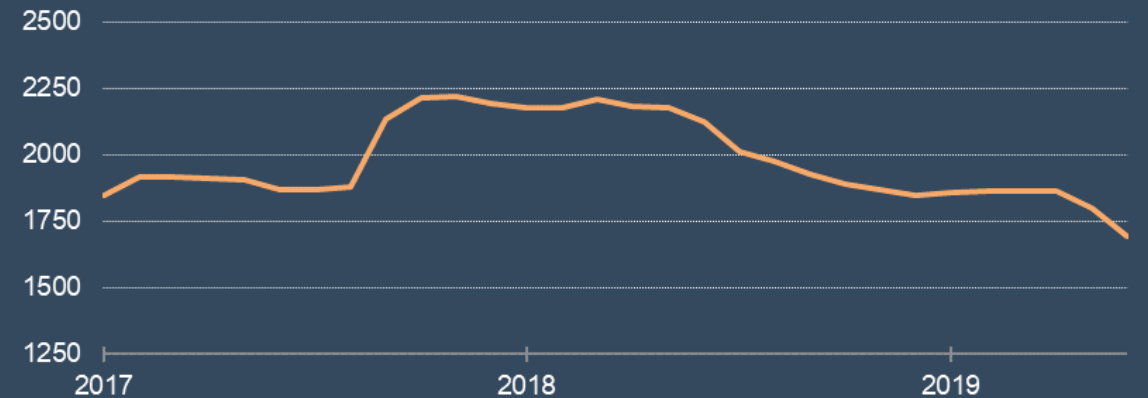


Silicon still weak market sentiment

- ◆ Market prices declined further in second quarter from already low levels
- ◆ Positive demand development from solar and electronics
- ◆ Chemical segments (silicone) is rather stable but somewhat impacted by US/China trade tensions
- ◆ Aluminium is very challenging, primarily driven by weakness in automotive



CRU silicon 99 price EU (EUR/mt)



Ferrosilicon weak markets

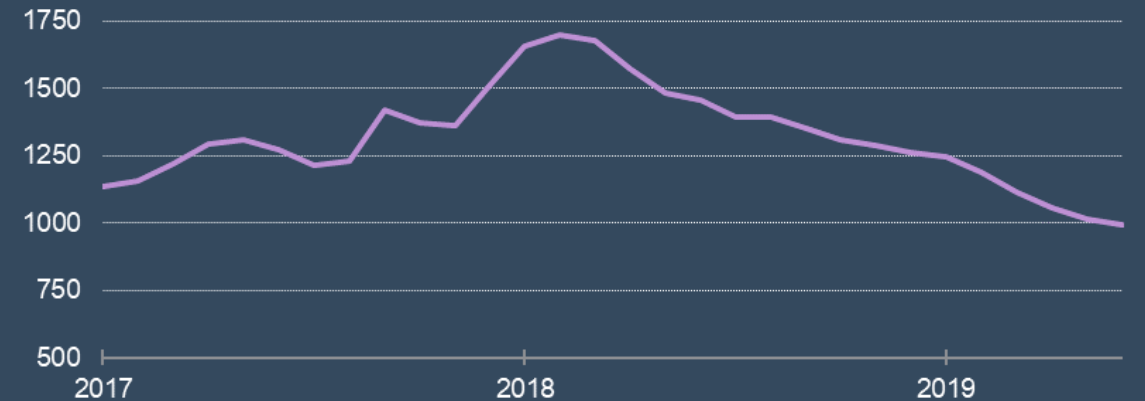
- ◆ Continued market price decline in the second quarter
 - ▶ Prices negatively impacted by low EU steel market and high ferrosilicon imports
 - ▶ Indications of lower EU ferrosilicon imports from Brazil and Malaysia towards the end of the second quarter
- ◆ Weak market sentiment with downward trend in industrial production and weak automotive sales

Carbon stable markets

- ◆ Stable prices and volumes based on generally high metals production
- ◆ Production curtailments could impact sales volumes going forward



CRU ferrosilicon 75 price EU (EUR/mt)

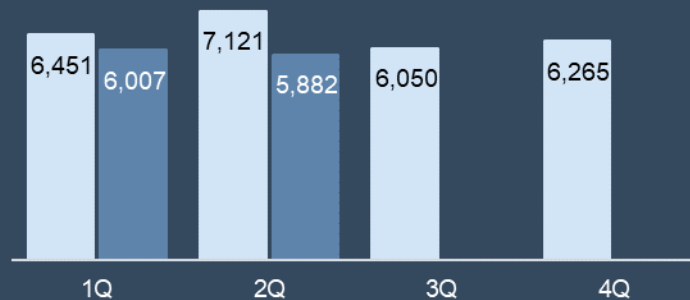


Elkem group

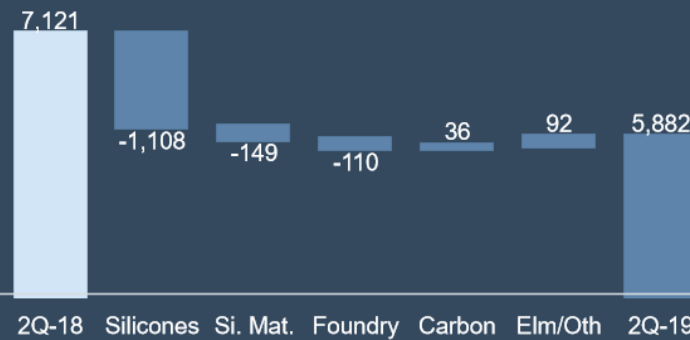
earnings down due to weak market conditions

Total operating income

- down from record levels in the corresponding quarter last year

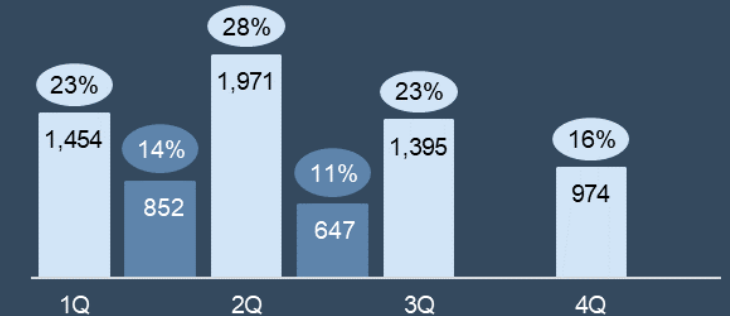


- mainly explained by lower revenue for the Silicones division

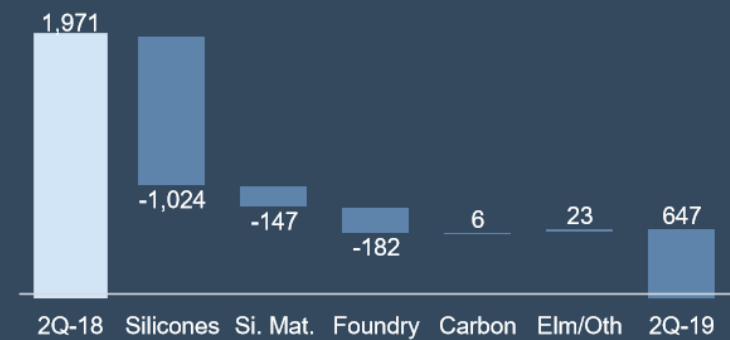


EBITDA

- reduced considerably compared to second quarter last year



- due to weaker market conditions, especially for silicones in China



Elkem group strong balance sheet

- ◆ Other items MNOK 25
 - ▶ Main item was a positive value change of power contracts MNOK 39 explained by favourable power price changes in the quarter, partly offset by negative operating currency effects

- ◆ Net financial items MNOK -108
 - ▶ Net interest expenses of MNOK 54 which include leasing effects (IFRS 16)
 - ▶ Currency loss of MNOK 49 mainly related to group receivables in CNY

- ◆ Tax MNOK -58
 - ▶ Tax rate of 28%, primarily affected by weak results in France. The production problems have resulted in a loss before tax in the quarter. In accordance with group policy, tax losses are not capitalised. Tax rate expected to be lower in coming quarters

Consolidated key figures

<i>(NOK million, except where specified)</i>	2Q 2019	2Q 2018	YTD 2019	YTD 2018	FY 2018
Total operating income	5,882	7,121	11,889	13,572	25,887
EBITDA	647	1,971	1,499	3,424	5,793
EBIT	300	1,655	815	2,805	4,522
Other items	25	-153	176	-355	-380
Net financial items	-108	-78	-135	-197	-327
Profit (loss) before income tax	210	1,423	850	2,252	3,792
Tax	-58	-90	-201	-190	-425
Profit (loss) for the period ⁽¹⁾	143	1,327	633	2,049	3,337
Key ratios					
EPS (NOK per share)	0.25	2.28	1.09	3.53	5.74
Equity ratio (%)	44%	44%	44%	44%	44%
Net interest bearing debt (NIBD) ⁽²⁾	5,110	4,458	5,110	4,458	3,264
Leverage ratio	1.3	0.8	1.3	0.8	0.6
Reinvestments % of D&A	87%	94%	71%	77%	84%
ROCE (annualised) (%)	7%	42%	10%	36%	28%

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

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

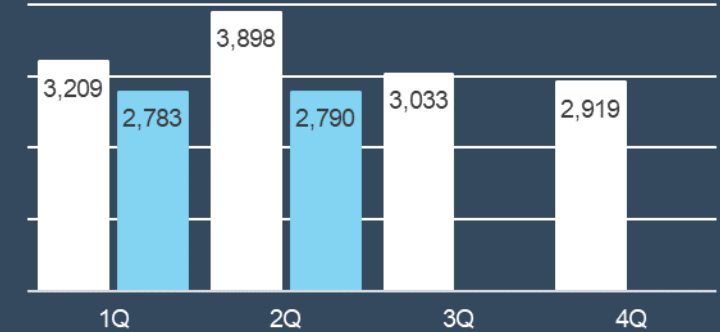
Silicones

impacted by US tariffs and production problems

- ◆ Total operating income down 28% from second quarter last year
- ◆ EBITDA of MNOK 333, down 75% from a record level last year
- ◆ Lower operating income and EBITDA were mainly explained by lower sales prices. Sales prices in China declined steeply in second quarter following additional US tariffs. Prices for core products have declined also outside China
- ◆ Prices for specialties remain stable, but volumes were down due to weakness in e.g. automotive and production problems in France
 - ▶ The Roussillon plant in France had a delayed start up after the announced maintenance stop in April/May. The total loss related to maintenance stop and subsequent late start up amounted to MNOK 185

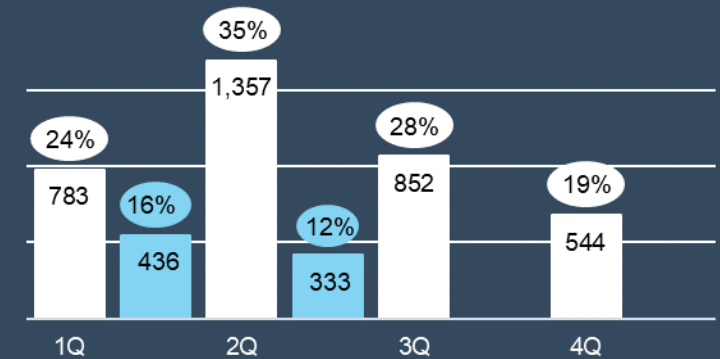
Total operating income

NOK million



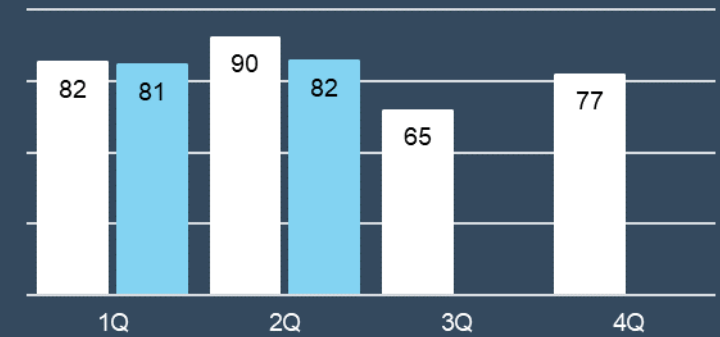
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

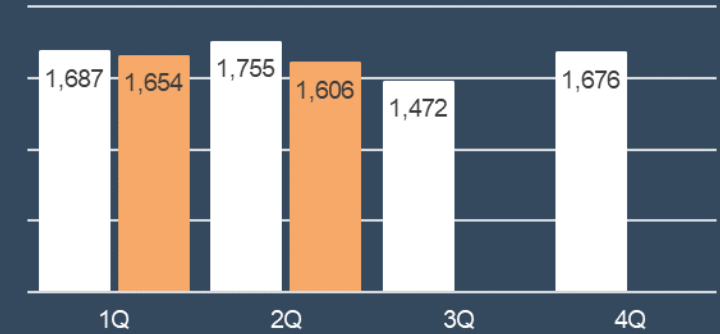
Silicon Materials

low prices and slow demand recovery

- ◆ Total operating income down by 8% compared to second quarter last year
- ◆ EBITDA down 48% compared to second quarter last year
- ◆ Lower operating income and EBITDA mainly explained by lower sales prices
- ◆ Raw material prices trending lower, mainly coal and graphite. Limited effect in second quarter, but positive effects expected from third quarter and onwards
- ◆ The Bremanger plant, producing high purity silicon (Silgrain), will have a major furnace upgrade in the third quarter (ref. page 4)

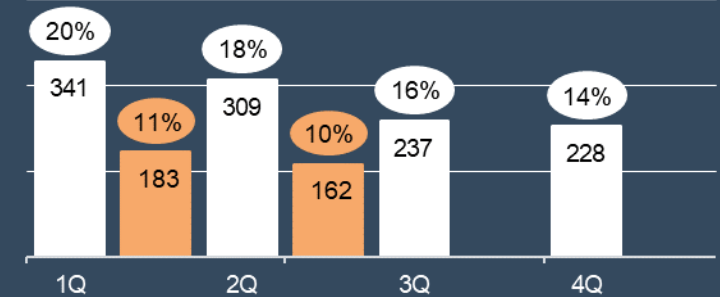
Total operating income

NOK million



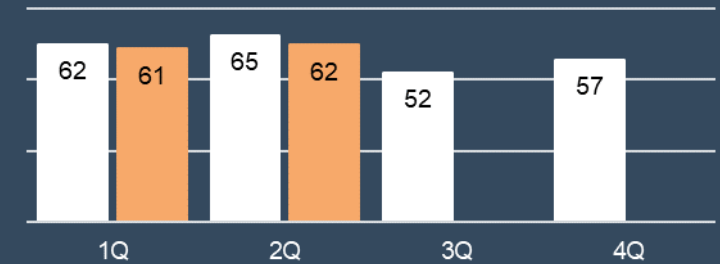
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

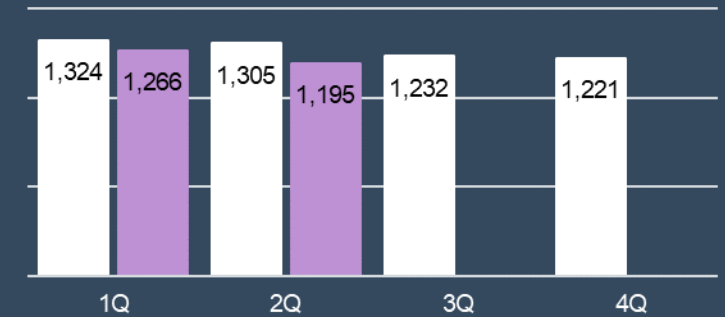
Foundry Products

lower prices and reduced sales of specialties

- ◆ Total operating income down by 8% from second quarter last year
- ◆ EBITDA down 69% due to lower ferrosilicon prices and lower speciality sales volumes
- ◆ Prices for specialty products (FSM and inoculants) remain stable but volumes are significantly down due to weakness in automotive. Markets also impacted by US/China trade tensions
- ◆ One furnace at Iceland temporarily idled from mid-June.
- ◆ Raw material prices trending down but limited effect in second quarter

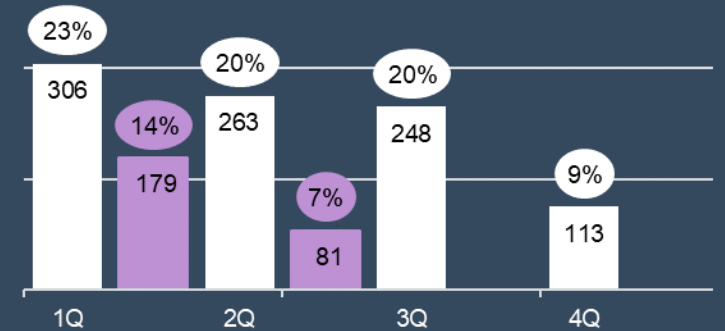
Total operating income

NOK million



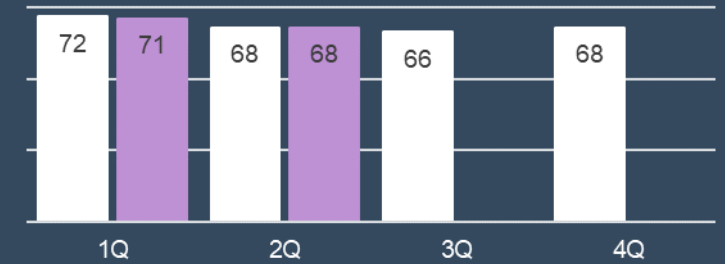
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



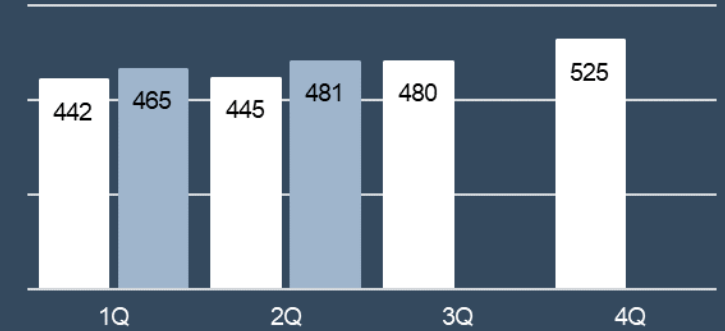
■ 2018 ■ 2019

Carbon stable earnings

- ◆ Total operating income up 8% from second quarter last year
- ◆ EBITDA up 8% to MNOK 86 from the corresponding quarter last year
- ◆ Stable sales volumes have provided stable operating income and EBITDA

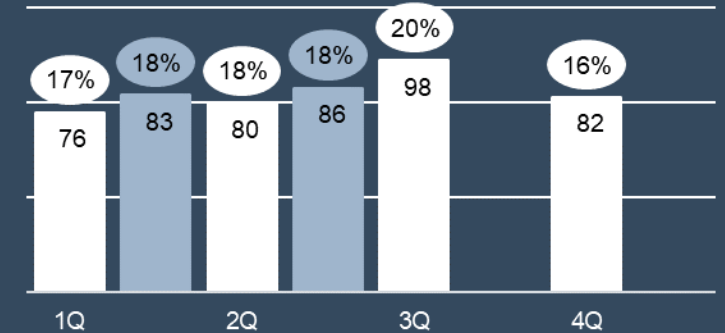
Total operating income

NOK million



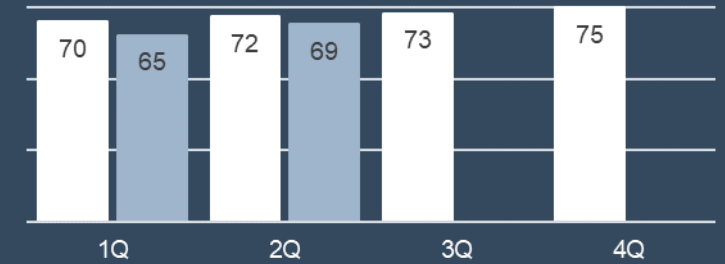
EBITDA and margin

NOK million and %



Sales volume

In 1,000 mt



■ 2018 ■ 2019

Elkem group strong equity, but lower EPS

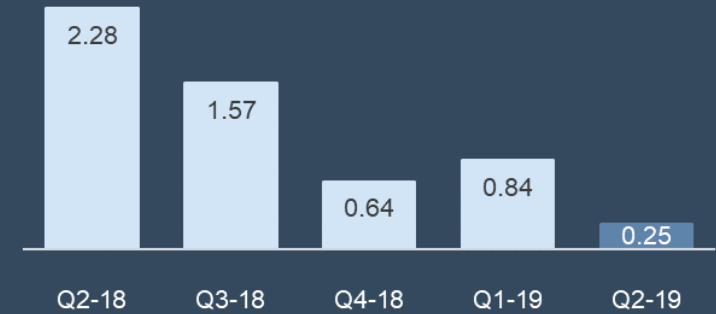
◆ Earnings per share (EPS)

- ▶ EPS amounted to NOK 0.25 in the second quarter
- ▶ EPS YTD 2019 was NOK 1.09

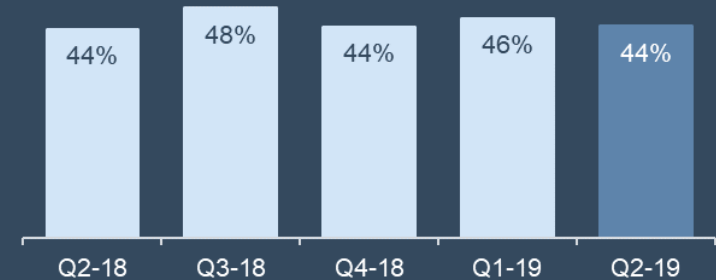
◆ Total equity amounted to BNOK 12.6 as at 30 June 2019

- ▶ Equity ratio of 44%
- ▶ Equity down by BNOK 1.1 from 31 December 2018 due to dividend payment of BNOK 1.5, which was offset by profit for the period

Earnings per share
(NOK)



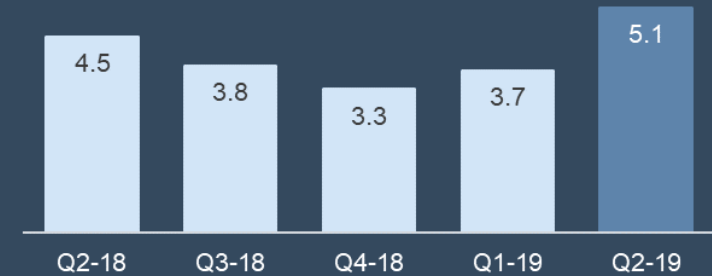
Equity ratio in %



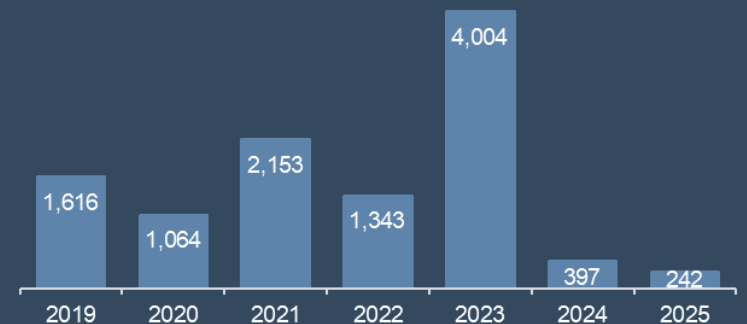
Elkem group low leverage

- ◆ Net interest bearing debt (NIBD) of BNOK 5.1 as at 30 June 2019
 - ▶ NIBD has increased by BNOK 1.8 from 31.12.2018 mainly due to dividend payment of BNOK 1.5 and recognition of lease liabilities BNOK 0.4 in accordance with IFRS 16
- ◆ Leverage ratio of 1.3x based on LTM EBITDA of BNOK 3.9
- ◆ Debt maturity profile has improved following refinancing in China
 - ▶ Remaining debt maturities in 2019 mainly consist of local Chinese bank facilities, which will be covered by new facilities not yet drawn

Net interest-bearing debt
(NIBD) MNOK



Maturity profile
MNOK



Elkem group

good cash flow, investments according to plan

◆ Cash flow from operations⁽¹⁾ was MNOK 645 in the second quarter, down from the corresponding quarter last year due to lower operating profit

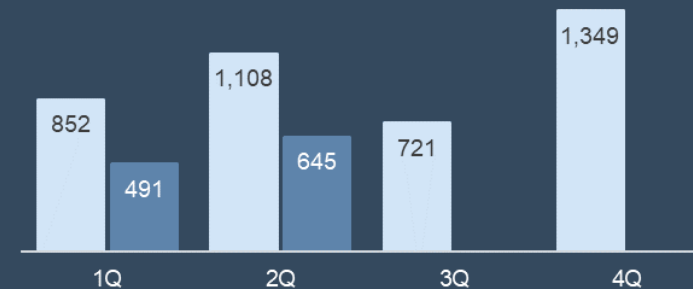
- ▶ Lower operating profit has been partly offset by positive working capital movements. 2Q-2019 included a positive change in working capital, of which MNOK 250 was explained by a new non-recourse factoring agreement

◆ Investments amounted to MNOK 479 which was according to plan

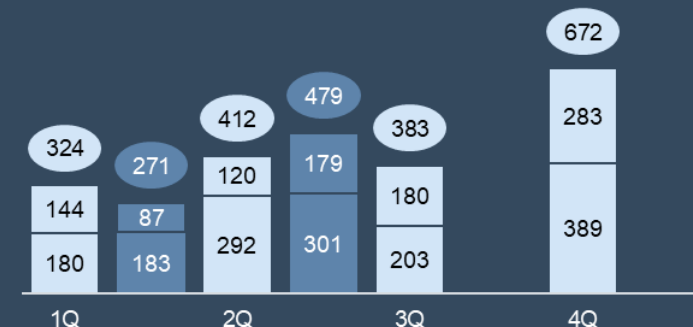
- ▶ Reinvestments of MNOK 301 in the second quarter, amounting to 87% of depreciations
- ▶ Strategic investments of MNOK 179, primarily Silicones specialisation projects, furnace upgrades for Silicon Materials and upgrade/expansion projects for Carbon

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

Cash flow from operations
MNOK



Investments
MNOK



Outlook for the third quarter

- ◆ A continued weak market sentiment creates uncertainty going forward
- ◆ Silicones demand is expected to pick-up seasonally in China
- ◆ Silicon metal demand is expected to remain weak, primarily in the aluminium segment. There are signs of a recovery, but the impact is expected to be modest in the third quarter
- ◆ Ferrosilicon markets are expected to remain weak. Foundry alloys prices are stable but sales volumes are expected to remain low
- ◆ Carbon expected to remain stable, but potential metal production curtailments create downside risk regarding sales volumes
- ◆ The accelerated improvement programme develops according to plan and further measures will be implemented to counter the weak market sentiment
- ◆ On this basis the third quarter EBITDA is expected to be in line with second quarter



Important notice

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

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

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

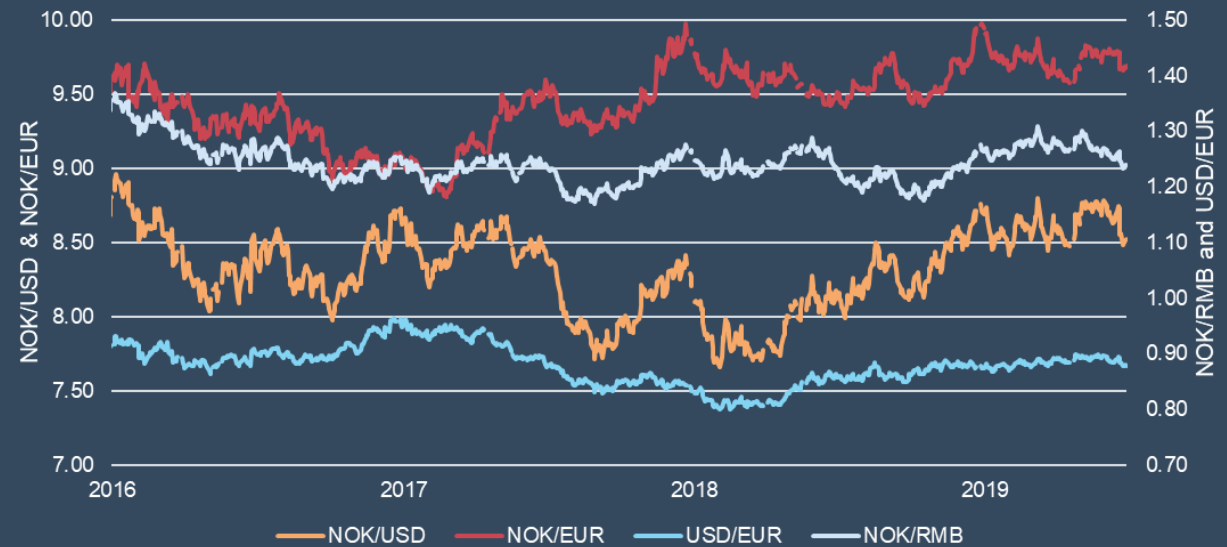


Appendix

Currency sensitivity

- ◆ The cash flow is exposed to operating income and costs in different currencies. The main currencies are EUR and USD
 - ▶ EUR - net cash flow approx. MEUR 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 were weaker in 2Q-2019 compared to 2Q-2018
- Compared to 2Q-2018, the NOK is 2% weaker against EUR, 8% weaker against USD and 1% 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

