

# ELKEM

## SECOND QUARTER RESULTS 2018

17 August 2018



# Agenda

- Helge Aasen, CEO
  - Highlights
  - Business update
  - Outlook
  
- Morten Viga, CFO
  - Financial performance and market update

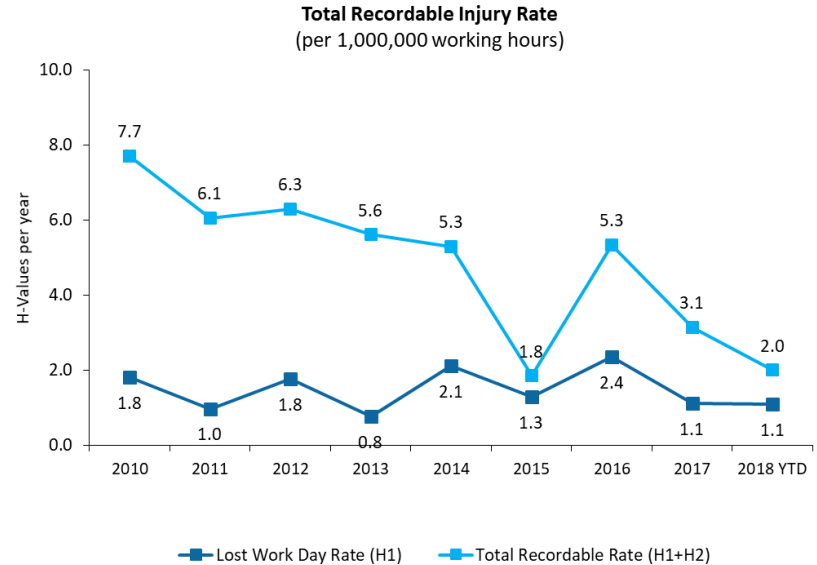
# Highlights 2Q 2018

- Strong earnings, particularly driven by the Silicones division
- Total operating income of NOK 7,120 million, up 38% from second quarter last year
  - All divisions report revenue growth compared to 2Q-2017
- EBITDA reaching NOK 1,970 million, up 143% from second quarter last year
  - This gives an EBITDA margin of 28% for the quarter
- Sales volumes for specialties show continued growth
- Earnings per share amount to NOK 2.28 in the quarter



# 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
- In 2Q-2018 Elkem had 4 H1 and 4 H2 injuries
  - Most injuries are low severity
- The total recordable injury rate YTD 2018 is 2.0, which is a weakening from 1.6 by end of 1Q-2018



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

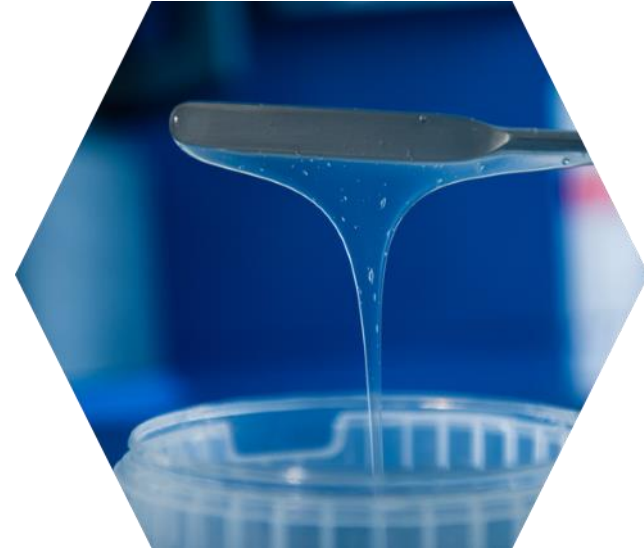
# Elkem's competitive strengths



# Leader in fundamentally attractive markets

## Silicones market is still strong

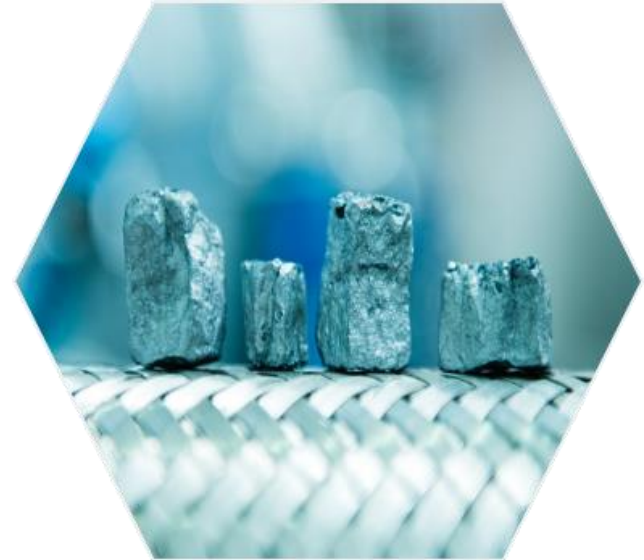
- Global silicones demand remains strong
- In addition, global supply remains tight
  - Approximately 10% of Chinese upstream silicones capacity is closed, potential restart uncertain due to environmental and safety issues
  - Generally high capacity utilisation among producers
- Tight market balance resulting in upward price pressure across geographical markets and products segments, but particularly strong for commodities
  - In China the market price for DMC has reached historical high level
- Limited new capacity expansions expected within the next 12 months
- Duties have been imposed on silicones in primary form in US on imports from China
- Silicones containing D4, D5 and D6 have been listed as substances of very high concern by The European Chemicals Agency (ECHA)



# Leader in fundamentally attractive markets

## Market conditions generally good also for other divisions

- The spot market prices for silicon metal are down
  - High capacity utilisation and seasonally higher production in China
  - Lowered Chinese PV feed-in tariff quote for 2018 is expected to reduce polysilicon production and thereby demand for silicon metal
- Ferrosilicon prices are down in 2Q-2018 but from historically high levels
  - Market conditions still attractive and good underlying demand, especially for foundry alloys
- Stable market conditions for the Carbon division
  - However, still some upward price pressure on key raw materials



# Material presence in the fast-growing Chinese market

## Integration of Xinghuo and Yongdeng progressing well



- Integration of Xinghuo Silicones and Yongdeng Silicon Materials progresses according to plan
- Key focus areas
  - Operational excellence according to Elkem Business System (EBS)
  - Organisational alignment and training
  - Furnace upgrades for Yongdeng
  - Product specialisation and debottlenecking for Xinghuo
- Xinghuo achieved new production record in 2Q-2018. The production was 60 kMT, which is 39% higher than 2Q-2017
- In addition, concept study for Xinghuo expansion project ongoing
- Elkem has established a domestic cash pool in China comprising all local entities. The cash pool will enable more efficient liquidity management





# Investments to enhance low cost position, growth and specialisation

## Projects strengthening Elkem's market position

### UPGRADES

- Elkem is undertaking significant upgrades to ensure quality and environmental compliance
  - Xinghuo - maintenance completed in August
  - Yongdeng - upgrade of two out of four furnaces
  - Rana - significant investments to improve efficiency and environmental and safety standards

### GROWTH

- Elkem has growth projects which will strengthen the groups market position
  - Xinghuo's capacity has been increased to 250 kMT through debottlenecking. Concept study for further expansion both upstream and downstream is ongoing
  - Elkem's new foundry plant in China is ramping up production
  - The new plant in Paraguay is also ramping up and production is expected to increase gradually in 2018

### SPECIALISATION

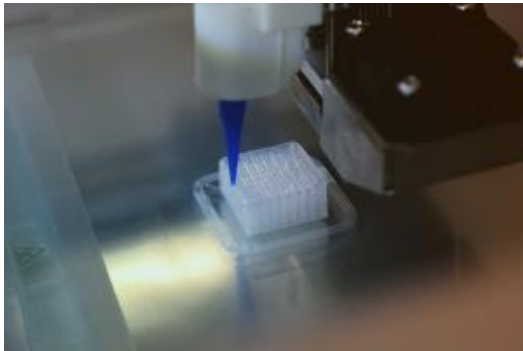
- Elkem is successfully pursuing its specialisation strategy through product development and investments
  - Ongoing specialisation projects across all divisions
  - More than 80 new products launched by the Silicones division over the past 12 months

# Leading R&D capabilities for further specialisation

## Examples of new product launches

### FIRST SALE OF 3D PRINTED MATERIAL

- Elkem has developed the experience and capability to develop 3D printable silicone materials for a wide array of application and printing technologies
  - First sales conducted in Asia



### LSR SELECT

- LSR select is an on line blending system which gives very precise control of the hardness and possibility to work faster and at low temperature. This gives higher productivity and lower scrap rate for customers



### LEATHER TREATMENT EMULSION

- Leather treatment solution for home and automotive to give the polished products gloss, waterproof and surface protection



# Elkem group

## Strong financial development

### CONSOLIDATED KEY FIGURES

#### CONSOLIDATED KEY FIGURES

(NOK million, except where specified)

	2Q 2018	2Q 2017	YTD 2018	YTD 2017	FY 2017
Total operating income	7,120	5,158	13,571	9,732	21,402
EBITDA	1,970	810	3,423	1,253	3,188
EBIT	1,655	484	2,804	613	1,927
Other items	-153	-32	-355	-70	44
Net financial items	-78	-109	-197	-213	-452
Profit before income tax	1,423	342	2,252	331	1,519
Tax	-90	-72	-190	-130	-269
Profit (loss) for the period	1,334	270	2,062	201	1,249

#### Key ratios

EPS (NOK per share)	2.28	0.45	3.53	0.31	2.08
Equity ratio	44%	27%	44%	27%	34%
NIBD <sup>(1)</sup>	4,458	8,651	4,458	8,651	8,111
ROCE (annualised)	40%	12%	34%	8%	12%

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

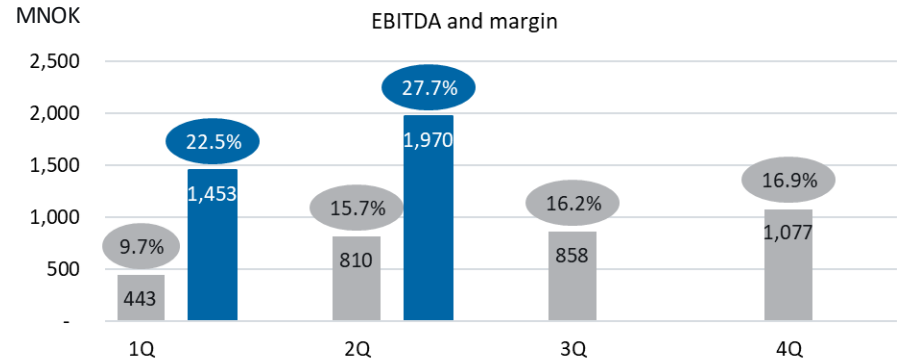
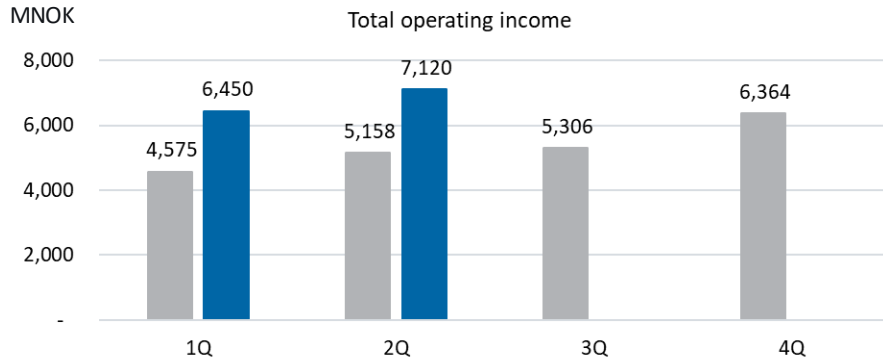
### COMMENTS

- Other items NOK -153 million
  - Change in fair value of power contracts amounts to NOK -130 million. Changes in power prices negatively affecting the mark-to-market valuation
- Net financial items NOK -78 million
  - Finance expenses amount to NOK 101 million and reflects the current financing structure of Xinghuo and Yongdeng. Refinancing is expected in 3Q/4Q 2018
  - Finance income and fx gains amounting to NOK 23 million
- Tax NOK -90 million
  - A significant portion of the profit is generated in China and France from entities which are not in a tax position

# Elkem group

## Strong growth, particularly driven by Silicones

- Total operating income for the group was NOK 7,120 million in the second quarter, a significant increase from 2Q-2017. The improvement is mainly driven by higher sales prices and volume growth from the Silicones division
- EBITDA for 2Q-2018 was NOK 1,970 million, also a significant improvement. Higher EBITDA and margins are driven by excellent results from Silicones, particularly in China

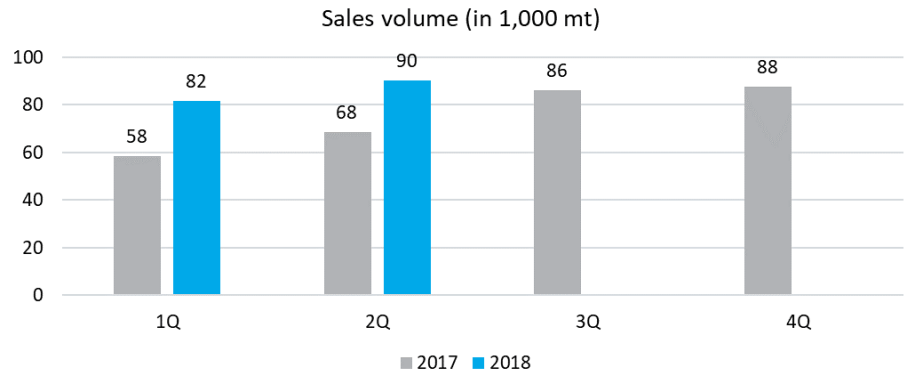
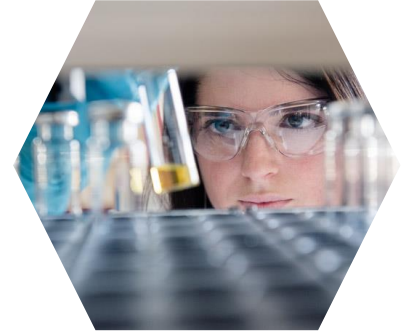


■ 2017 ■ 2018

# Silicones – Market update

## Strong market conditions

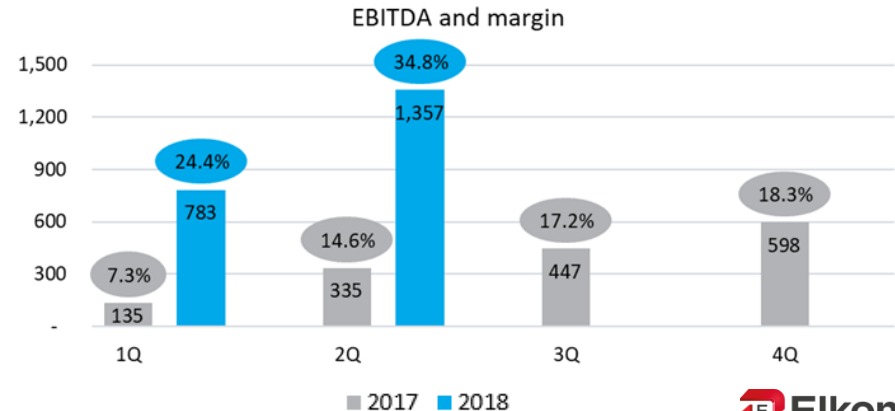
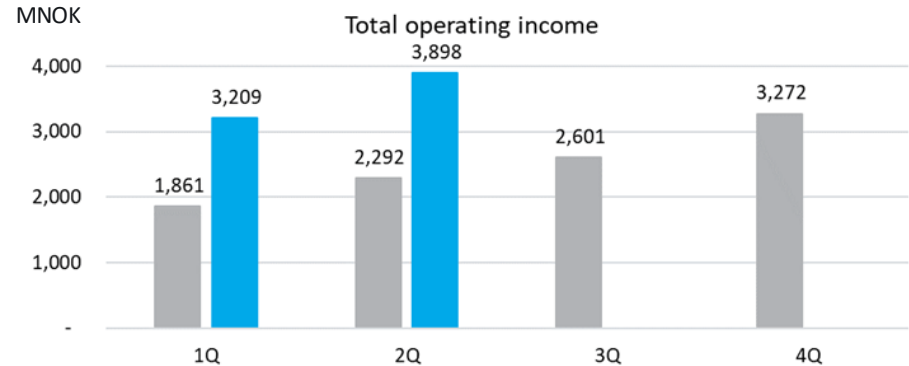
- Continued tight market for silicone intermediate products
  - Price increases for commodities are driving prices across all segments
- Elkem's sales volumes of speciality products continue to develop favourably
- Prices for raw materials are fairly stable however, lower prices for silicon metal is expected, particularly in China
- Silicones added to the US Trade Representative's office (USTR) list of Chinese materials subject to additional 10% to 25% duty depending on product
  - Overall impact on silicones market probably modest



# Silicones – Financial performance

## Excellent growth in revenue and margins

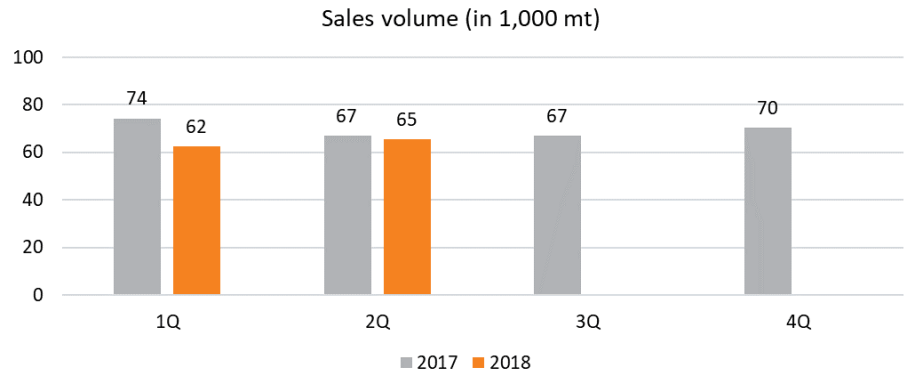
- Total operating income of NOK 3,898 million, a significant increase compared to 2Q-2017, driven by higher sales prices and volume growth
- EBITDA for 2Q-2018 of NOK 1,357 million, generating an EBITDA-margin of 34.8%. The result reflects strong market conditions across all segments
- Higher raw material costs compared to 2Q-2017, mainly for silicon metal and methyl-chloride
- Strong operating performance across all business units



# Silicon Materials – Market update

## Prices somewhat down in 2Q

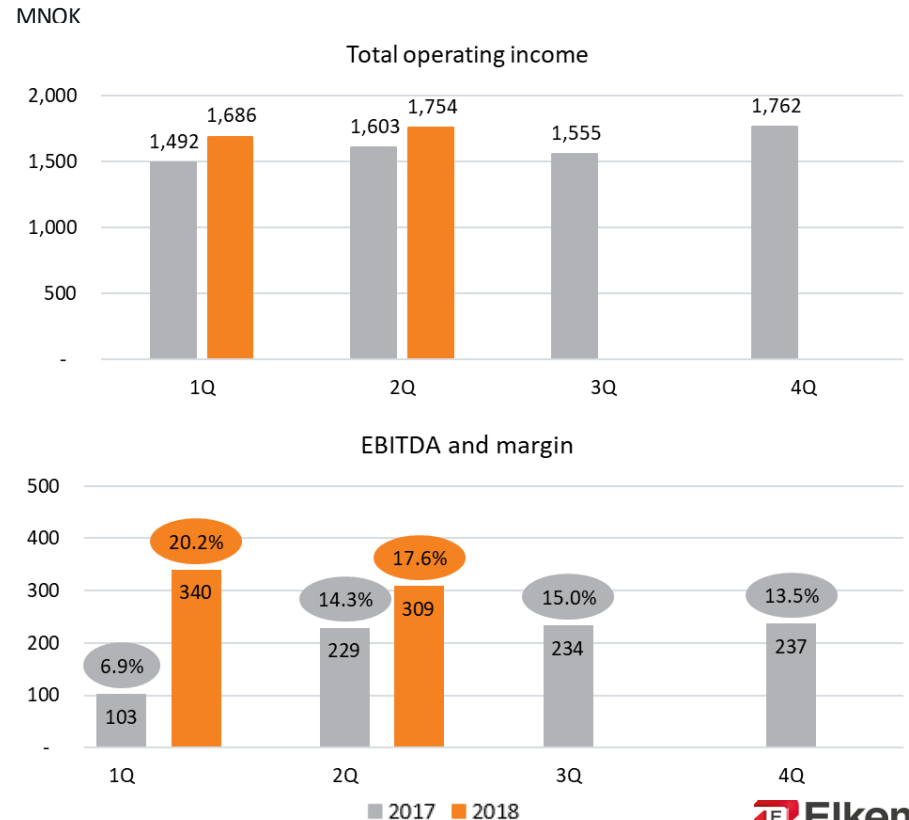
- Spot market prices for silicon metal are somewhat down in all major markets during 2Q-2018
- Prices expected to continue down in 3Q-2018. Increased supply in China during wet-season
- Stable sales volumes – however, the relining of one furnace at the Salten plant is also affecting 2Q-2018 volumes
- Increasing power prices in Norway, but modest impact due to hedging arrangements
- New solar tariff regulations for 2018 in China is expected to reduce demand for silicon metal to polysilicon
  - Lower national PV feed-in tariff (FiT) quote for 2018 in China is expected to reduce demand for silicon metal
  - Spill over effects are expected in the EU and US silicon markets



# Silicon Materials – Financial performance

## Stable financial performance

- Total operating income of NOK 1,754 million, up from NOK 1,603 million in 2Q-2017, mainly due to higher sales prices compared to last year
- EBITDA of NOK 309 million in 2Q-2018, up from NOK 229 million in the corresponding quarter last year, driven by higher sales prices
- Higher sales prices are however, partly offset by price increases for raw materials
- Satisfactory production, but sales and production volumes in 2Q-2018 still affected by furnace relining at Salten

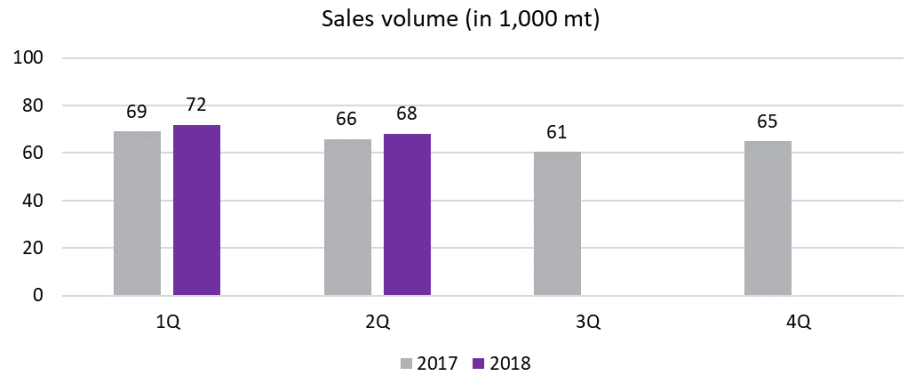
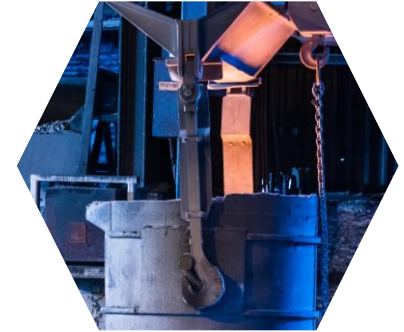




# Foundry Products – Market update

Markets remain good but prices are down

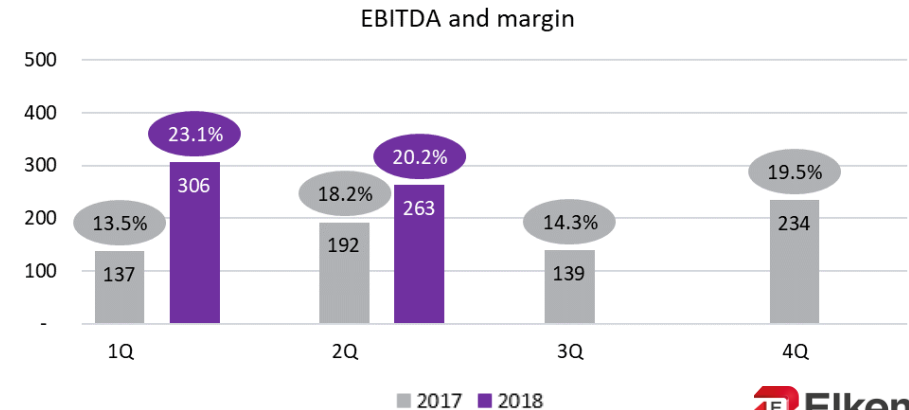
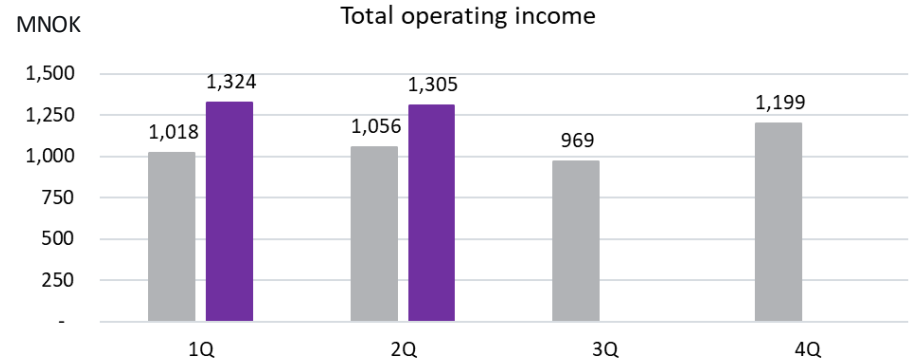
- The demand for ferrosilicon and foundry alloys is still strong, both in engineering and automotive segments
- Spot market prices for ferrosilicon are down during 2Q-2018, but still at attractive levels
- Price development for ferrosilicon going forward is uncertain, but indications are that prices will weaken



# Foundry Products – Financial performance

## Good financial performance

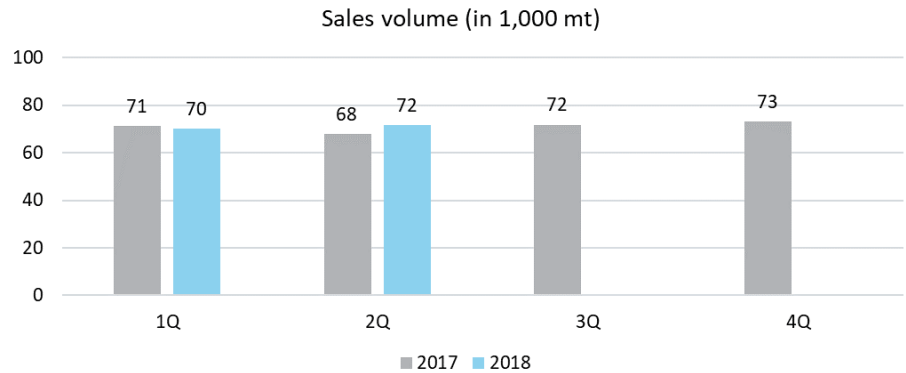
- Total operating income was NOK 1,305 in 2Q-2018, up from NOK 1,056 million in 2Q-2017, mainly due to higher sales prices
- EBITDA of NOK 263 million, up from NOK 192 million in 2Q-2017. The result is mainly impacted by higher sales prices, but also improved sales mix and modest volume growth
- Raw material and energy prices have increased compared to 2Q-2017, but cost increases are being offset by higher sales prices
- Fairly good production at most plants during the quarter



# Carbon – Market update

## Improved sales of specialty grades

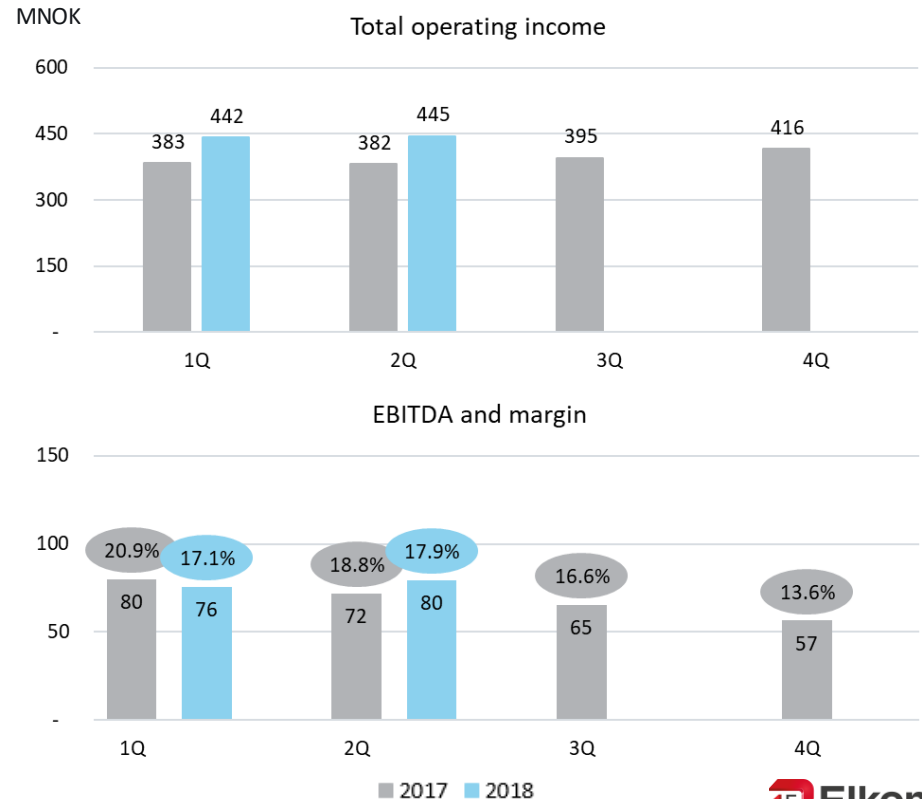
- Sales volumes increased slightly compared to 2Q-2017
- Standard electrode paste is stable while other product grades show good volume growth
- Still some upward pressure on raw material prices in the quarter



# Carbon – Financial performance

## Improved EBITDA - margins trending upwards

- Total operating income was NOK 445 million, up from NOK 382 million in 2Q-2017, due to higher sales prices and slightly higher volumes
- EBITDA is NOK 80 million, up from NOK 72 million in 2Q-2017, mainly as a result of higher sales prices
- The EBITDA-margin in 2Q-2018 is however, lower than the corresponding quarter last year, due to higher raw materials costs
- Production volumes according to plan



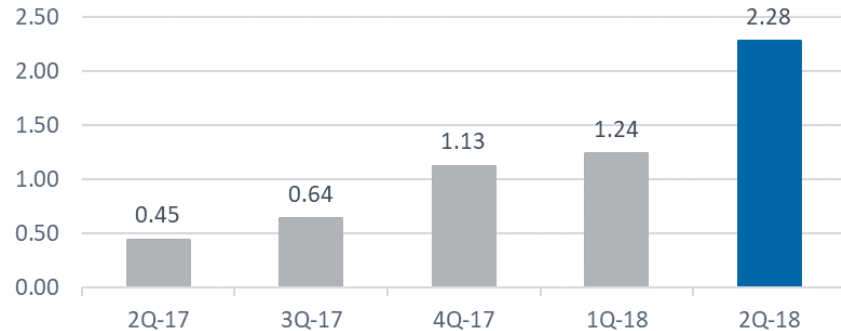
# Elkem group

## Strong equity and EPS

### EARNINGS PER SHARE (EPS) – NOK PER SHARE

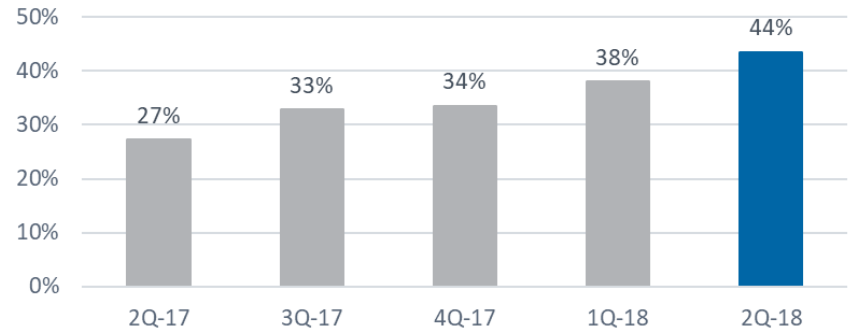
- Increased EPS reflect underlying profitability improvements
  - EPS YTD 2018 is NOK 3.53 per share
- Historic EPS is calculated on the total number of shares after the initial public offering

NOK per share



### EQUITY RATIO

- Equity amounts to NOK 12.2 billion by end of 2Q-2018, which gives a ratio of equity to total assets of 44%
- During 2018 the equity has increased by NOK 3.6 billion due to IPO proceeds (net of Xinghuo and Yongdeng acquisition) and net profit

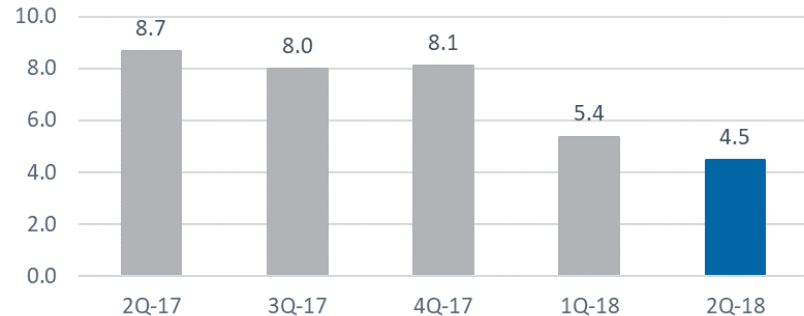


# Elkem group

## Low leverage provides financial flexibility

### NET INTEREST BEARING DEBT (NIBD)<sup>(1)</sup>

- Net interest bearing debt amounts to NOK 4.5 billion, giving a leverage of 0.8x based on LTM EBITDA NOK 5.4 billion
  - Strong EBITDA development combined with lower NIBD is driving the reduction in leverage



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

### REFINANCING OF XINGHUO AND YONGDENG

- Refinancing of Xinghuo Silicones and Yongdeng Silicon Materials is progressing, but is delayed due to approval processes in China. The refinancing is expected to be completed in 3Q/4Q 2018
- Once completed, the refinancing is expected to reduce interest expenses
- Elkem has an undrawn bridge loan of EUR 500 million, established in connection with the IPO, which would cover the Chinese refinancing

### BRIDGE TAKE-OUT

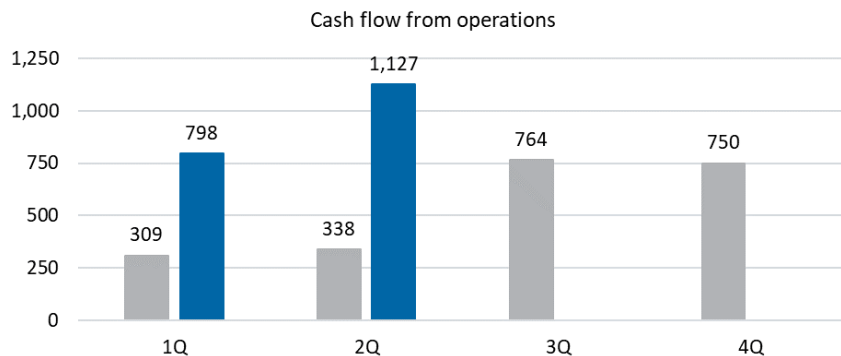
- Elkem's plan is to refinance the bridge loan in 2H-2018
- Elkem will assess financing opportunities in domestic and international capital markets

# Elkem group

## Strong cash flow generation, investments in line with plan

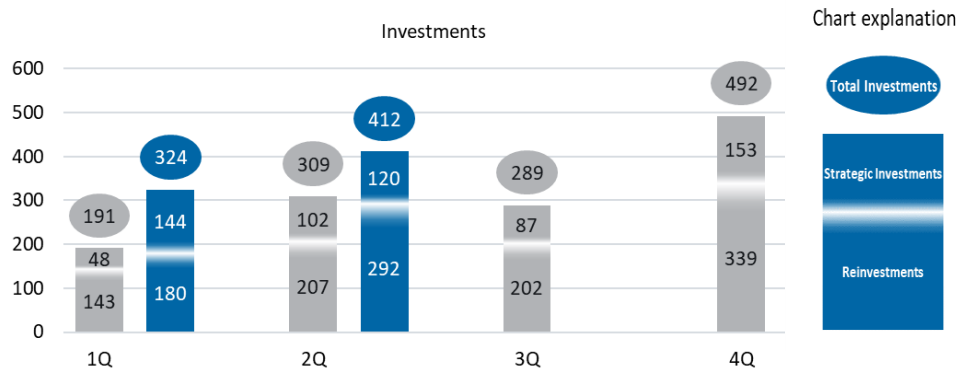
### CASH FLOW FROM OPERATIONS

- Cash flow from operations shows strong improvement compared to 2Q-2017
  - Cash flow from operations<sup>(1)</sup> include reinvestments
- Negative effects from increased working capital reflecting the strong revenue growth



### INVESTMENTS

- Reinvestments in 2Q-2018 are NOK 292 million, in line with plan
  - Expected reinvestments for 2018 is approx. NOK 1.0 billion
- Strategic investments of NOK 120 million in 2Q-2018. Main projects include
  - Various specialisation projects for the Silicones division
  - Upgrade of the Rana plant



# Outlook

- The market sentiment is still good, but likely to soften somewhat compared to second quarter
  - Silicones prices are levelling off towards end of 2Q and likely to soften
  - Market prices for silicon metal and ferrosilicon will likely decline during 3Q-2018, partly due to seasonally higher production in China
  - The markets for foundry alloys and carbon products are expected to be stable
- Maintenance stop at Xinghuo completed in August 2018 according to plan. Estimated negative EBITDA effect of approx. NOK 200 million in 3Q
- Major upgrade for Yongdeng in 2H-2018 will slightly reduce profitability
- Based on this the result for 3Q-2018 is expected to be somewhat lower than 2Q-2018
- Elkem will host a capital markets day 20 November 2018. Main focus will be on Silicones and China strategy





# 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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# Appendix

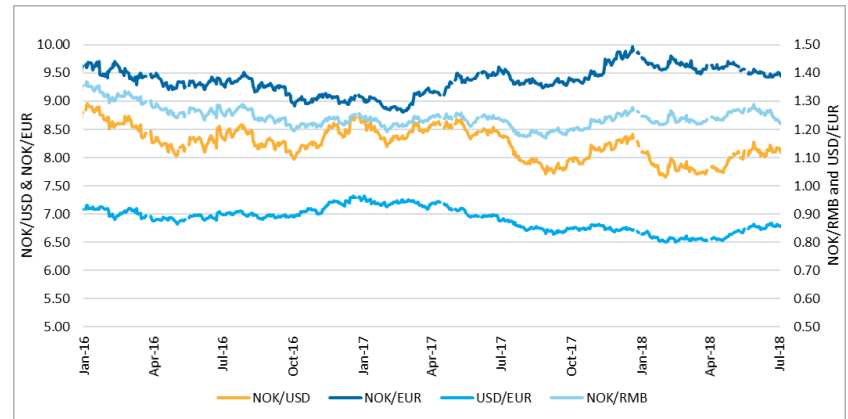
# Currency and currency sensitivity

## 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 375 million per year
  - USD - net cash flow approx. USD 150 million per year
- 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 550 million

## CURRENCY DEVELOPMENT

- Compared to 2Q-2017, NOK is 2% weaker against the average EUR rate and 6% stronger against the average USD rate
- The NOK has been quite stable against the major currencies during 2Q-2018



# 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 100 million per year<sup>(1)</sup>
  - 10% price change on ferrosilicon is expected to affect result by approx. NOK 170 million per year<sup>(1)</sup>

<sup>(1)</sup> Sensitivities for silicon metal and ferrosilicon include 35% raw materials cost absorption

DELIVERING YOUR POTENTIAL

