

ELKEM

FIRST QUARTER RESULTS 2018

8 May 2018



Agenda

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

- Morten Viga, CFO
 - Financial performance and market update

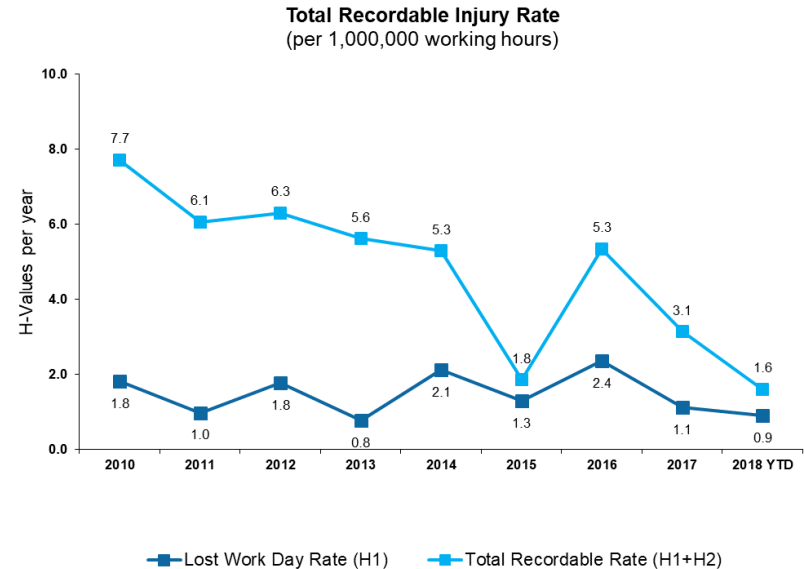
Highlights 1Q 2018

- Elkem successfully completed listing at Oslo Stock Exchange on 22 March 2018
- The acquisition of Xinghuo Silicones and Yongdeng Silicon Materials was completed in connection with the listing
- Strong first quarter with total operating income of NOK 6,447 million, up 41% from first quarter last year. EBITDA amounts to NOK 1,450 million driven by favourable market conditions and capacity ramp-up, particularly in China
- All divisions report higher revenue compared to the first quarter last year. The three largest segments have also improved results and margins considerably



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 1Q-2018 Elkem had 3 H1 and 2 H2 injuries
 - All recorded incidents were in February, while there were no recordable incidents in January and March
- The total recordable injury rate was 1.6 for own employees in 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

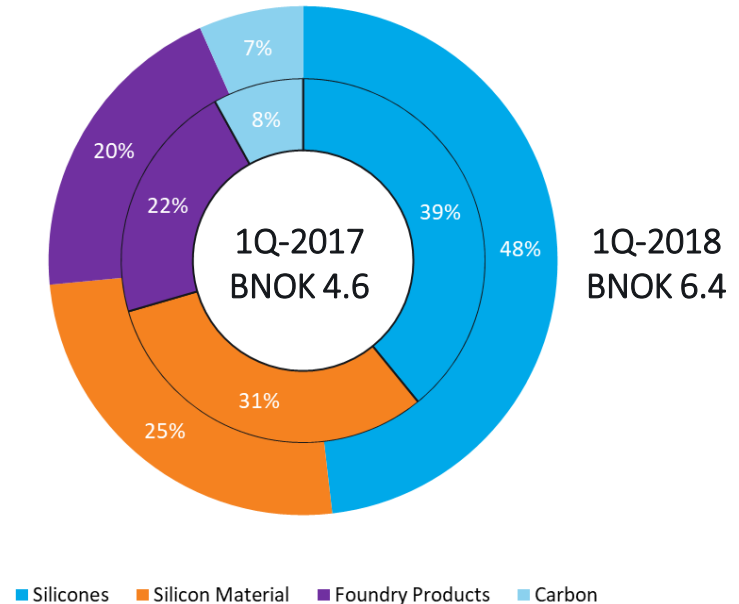


Leader in fundamentally attractive markets

COMMENTS

- The GDP development is generally good in all major regions. All EU countries are now growing at a good rate. Growth in China remains high
- This gives strong market conditions for all of Elkem's business segments, especially Silicones which has increased its share of revenue to 48% in 1Q-2018 compared to 39% in 1Q-2017
- Sales prices for all segments have continued trending upwards supported by underlying demand growth
- In addition, increased specialisation is supporting strong margin improvements

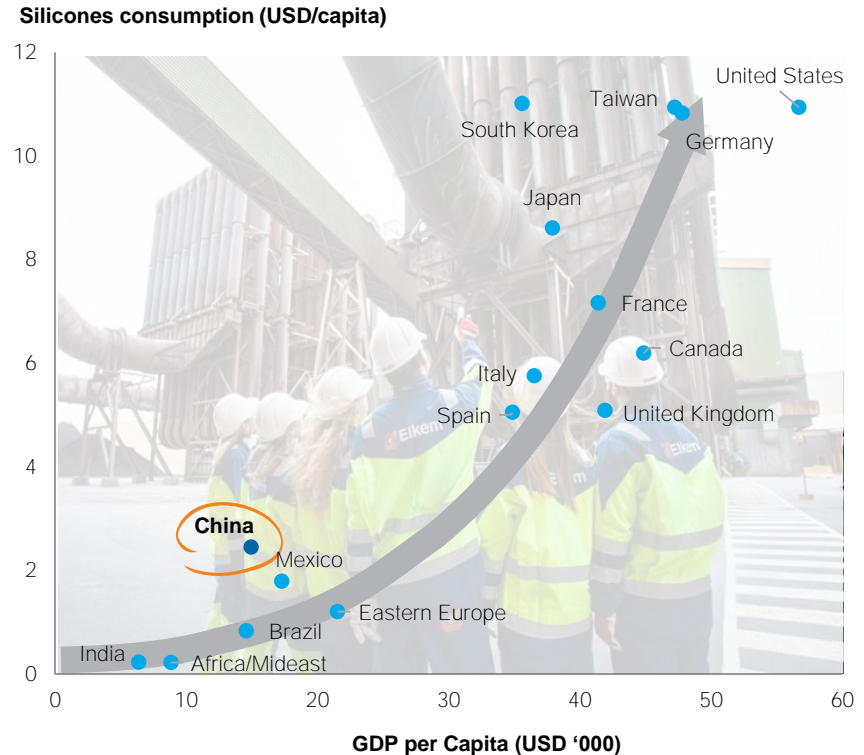
REVENUE DISTRIBUTION



Inner circle is 1Q-2017, outer circle is 1Q-2018

Material presence in the fast growing Chinese market

- The acquisition of Xinghuo and Yongdeng completed in connection with the IPO
- An integration plan is in place with coordination of sales organisations and focus on specialisation
 - New applications being launched for the energy, communication and construction market
- Strategic initiatives ongoing with capacity expansion for specialised products
- Performance of the Chinese plants clearly exceed expectations
 - The Chinese economy is strong with underlying demand growth
 - Reduced market supply following environmental and safety inspections by the authorities
 - This has led to tight market conditions with higher sales prices and stronger volumes



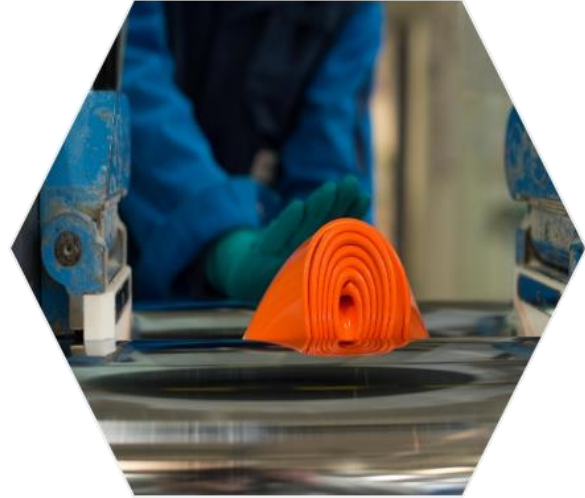
Strategic initiatives to maintain low cost position

- Energy recovery project at the Salten plant approved. The project will recover approx. 275 GWh of electricity
 - JV with 50% ownership of Elkem
 - Total investment is approximately NOK 1 bn. Elkem's direct investment is estimated to NOK 100 million
 - The project qualifies for Enova grants.
- Comprehensive upgrading programme at the Rana plant
- Furnace upgrades planned at Yongdeng in 2Q and 3Q 2018
- Continuous improvements work based on Elkem Business System across the company with intense training in the Chinese plants



Further specialisation and market expansion

- Completed bolt-on acquisition of UK company Tennant to strengthen market position within specialised silicon and foundry products
- The new ferrosilicon plant in Paraguay has commenced production
Planned expansion into foundry alloys next year
- New foundry alloys plant in China, tripling capacity
- Several specialisation initiatives for silicones, including specialisation project for HCR (heat cured rubber)



Consolidated key figures

| <i>(NOK million, except where indicated otherwise)</i> | 1Q 2018 | 1Q 2017 | FY 2017 |
|--|---------|---------|---------|
| Total operating income | 6,447 | 4,573 | 21,368 |
| EBITDA | 1,450 | 441 | 3,154 |
| Other gains and losses | -201 | -37 | 44 |
| Net financial items | -119 | -103 | -452 |
| Profit before income tax | 829 | -12 | 1,519 |
| Tax | -100 | -58 | -269 |
| Profit (loss) for the period | 729 | -69 | 1,249 |
| Key ratios | | | |
| EPS (adjusted) | 1.24 | -0.13 | 2.08 |
| Equity ratio | 38% | 24% | 34% |
| NIBD | 5,369 | 8,657 | 8,111 |
| ROCE (annualised) | 29% | 3% | 12% |

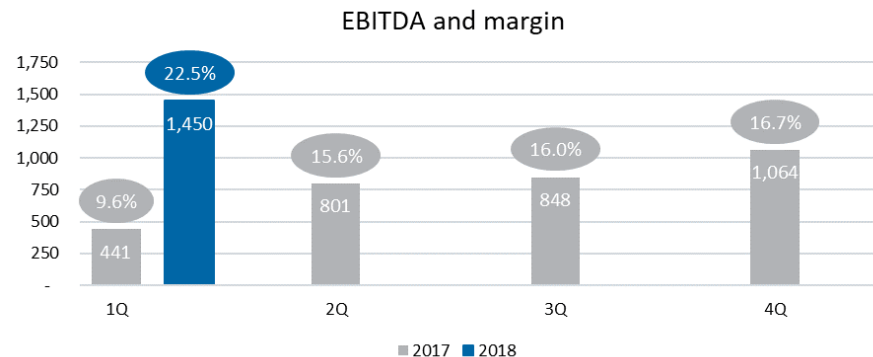
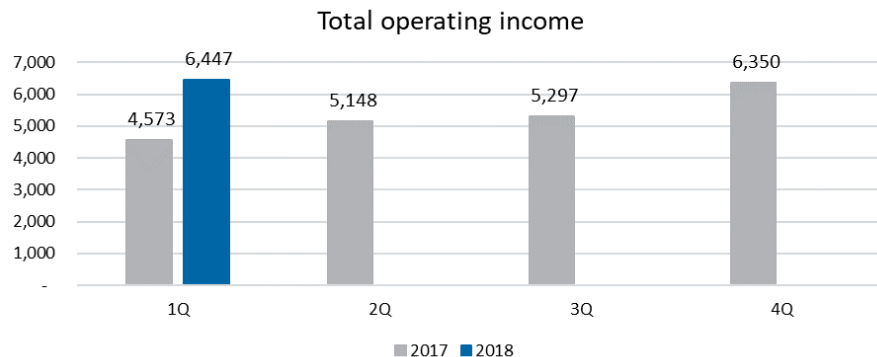
COMMENTS

- Other gains and losses include inter alia
 - Change in fair value of power contracts NOK -114 million due to lower long-term power prices
 - Costs related to the IPO NOK -92 million
- Net financial items mainly consist of interest expenses on financial liabilities. The amount reflects the current financing structure of Xinghuo and Yongdeng and is expected to go down after the refinancing in 2Q-2018
- Main business units in China and France are currently not in a tax position, which gives a low effective tax rate

Elkem group - Total operating income and EBITDA

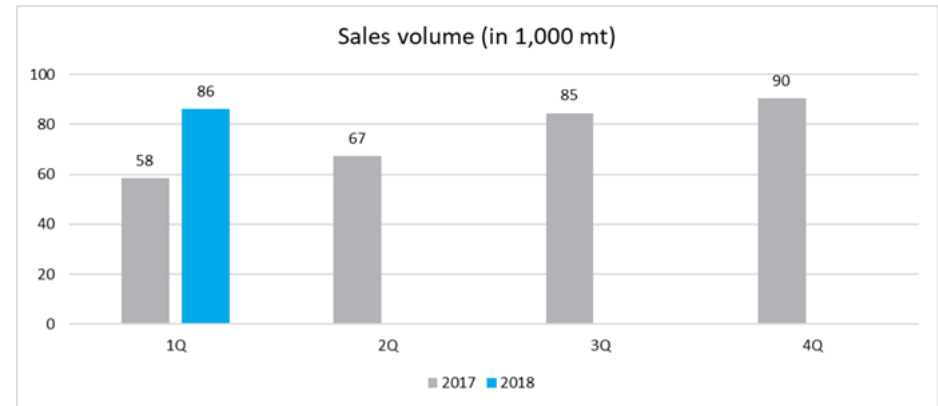


- Total operating income for the group was NOK 6,447 million in the first quarter, strongly up compared to 1Q-2017. The improvement is mainly driven by higher sales prices, higher sales volumes and production records at the Xinghuo plant
- EBITDA for 1Q-2018 was NOK 1,450 million, a significant improvement from previous quarters. Improved results and margins are driven by higher sales prices, higher volumes and improved sales mix



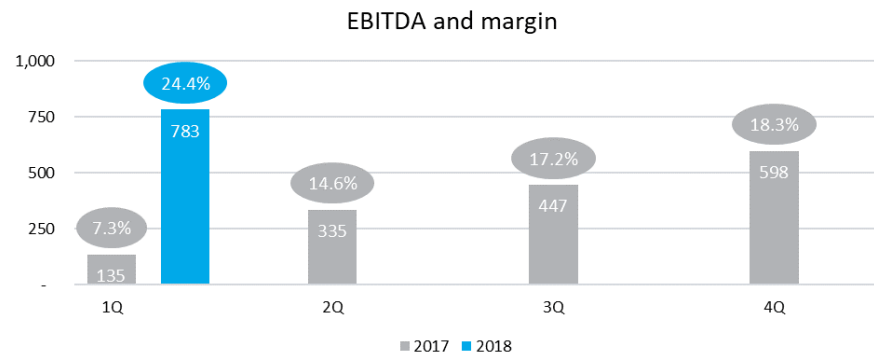
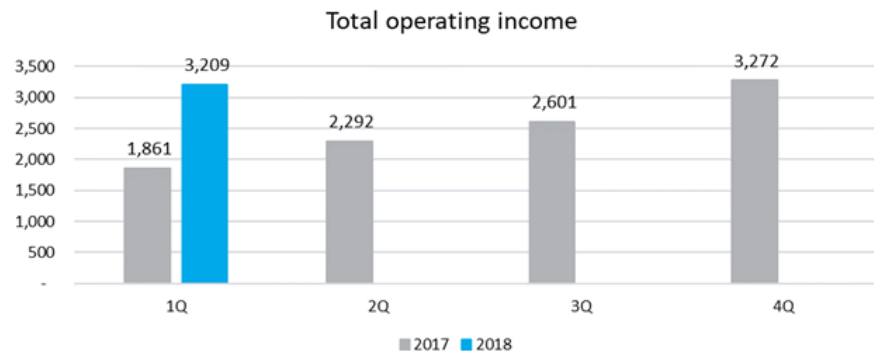
Market update – Silicones

- General market conditions are strong, supporting overall margin improvements. In addition, specialisation strategy is paying off with double digit growth across the business areas
- Raw materials prices relatively stable in Europe, with silicon metal and methanol levelling out. In China, silicon metal is levelling out while methanol prices show a declining trend
- Generally strong volume growth in China. In Europe and the US, sales volumes for specialty products have developed positively combined with a good underlying market sentiment



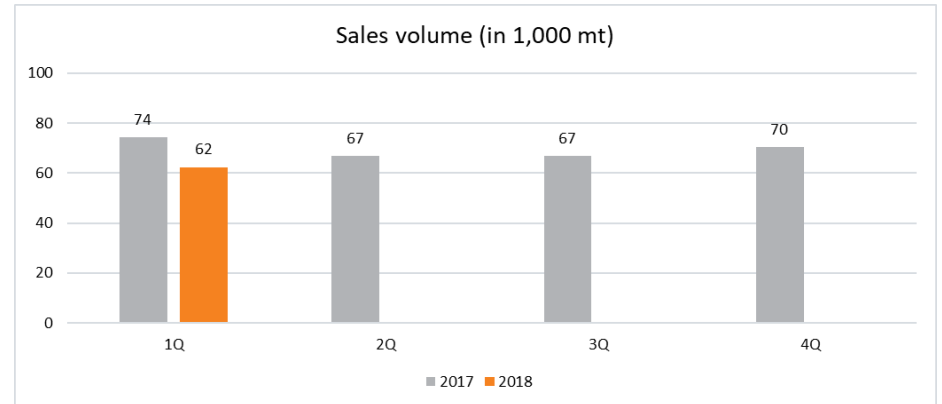
Financial update - Silicones

- Total operating income of NOK 3,209 million, strongly up compared to 1Q-2017, mainly driven by higher sales prices and higher sales volumes, especially in China
- EBITDA for 1Q-2018 was NOK 783 million, a significant improvement from previous quarters, driven by higher sales prices, higher volumes and improved sales mix.
- Operations have been good both at Roussillon and Xinghuo, with Xinghuo reaching new production record levels



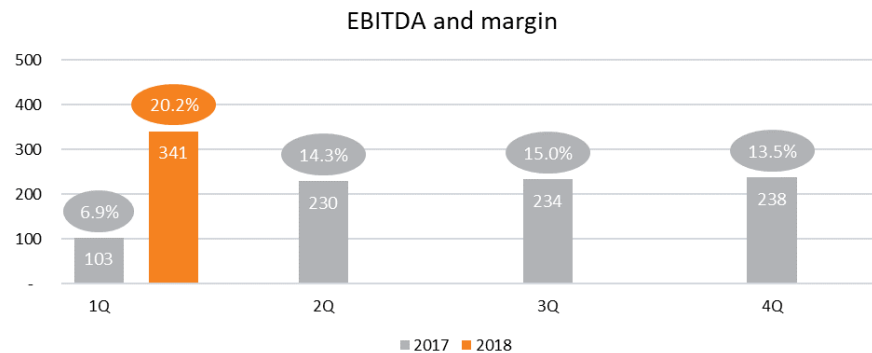
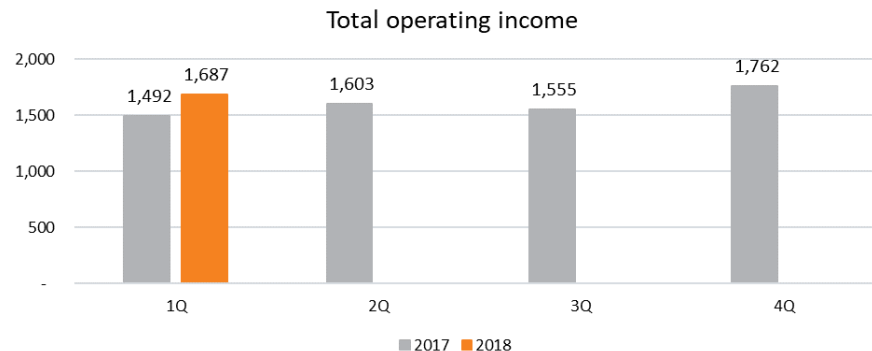
Market update – Silicon Materials

- Overall demand is strong in all main end-user segments, aluminium, chemicals and polysilicon
- Market prices for silicon metal have been slightly up during the first quarter 2018
- Elkem's sales volumes are lower than 1Q-2017, due to relining of one furnace at the Salten plant in 1Q-2018 and stock reduction related to the Rana plant in 1Q-2017
- US ITC voted against imposing ADD/CVD for silicon metal into the US



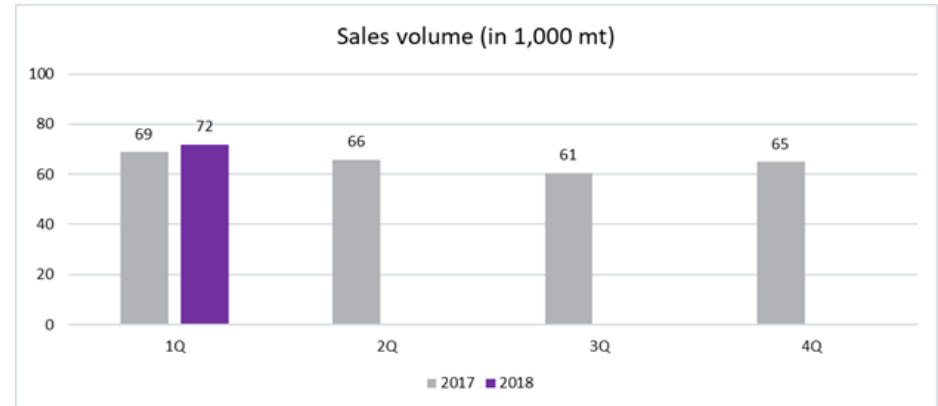
Financial update - Silicon Materials

- Total operating income of NOK 1,687 million, up from NOK 1,492 million in first quarter last year, mainly due to higher sales prices
- EBITDA of NOK 341 million, up from NOK 103 million in the corresponding quarter last year, mainly driven by higher sales prices and positive effects from a weaker NOK vs. EUR
- Price increases for raw materials effective from 1 January 2018, will gradually be reflected in the results
- Good production at most plants, but sales and production volumes have been somewhat affected by the furnace relining at Salten



Market update – Foundry Products

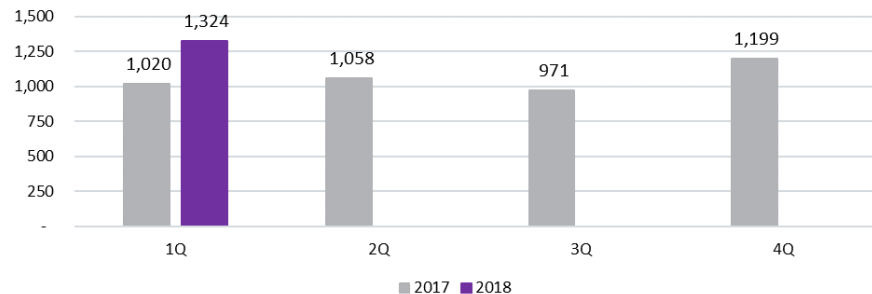
- Strong markets for specialised products, especially driven by engineering and automotive segments
- Sales volumes have increased compared to first quarter 2017, driven by strong market demand
- Continued price increases for ferrosilicon related products in 1Q-2018
- Increased imports of steel and ferrosilicon into EU may negatively affect the European ferrosilicon prices going forward



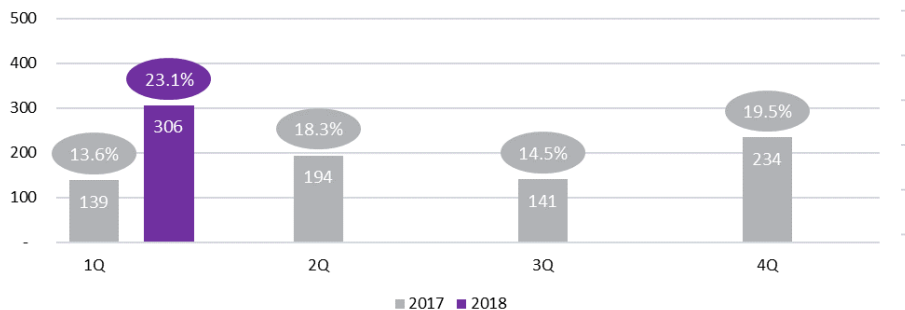
Financial update - Foundry Products

- Total operating income was NOK 1,324 million, an increase from NOK 1,020 million in 1Q-2017. Higher revenue is mainly explained by higher sales prices and higher sales volumes
- EBITDA of NOK 306 million, up from NOK 139 million in 1Q-2017, mainly as a result of higher sales prices. In addition, the result is positively impacted by higher sales volumes, improved sales mix and weaker NOK vs. EUR
- Price increases for key raw materials will gradually be reflected in the results
- Production volumes have been good and mainly according to plan

Total operating income

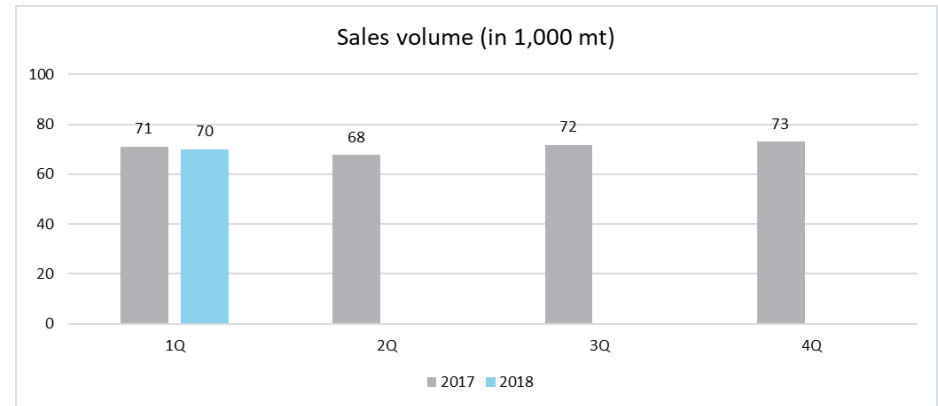
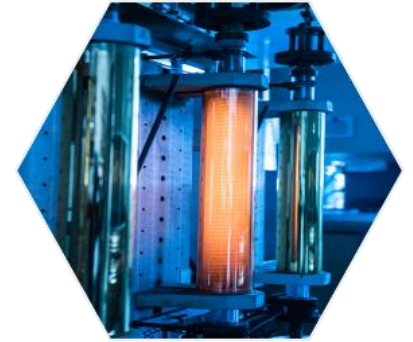


EBITDA and margin



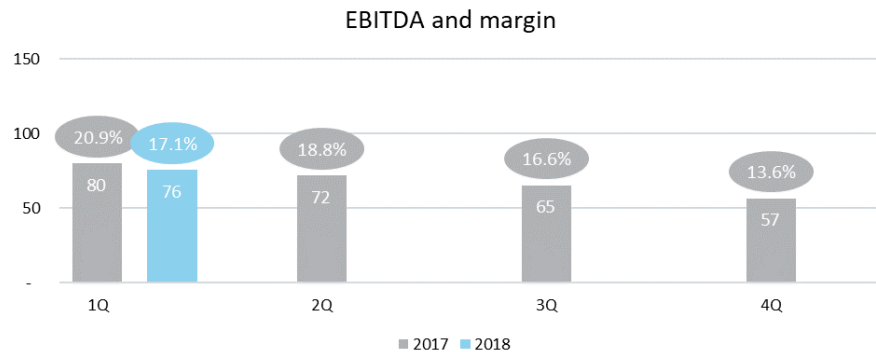
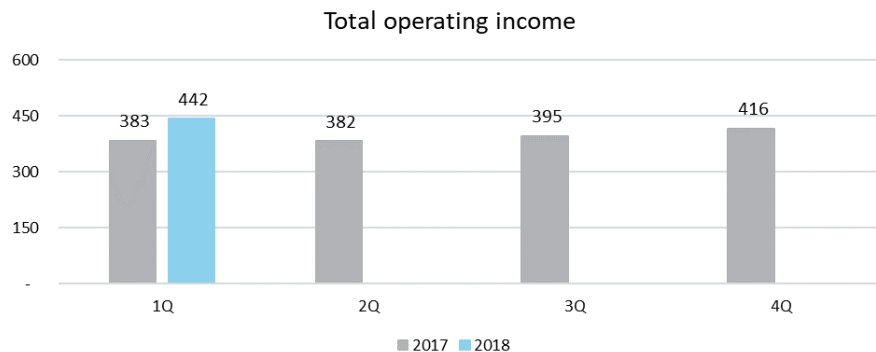
Market update - Carbon

- Still strong markets for the division's main products, electrode paste, ElGraph and ramming paste
- Sales prices have increased on the back of higher raw material prices
- Sales volumes in line with 1Q-2017



Financial update - Carbon

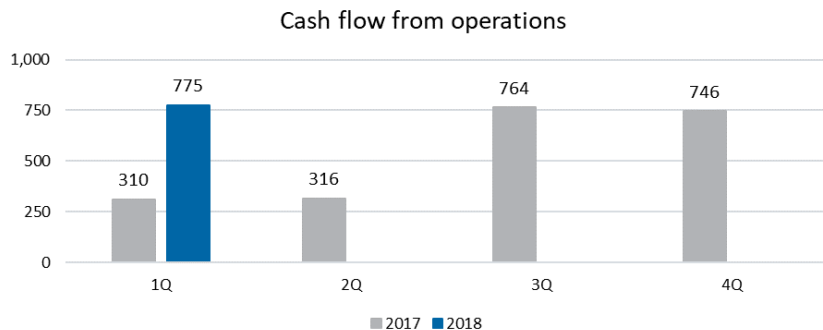
- Total operating income was NOK 442 million, up from NOK 383 million in first quarter last year, mainly due to higher sales prices and better sales of speciality products
- EBITDA is slightly down compared to 1Q-2017, mainly as a result of price increases for key raw materials, especially pitch
- Still upward pressure on raw materials prices
- Production volumes have been in line with plan



Cash flow and investments

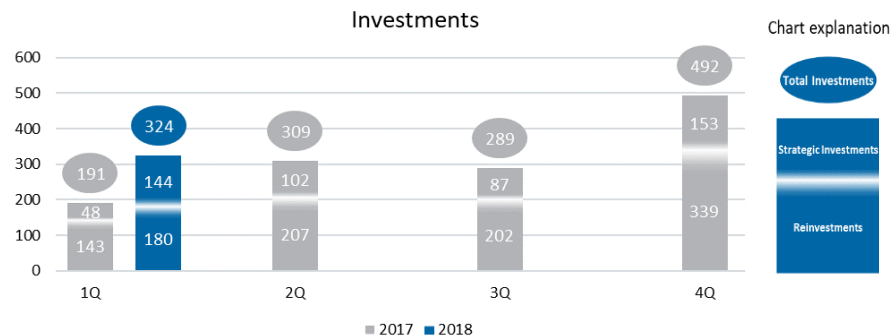
CASH FLOW FROM OPERATIONS

- Cash flow from operations shows strong improvement compared to 1Q-2017
 - Cash flow from operations⁽¹⁾ include reinvestments
- Cash flow is negatively affected in the quarter by increased working capital. This reflects both increased inventory levels and higher values
 - Further working capital build up is expected in China following the increased sales



INVESTMENTS

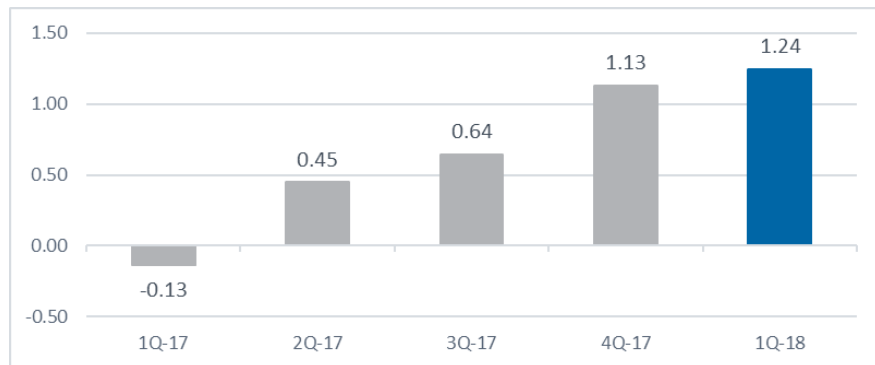
- Elkem expects reinvestments of approx. NOK 1.0 billion for 2018
 - Reinvestments in 1Q-2018 is NOK 180 million, in line with plan
- Strategic investments amount to NOK 144 million in 1Q-2018 and includes
 - Various specialisation projects in Xinghuo
 - Rubber expansion project for Silicones in Europe and the US
 - Upgrades of the Rana plant



Financial position – EPS and equity

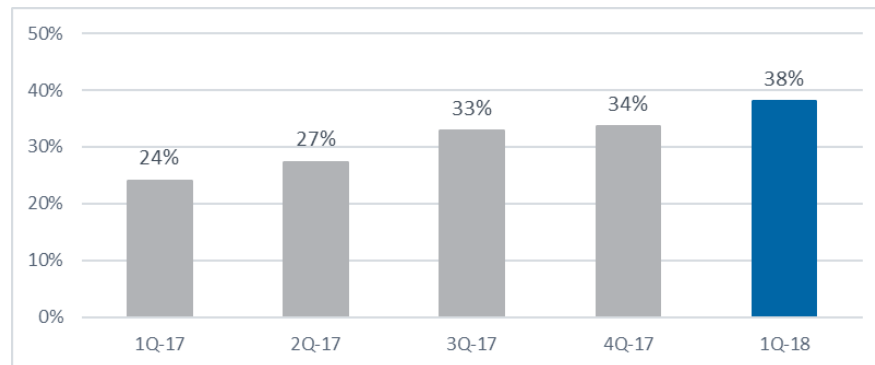
ADJUSTED EARNINGS PER SHARE (EPS) – NOK PER SHARE

- Steady increase in EPS reflecting underlying profitability improvements
- For comparison, historic EPS is calculated on the total number of shares after the initial public offering



EQUITY RATIO

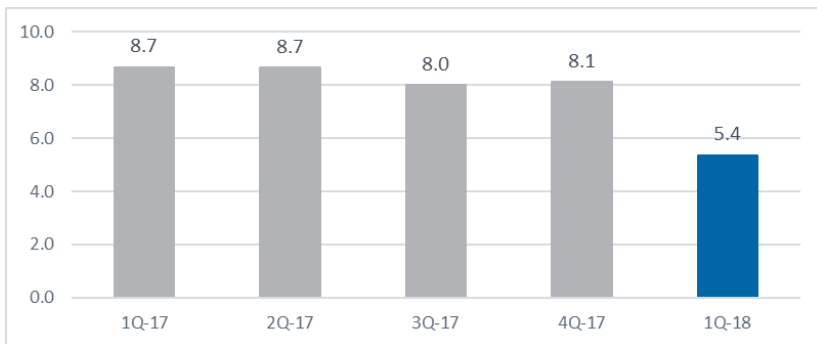
- Equity increased by NOK 2.0 billion from 4Q-2017 due to IPO proceeds and generated net profit
- The payment for Xinghuo Silicones and Yongdeng Silicon Materials of NOK 4.0 billion is booked against equity
- Equity amounts to NOK 10.5 billion, giving a ratio of equity to total assets of 38%



Financial position – net interest bearing debt

NET INTEREST BEARING DEBT (NIBD)⁽¹⁾

- Net interest bearing debt amount to NOK 5.4 billion, giving a leverage of 1.3x based on LTM EBITDA NOK 4.2 billion
- Leverage is below expectation due to the strong EBITDA development combined with lower NIBD. Further working capital build up is however expected in China



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

NEW LOAN FACILITIES AGREEMENT

- Elkem signed a new loan facilities agreement 13 February 2018. The agreement consists of a RCF of EUR 250 million, a term loan of EUR 400 million, and a bridge loan of EUR 500 million. The agreement contains two financial covenants
 - the ratio of operating EBITDA to consolidated net interest payable must not be less than 4.0:1.0, and
 - the ratio of total equity to total assets must be more than 30%

REFINANCING OF XINGHUO AND YONGDENG

- Refinancing of Xinghuo Silicones and Yongdeng Silicon Materials is expected in 2Q-2018 upon approval from local authorities
 - The refinancing will be covered by existing cash and partly drawdown of the bridge loan
- The RCF will remain undrawn

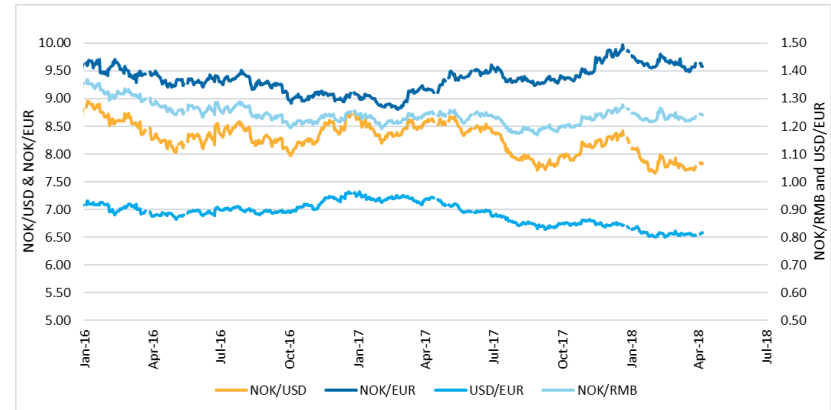
Currency and currency sensitivity

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 1Q-2017 the NOK is 7% weaker against EUR and 7% stronger against the USD
- The NOK has been quite stable against the major currencies during 1Q-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 gains and losses

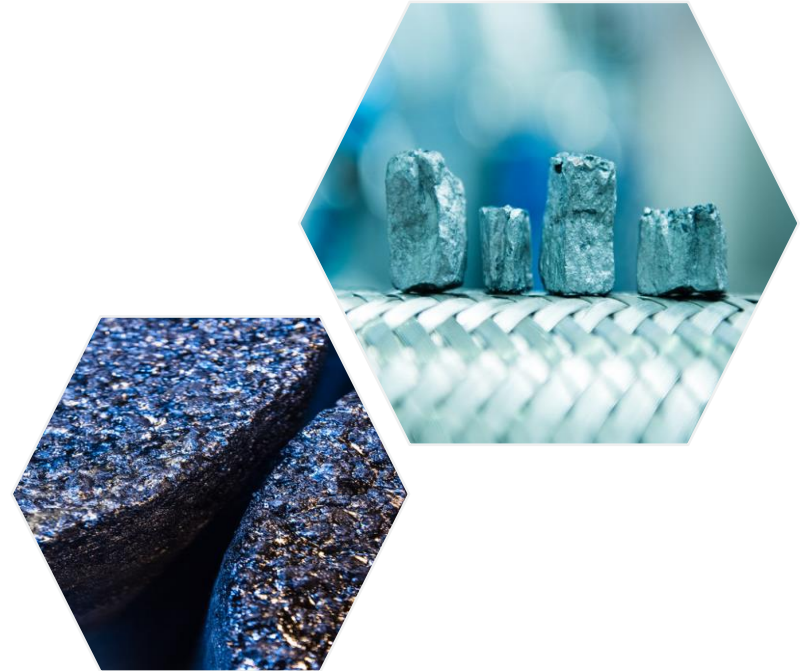
SALES PRICES

- 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⁽¹⁾
 - 10% price change on ferrosilicon is expected to affect result by NOK 170 million per year⁽¹⁾

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

Outlook

- Market sentiment still strong for all divisions, particularly Silicones
- The result for 2Q-2018 is expected to be in line with 1Q-2018
- Going forward market prices for silicones, silicon and ferrosilicon are expected to soften as supply will likely increase, particularly in China
 - Based on this, our outlook for 2H-2018 is more cautious
- Planned maintenance stop at Xinghuo for approx. 4 weeks and major upgrades at Yongdeng for approx. 3 months will reduce profitability in 2Q and 3Q 2018
- Elkem plans a capital markets day in 4Q-2018



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