

Nordea Equity Small Cap Days

14 August 2020



Elkem: a global company with more than 110 years of history in advanced materials

Elkem has a strong global platform combining the historic and cultural traditions of three unique business platforms

- ◆ Elkem started as a Norwegian company founded in 1904 by Sam Eyde, representing strong industrial traditions and continuous improvement
- ◆ The chemical business in France was integrated in 2015 adding a strong culture for specialisation, innovation and R&D
- ◆ The presence in China was significantly expanded in 2018, adding to the dynamic and agile business perspective, and positioning for the Asian market



Total income FY 2019

NOK **22.7** bn.



EBITDA FY 2019

NOK **2.7** bn.



EBITDA margin FY 2019

12 %



Head office in Norway

31 plants worldwide



Employees worldwide

~ **6,700**



R&D centres in Norway, France and China

>450 R&D people

Three strong business areas

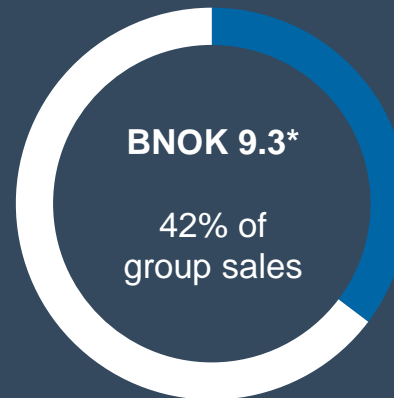
Silicones



End-markets

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

Silicon Products



End-markets

- Silicones
- Automotive
- Construction/Engineering
- Electronics
- Solar
- Specialty Steel
- Refractories
- Oil & Gas

Carbon Solutions



End-markets

- Ferroalloys
- Silicon
- Aluminium
- Iron Foundries

* Based on external sales FY 2019

Our products are vital for modern societies

Low cost sustainable input factors



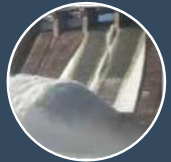
Quartz



Coal



Biocarbon



Power

High temperature/chemical production processes



Silicones



Silicon, foundry products and microsilica



Carbon solutions

Examples of high value applications and markets



Windmills



Infrastructure



Airbags



Solar



Automotive



Cooking, utensils



Electronics



Release coating

Environment, Social and Governance

A key priority



83 % share of renewables
of 2019 total electricity consumption

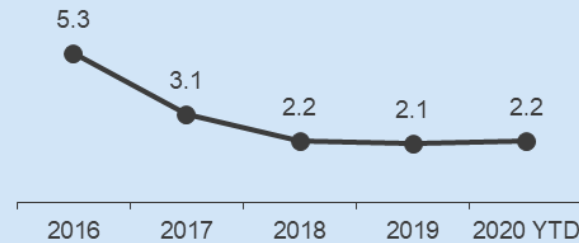


Elkem is certified as a Nasdaq ESG
Transparency Partner



Safety

Ambition zero injuries



Environment

Fossil CO2 emissions in Norway
reduced by 18% by use of biocarbon
Ambition 40% biocarbon by 2030

NOx emissions down 13% since 2015
Ambition 10% reduction in 2020



Social

Human rights; conduct impact
assessment and update policy

Ambition best practice policy standard
for whistleblower programme and
community involvement



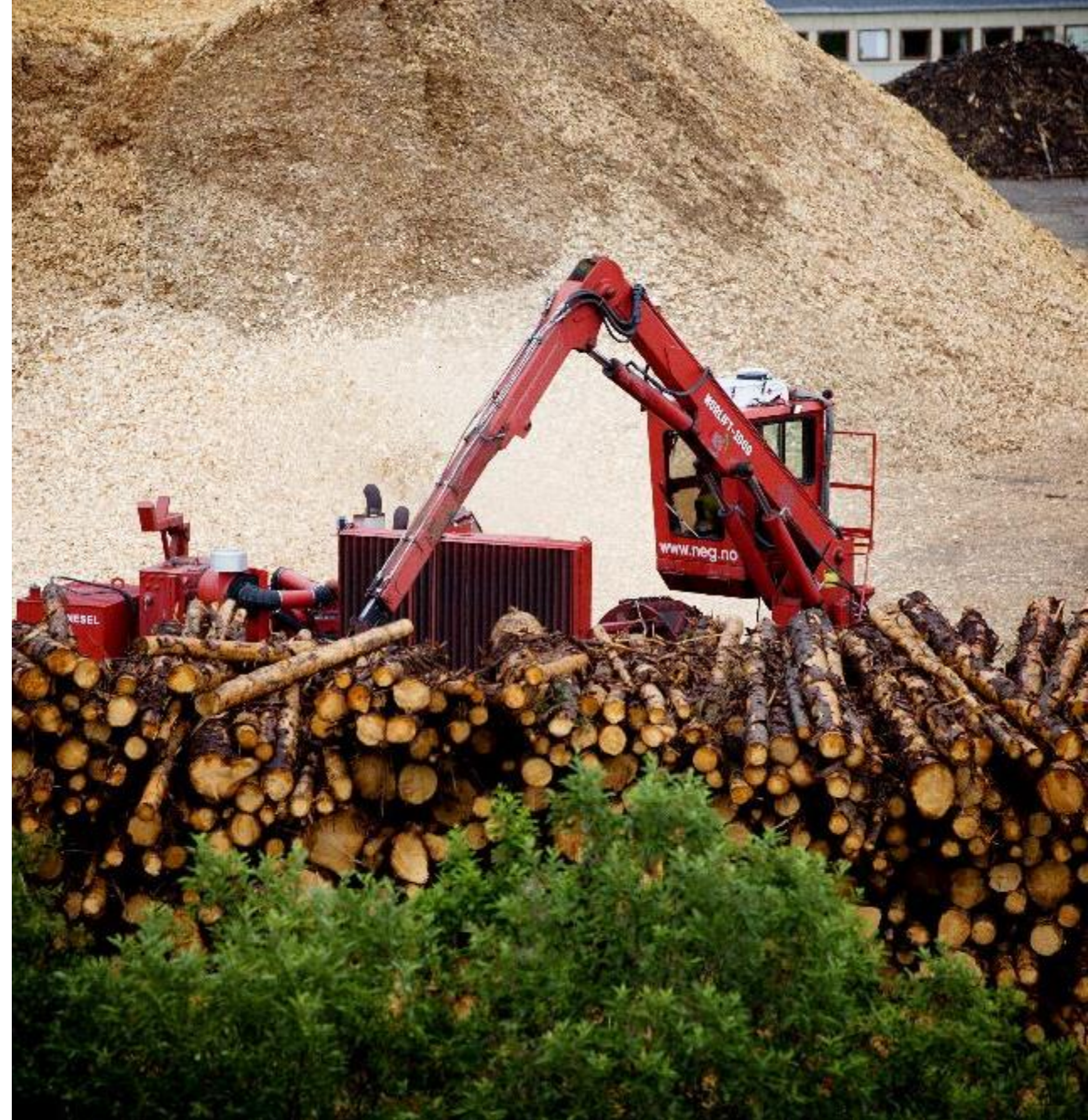
Governance

Adherence to Norwegian Code of
Practice for Corporate Governance

Employees' commitment to Code of
Conduct and Anti-bribery/corruption
policy up from 70% to 100% in 2019
Ambition maintain 100%

Biocarbon strategy for environmental sustainability

- ◆ The production of silicon and ferrosilicon require use of carbon materials
 - ▶ Carbon is used as a reducing agent in the smelting process to remove oxygen from the quartz, resulting in CO2 emissions
- ◆ The strategy is to reduce the use of fossil coal to reach sustainability goals
- ◆ Elkem has developed new breakthrough technology for production of sustainable biocarbon
 - ▶ The technology combines utilisation of low cost raw materials with high yield conversion processes
- ◆ Elkem has now decided to invest approx. MNOK 180 to establish a pilot plant in Canada for industrial verification of the product and the production process
 - ▶ The project will receive government support reducing Elkem's net investment to MNOK 60
- ◆ Elkem will search for business partners to realise full scale industrial production



Strategy and competitive strengths

- ◆ Building blocks for continued profitable growth
 - ▶ Low cost positions based on integrated value chain
 - ▶ Further product specialisation through R&D and acquisitions
 - ▶ Organic growth and acquisitions



Focus on cost

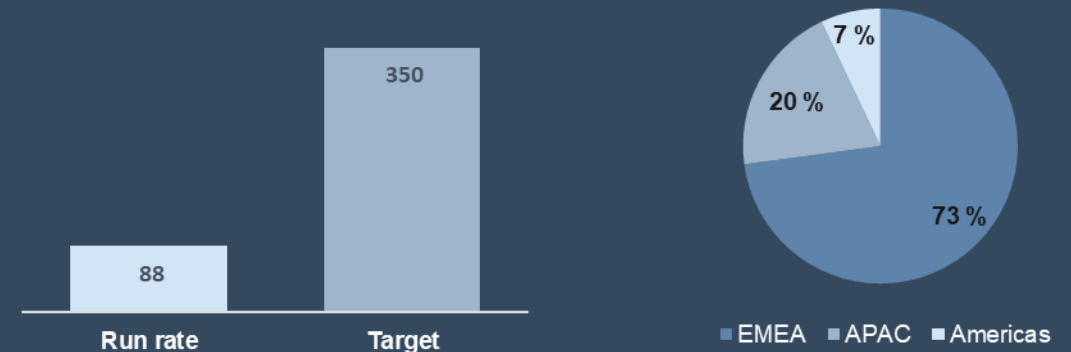
Productivity Improvement Programme ahead of plan

- ◆ The Productivity Improvement Programme was launched in 2020 with an identified potential of more than MNOK 350 in annual improvements
 - ▶ Permanent savings related to personnel costs
 - ▶ The programme will be finalised by the end of 2021
- ◆ The programme addresses all divisions, as well as the corporate functions. The aim is to improve Elkem's profitability to fund future growth and specialisation in line with long-term strategy
- ◆ A restructuring provision of MNOK 200 was booked in the first quarter 2020
- ◆ By end of second quarter the annual run rate was MNOK 88, which was ahead of plan. The main effects are expected in 2021
- ◆ The merger between Silicon Materials and Foundry Products is expected to enable further cost reductions



Savings run rate by end of 2Q-2020

NOK million (MNOK)



Specialisation and growth

Polysil acquisition a key strategic move

- ◆ Polysil's main product areas
 - ▶ Electrical applications i.e. wire and cable accessories, insulation and connectors
 - ▶ Medical applications, i.e. catheters, drainage tubes, laryngeal masks and tubes, negative pressure ball etc.
 - ▶ Automotive, i.e. parts for high temperature and oil resistance
 - ▶ Consumer, i.e. baby feeding, kitchen ware, food preservation etc.
- ◆ Strategic rationale for the Polysil acquisition
 - ▶ Access to advanced technology, especially in Liquid Silicone Rubber (LSR) & Pressure Sensitive Adhesives (PSA)
 - ▶ Increase market share in specialties in China
 - ▶ Downstream captive use of materials from Xinghuo
- ◆ Polysil had operating revenue in 2019 of MCNY 624 with EBITDA of MCNY 116 (18%) and earnings after tax of MCNY 95
- ◆ Purchase price up to MCNY 941, consisting of base price and variable elements based on pre-defined criteria



- Located in Zhongshan in Guangdong, China
- Research and development centre with more than 50 engineers
- Leading technology positions in production and development of Heat Cured Rubber (HCR), Liquid Silicone Rubber (LSR)
- More than 350 employees



Silicones market update

low visibility, but China is picking up

- ◆ The global silicones market is negatively impacted by the Covid-19 situation
 - ▶ Automotive and construction are generally weak
 - ▶ Consumer products are generally holding up well
- ◆ DMC prices in China were at low levels, but recovered towards the end of second quarter
- ◆ Higher silicones prices in China were primarily due to increased demand mainly driven by the government's CNY 50 trillion new infrastructure policy
- ◆ Silicones customers indicate limited visibility going forward as time and pace of recovery is highly uncertain



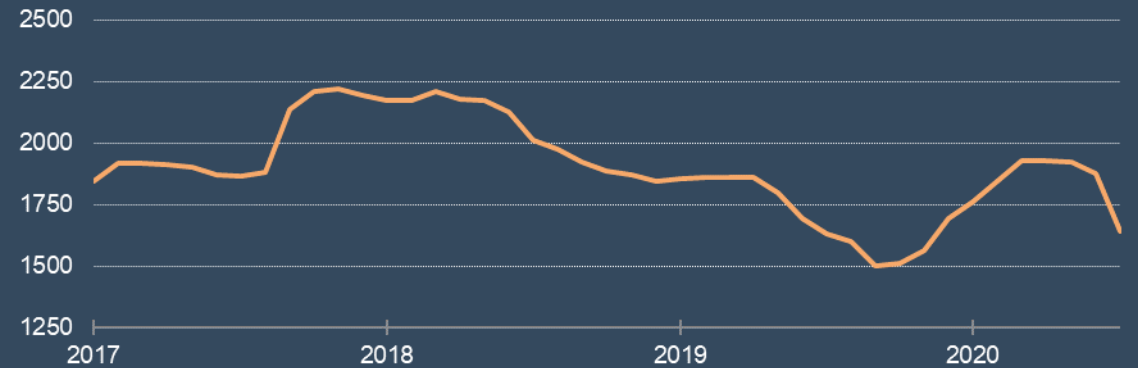
DMC reference price China (CNY/mt)



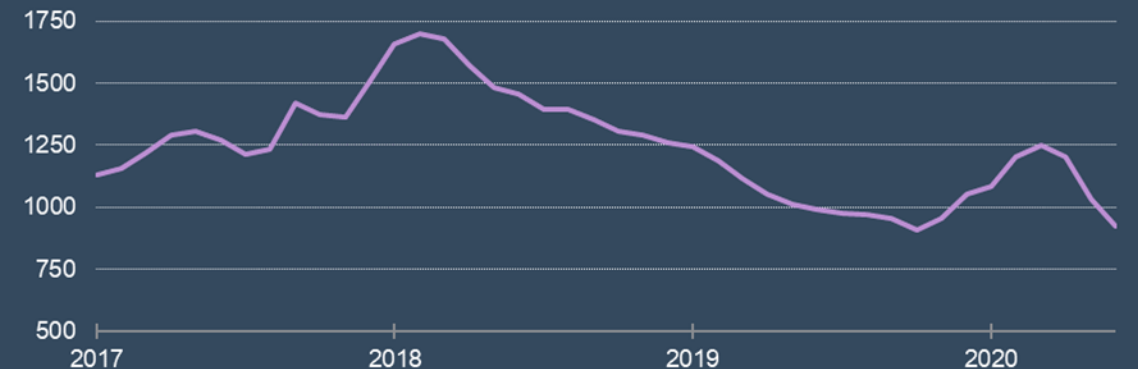
Silicon and ferrosilicon market update - weak development

- ◆ CRU EU reference prices for silicon were holding up for most of 2Q-2020
 - ▶ However, reference prices were lagging the underlying market development
 - ▶ The delayed impact was reflected in a clear downturn in reference prices at the end of the quarter
- ◆ Market prices for ferrosilicon (FeSi) have dropped significantly in the second quarter
- ◆ The demand from end-user segments have been mixed in the second quarter
 - ▶ Both silicon and ferrosilicon demand negatively impacted by weakness in automotive and construction
 - ▶ Chemicals have been negatively impacted by Covid-19
 - ▶ Electronics/solar grade polysilicon has been holding up well

CRU silicon 99 price EU (EUR/mt)



CRU ferrosilicon 75 price EU (EUR/mt)



Second quarter group results stable in weak markets

- ◆ Good operational performance and sales secure stable results in challenging markets
- ◆ One-off of NOK 61 million from arbitration settlement included in 2Q-2020
- ◆ Financial items and other items negatively impacted by currency changes
- ◆ Equity and leverage ratios negatively impacted by dividend payment and closing of Polysil acquisition



Total operating income

MNOK 5,879



EBITDA

MNOK 644

%

EBITDA margin

11 %



Elkem group strong balance sheet

◆ Earnings per share (EPS)

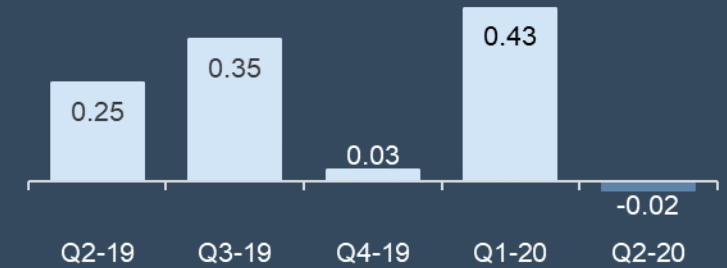
- ▶ EPS amounted to NOK -0.02 in the second quarter
- ▶ Negatively impacted by losses in other items and foreign exchange losses in financial items

◆ Total equity amounted to BNOK 12,8 as at 30 June, slightly down from year-end 2019

- ▶ Equity ratio of 39%
- ▶ Lower equity ratio explained by dividend payment and increased value of total assets due to currency translation effects

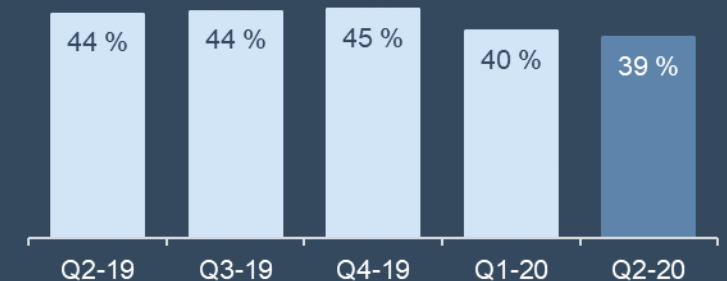
Earnings per share (EPS)

NOK per share



Equity ratio

In %



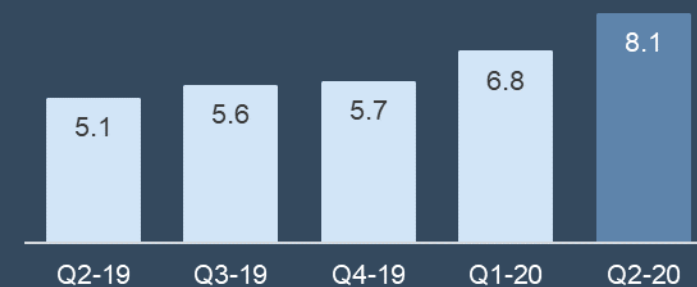
Elkem group solid debt profile

- Net interest bearing debt (NIBD) amounted to BNOK 8.1 as at 30 June 2020
 - Leverage ratio of 3.4 based on LTM EBITDA of BNOK 2.4
 - Increase in leverage ratio compared to previous quarter explained by dividend payment and closing of Polysil acquisition

- Well distributed debt maturity profile
 - Debt maturities in 2020 mainly consist of local working capital financing in China, which is expected to be rolled over
 - New loan facility of BNOK 2.0 signed 16 July to cover loan maturities in 2021

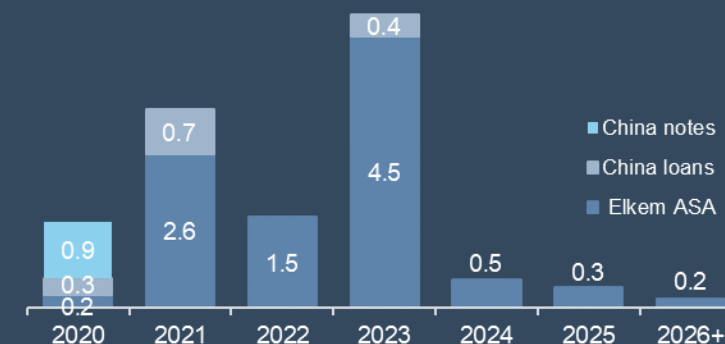
Net interest-bearing debt (NIBD)

NOK billion



Maturity profile

NOK billion



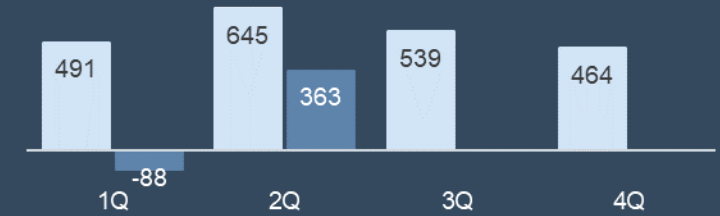
Elkem group cash flow impacted by working capital

- ◆ Cash flow from operations⁽¹⁾ was MNOK 363 in the second quarter, down from the corresponding quarter last year
 - ▶ 2Q-2019 contained a significant reduction of working capital
- ◆ Investments ex. M&A amounted to MNOK 499 in the second quarter 2020
 - ▶ Reinvestments was MNOK 307 in the quarter, amounting to 72% of D&A
 - ▶ Strategic investments of MNOK 192, primarily Silicones R&D centre and other specialisation projects, furnace upgrades for Silicon Materials biocarbon project in Foundry Products and the Carbon battery project
- ◆ Total investments in the second quarter included MNOK 792 for acquisition of subsidiaries in connection with the closing of Polysil

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

Cash flow from operations

NOK million



Investments ex. M&A

NOK million



■ 2019 ■ 2020

Outlook for the third quarter

- ◆ Markets characterised by low visibility due to Covid-19 effects
- ◆ Elkem's competitive position is strong, based on good cost positions, diversified product and geographic positions and robust financial structure
- ◆ Silicones demand in China is good, driven by government incentives, but sales prices may be volatile. Silicones demand outside of China is weak, negatively impacting the sales of specialty products
- ◆ Silicon and ferrosilicon prices substantially down, based on weak demand from automotive and construction
- ◆ Lower industrial activity also expected to reduce demand for Carbon materials



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