

ELKEM THIRD QUARTER RESULTS 2018

24 October 2018



Agenda

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

- Morten Viga, CFO
 - Financial performance and market update

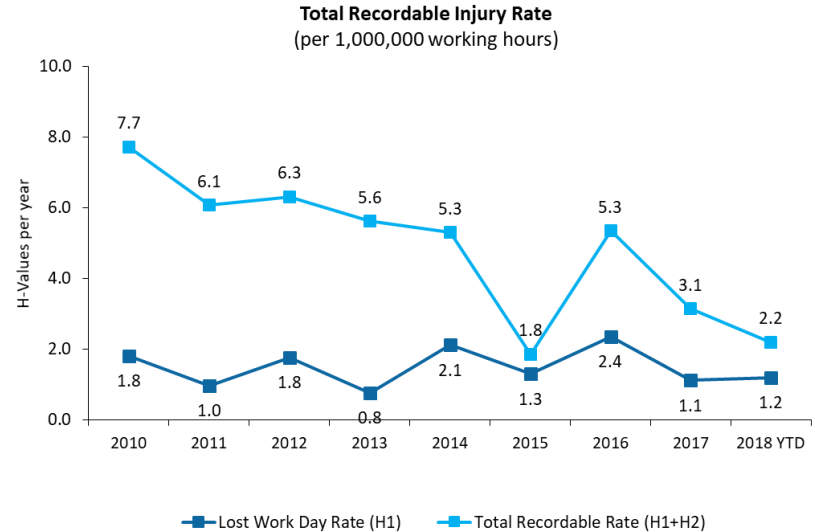
A strong quarter despite weaker market conditions

- Total operating income for 3Q-2018 was NOK 6,050 million, an increase of 14% from third quarter last year
- EBITDA for 3Q-2018 was NOK 1,394 million, an increase of 63% from third quarter last year
- Increased operating income and EBITDA mainly explained by higher realised sales prices
- Operating income and EBITDA down compared to 2Q-2018, affected by maintenance stops in China and lower prices in key markets
- Weaker market conditions for silicones in China have resulted in softer demand and lower prices
- Earnings per share was NOK 1.57 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 3Q-2018 Elkem had 5 H1 and 3 H2 injuries
 - Most injuries are low severity, but some injuries in the third quarter have unfortunately been severe
- The total recordable injury rate YTD 2018 is 2.2, compared to 2.0 by end of 2Q-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

Market conditions still attractive, but weaker in China

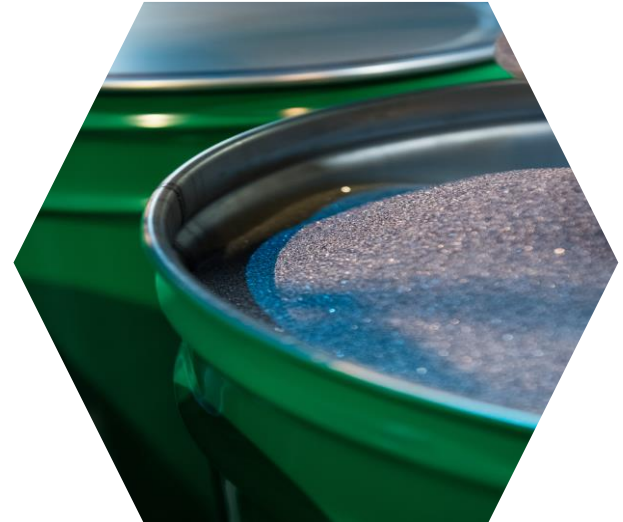
- The global silicones market is still tight, but has declined in China from very high levels
- Softer demand in China is likely a result of recent price hikes and effects of new US tariffs
- Direct export of silicone intermediates to the US is reduced. In addition, sales of other products containing silicones have been reduced
- Ongoing capacity expansions in China, but very limited new capacity available before 2020



Leader in fundamentally attractive markets

Good underlying markets for silicon and ferrosilicon

- Reference prices for silicon metal are down from 2Q-2018
 - Prices in 3Q impacted by seasonally higher production in China and lower demand following set-back in the solar market
 - Prices slightly up in China towards the end of 3Q-2018, indicating that prices reductions could be levelling off
- Reference prices for ferrosilicon down from 2Q-2018, but still at attractive levels
 - The demand is holding up, but increased supply side
 - Reference prices expected to stabilise
- The markets for electrode and ramming paste remain stable



Material presence in the fast-growing Chinese market

Investments securing further operational improvements

- High focus on training and operational improvements through Elkem Business System
- Maintenance stops carried out at Xinghuo and Yongdeng
 - Regular maintenance stop at Xinghuo from mid-July to mid-August. Operational and environmental performance continuously improved this year
 - Technical upgrade and relining at Yongdeng from end of July to early December to enhance asset quality and improve furnace efficiency
- Conducting concept study for up- and downstream expansion of Xinghuo. Decision expected early 2019



Investments to enhance low cost position, growth and specialisation

Focusing on growth and specialisation

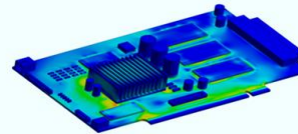
GROWTH

- Strengthening positions in attractive growth markets
 - Increased capacity in Xinghuo to 240 kMT through debottlenecking and process improvements
 - Capacity for foundry alloys tripled in China
 - Greenfield plant in Paraguay to strengthen position in South-America
 - Leading position in foundry alloys in India through acquisition
 - Relocation of plants for specialised silicones products in Brazil and Shanghai enabling operational improvements and further growth

SPECIALISATION

- Strategy to increase specialisation within all product areas
 - Increased focus on R&D, new R&D centre to be built in Lyon to facilitate continued transition into specialities. Project cost estimated to MNOK 200
 - Ongoing specialisation projects across all divisions
 - More than 80 new products launched by the Silicones division over the past 12 months

EXAMPLE OF NEW PRODUCT LAUNCH

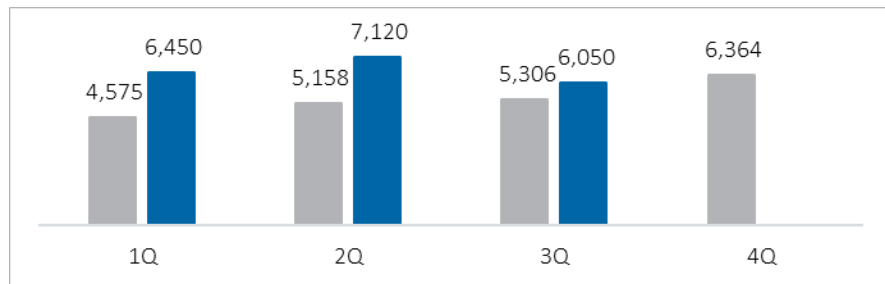


Bluesil™ ESA 7712 is a thermally conductive RTV (Room Temperature Vulcanized) product that shields electronic components

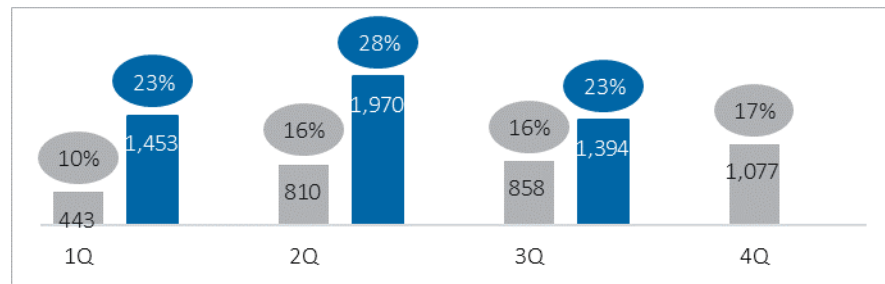
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Growth particularly driven by Silicones

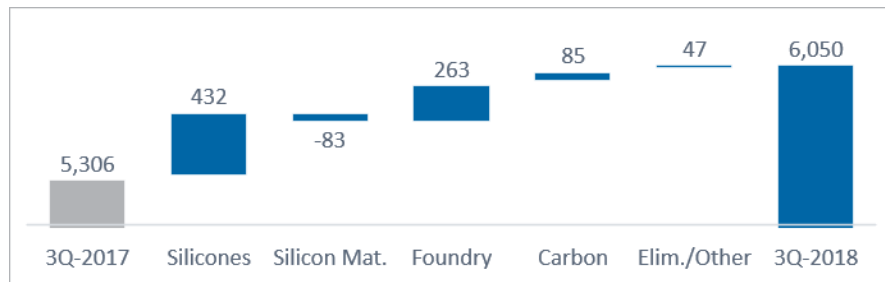
TOTAL OPERATING REVENUE UP 14% FROM 3Q LAST YEAR



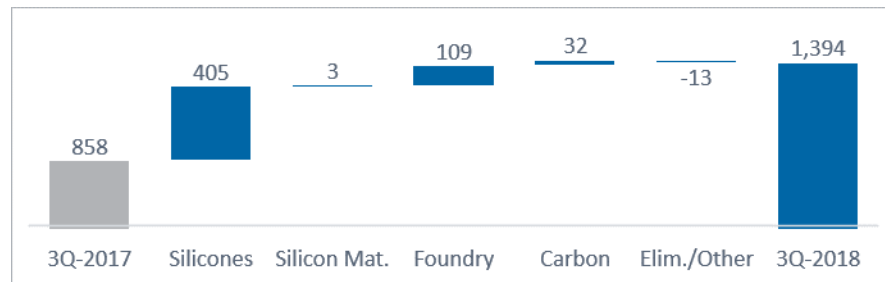
EBITDA UP 63% FROM 3Q LAST YEAR



SILICONES AND FOUNDRY PRODUCTS ARE MAIN DRIVERS



SILICONES IS THE MAIN DRIVER – ALL DIVISIONS IMPROVE



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Financial performance still robust

CONSOLIDATED KEY FIGURES

<i>(NOK million, except where specified)</i>	3Q 2018	3Q 2017	YTD 2018	YTD 2017	FY 2017
Total operating income	6,050	5,306	19,620	15,039	21,402
EBITDA	1,394	858	4,817	2,111	3,188
EBIT	1,077	546	3,881	1,160	1,927
Other items	86	47	-268	-23	44
Net financial items	-98	-131	-295	-344	-452
Profit before income tax	1,065	463	3,318	793	1,519
Tax	-142	-81	-332	-211	-269
Profit (loss) for the period	⁽¹⁾ 915	373	2,964	555	1,211

Key ratios

EPS (NOK per share)	1.57	0.64	5.10	0.96	2.08
Equity ratio	48%	33%	48%	33%	34%
NIBD	⁽²⁾ 3,788	7,993	3,788	7,993	8,111
ROCE (annualised)	26%	14%	32%	10%	12%

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

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

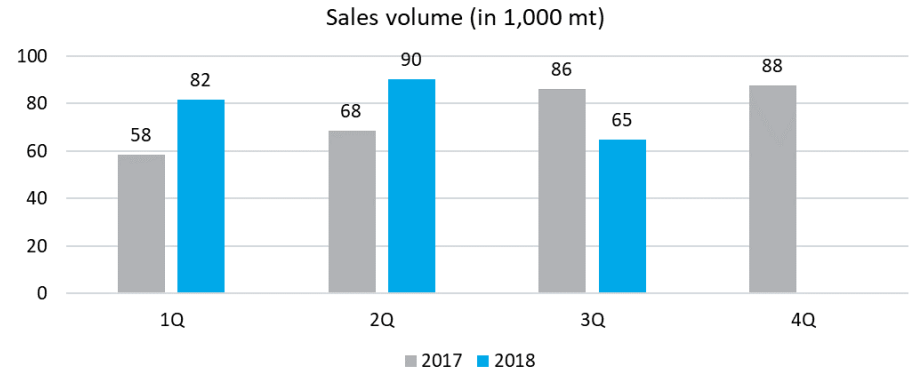
COMMENTS

- Other items NOK 86 million
 - Mainly consisting of change in fair value of power contracts NOK 96 million. Positive change in value due to higher long-term power prices
- Net financial items NOK -98 million
 - Finance expenses NOK 87 million and fx loss NOK 26 million, partly offset by finance income of NOK 15 million
 - Refinancing in China still pending, finance expenses still reduced due to lower debt
- Tax NOK -142 million
 - Effective tax rate increased, due to increased share of profit in Norway, including fair value of power contracts. Silicones in China and France not in tax position

Silicones – Market update

Solid markets but softer in China

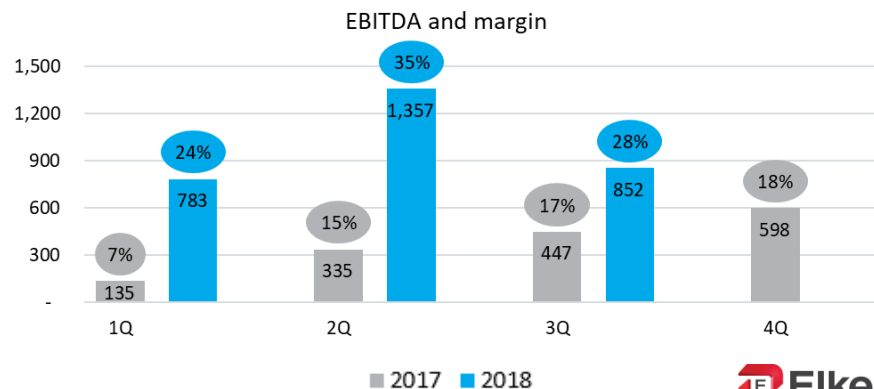
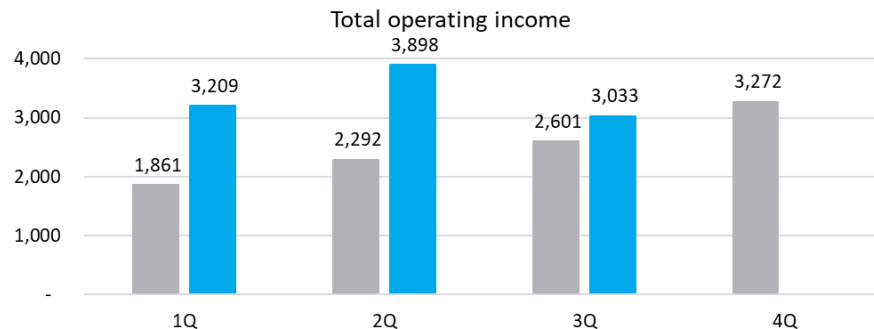
- Silicones market in China impacted by softer demand and lower prices
- Imposed tariffs on intermediary silicone products are reducing exports from China to USA
 - New tariffs also impacting other goods containing silicones
 - Impact more severe than expected
- On a global basis the market is still tight and Elkem has announced price increases for specialised products outside China



Silicones – Financial performance

Solid result, but impacted by maintenance stop

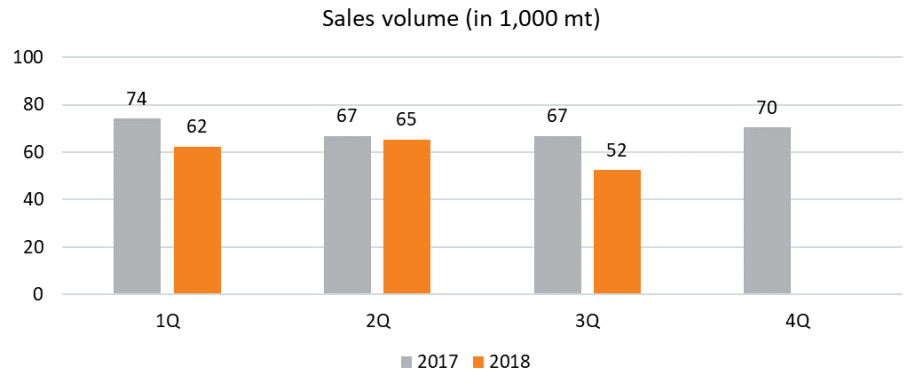
- Total operating income of NOK 3,033 million, which is NOK 432 million (17%) higher than 3Q-2017
- EBITDA of NOK 852 million, up NOK 405 million (91%) compared to 3Q-2017
- Sales volumes are down 27% compared to 3Q-2017, mainly due to the maintenance stop at Xinghuo
- Higher sales prices in 3Q-2018 compared to 3Q-2017 have however, more than compensated for lower volumes and higher raw material costs



Silicon Materials – Market update

Reference prices somewhat down in 3Q

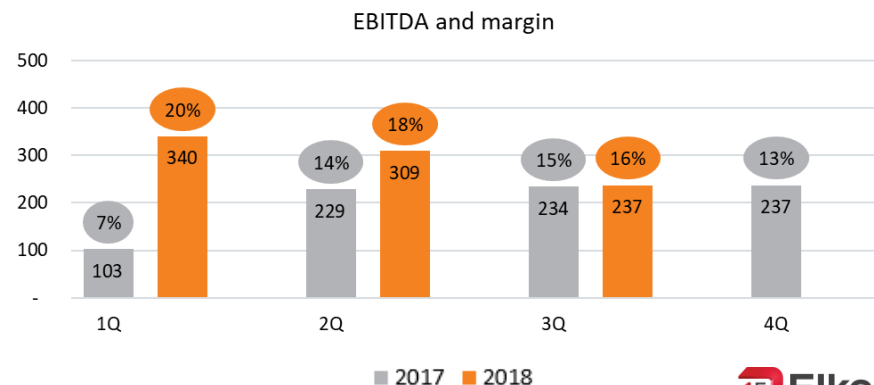
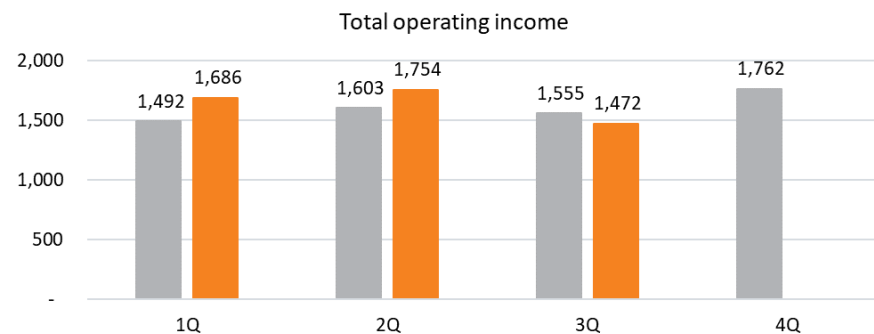
- Reference prices for silicon metal have declined in 3Q-2018, but so far limited effect on contract prices
- Demand is seasonally weaker in 3Q and negatively impacted by set-back in demand for solar
- Silicon metal prices expected to level off in Europe. In China, prices have increased for lower grade silicon in September
- Maintenance stop at Yongdeng from end of July has impacted sales volumes. The project will be finalised early December 2018
- Cost increases expected for coal- and electrode materials



Silicon Materials – Financial performance

Result and volumes affected by maintenance stop

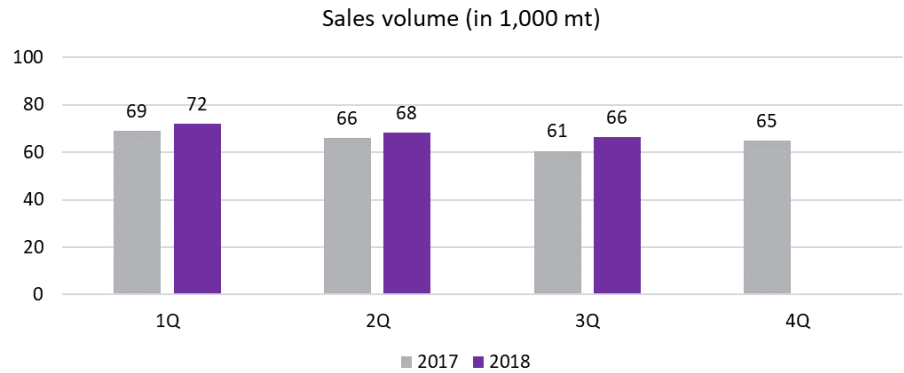
- Total operating income of NOK 1,472 million, a reduction of NOK 83 million (-5%) from 3Q-2017, mainly due to lower sales volumes
- EBITDA of NOK 237 million in 3Q-2018, up by NOK 3 million (1%) from the corresponding quarter last year, driven by higher realised sales prices
- Normal production at most plants, but two furnaces out of production for maintenance stop in Yongdeng



Foundry Products – Market update

Demand is holding up, but prices are down

- The demand for ferrosilicon and foundry alloys is holding up well, supported by good performance in steel and cast iron markets
- Reference prices for ferrosilicon have however declined due to increased Chinese supply
- Realised prices for ferrosilicon could decline slightly in the fourth quarter due to lag effects on contract prices
- Increased raw material cost expected, in particular coal and alloying materials

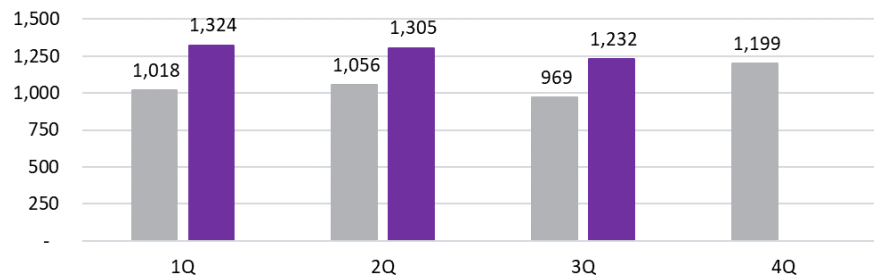


Foundry Products – Financial performance

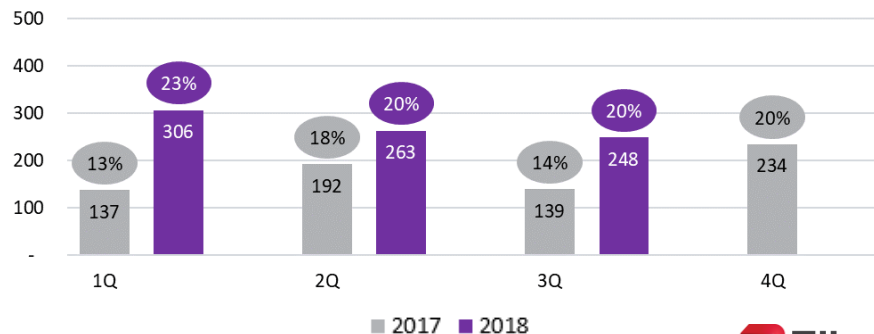
Stable financial performance

- Total operating income was NOK 1,232 in 3Q-2018, up by NOK 263 million (27%) from 3Q-2017, mainly due to higher sales prices and higher sales volumes
- EBITDA of NOK 248 million, an increase of NOK 109 million (78%) from 3Q-2017. The result positively impacted by higher sales prices, improved sales mix and higher volumes
- Normal production at most plants

Total operating income



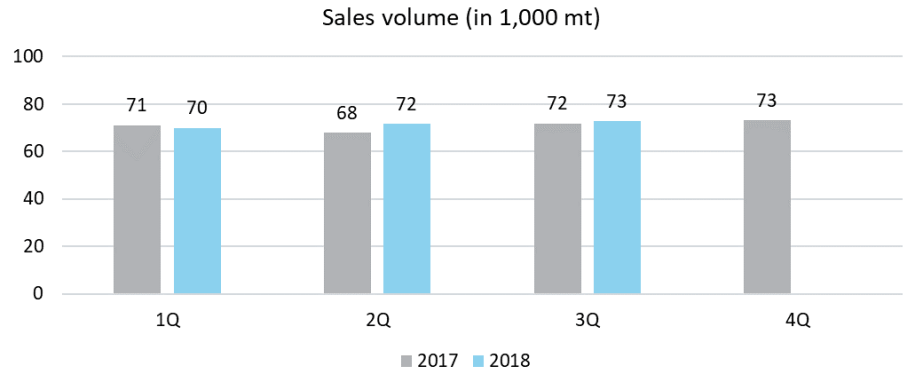
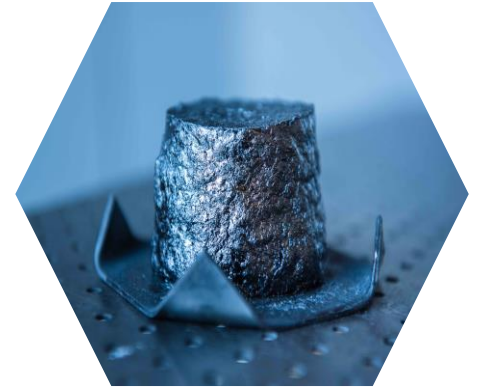
EBITDA and margin



Carbon – Market update

Stable market conditions

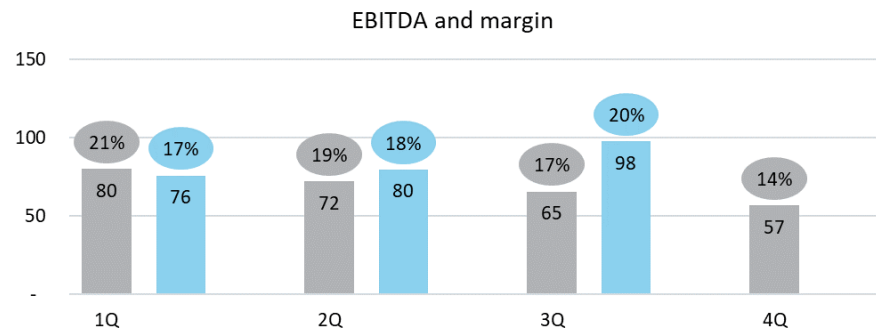
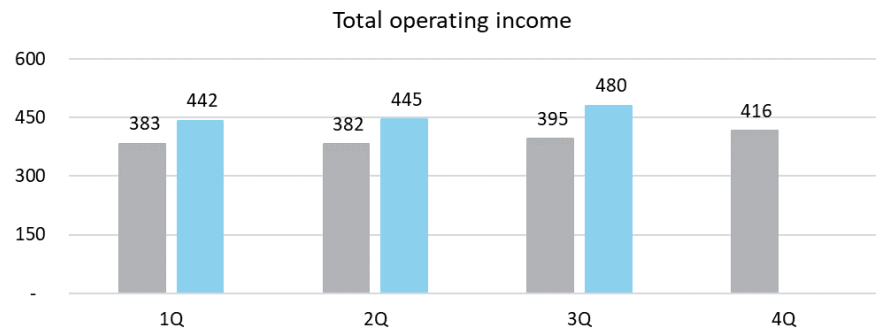
- Total sales volumes in line with corresponding quarter last year
- Strong market for specialised grades
- Still upward pressure on raw material prices such as anthracite and pitch binder



Carbon – Financial performance

Strong quarter for Carbon

- Total operating income was NOK 480 million, up by NOK 85 million (22%) from 3Q-2017, due to generally higher sales prices
- EBITDA was NOK 98 million, up NOK 32 million (49%) from 3Q-2017, mainly as a result of higher sales prices and strong markets for speciality grades
- Increased EBITDA margins due to gradual price increases to offset higher raw materials costs and positive product mix development



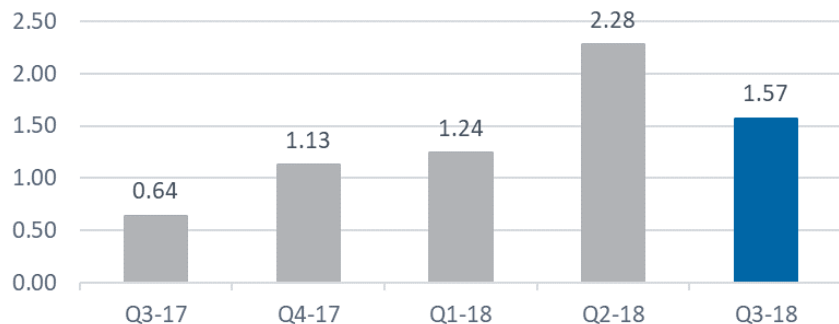
■ 2017 ■ 2018

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Strong equity and EPS

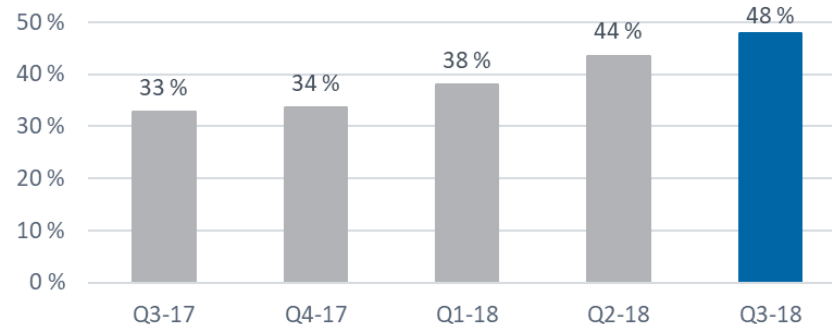
EARNINGS PER SHARE (EPS) – NOK PER SHARE

- EPS per share amount to NOK 1.57 in 3Q-2018
 - EPS YTD 2018 is NOK 5.10
- Historic EPS is calculated on the total number of shares after the initial public offering



EQUITY RATIO

- Equity amounts to NOK 13.0 billion by end of 3Q-2018, which gives a ratio of equity to total assets of 48%
- During 2018 the equity has increased by NOK 4.4 billion due to IPO proceeds (net of Xinghuo and Yongdeng acquisition) and net profit

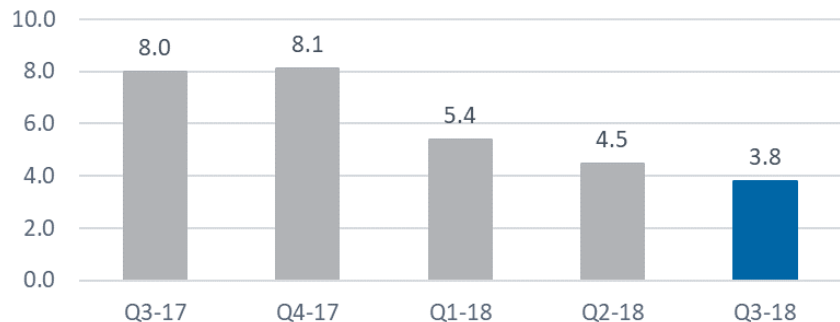


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Low leverage provides financial flexibility

NET INTEREST BEARING DEBT (NIBD)⁽¹⁾

- Net interest bearing debt amounts to NOK 3.8 billion, giving a leverage ratio of 0.6x based on LTM EBITDA NOK 5.9 billion
- Strong EBITDA development combined with lower NIBD is driving the reduction in leverage



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

REFINANCING

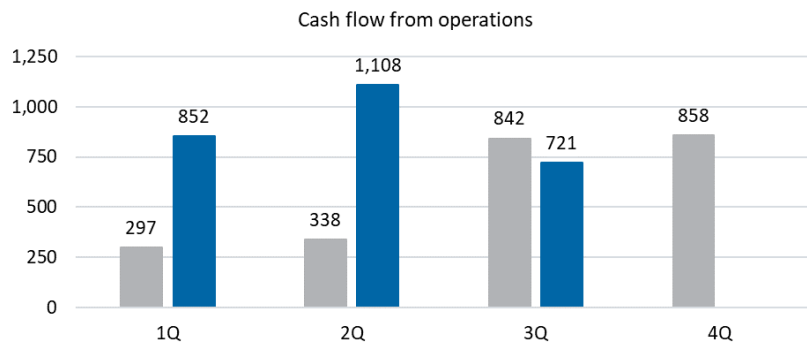
- The planned refinancing of Xinghuo Silicones and Yongdeng Silicon Materials is somewhat delayed. Approvals likely to be obtained shortly and refinancing be completed before year-end
- Elkem has an undrawn bridge loan of EUR 500 million, to cover the Chinese refinancing
- Elkem is working on financing opportunities in domestic and international capital markets for refinancing of the bridge loan

Elkem group

Solid cash flow generation, investments in line with plan

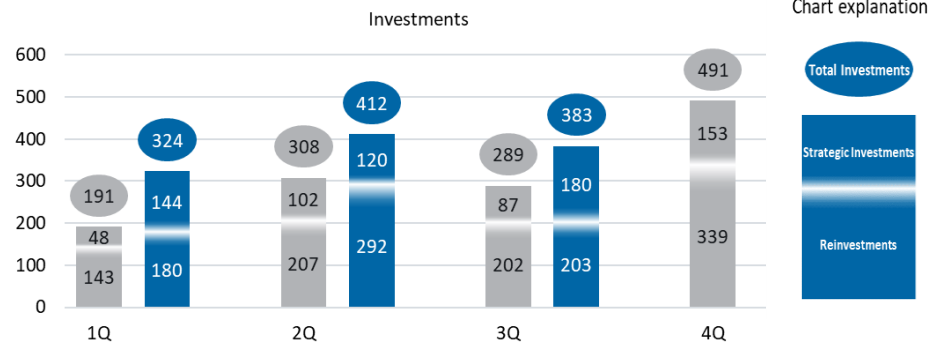
CASH FLOW FROM OPERATIONS

- Cash flow from operations⁽¹⁾ was NOK 721 million in 3Q-2018, down from the corresponding quarter last year
- Weaker cash flow is explained by somewhat higher working capital
 - Higher inventory and account receivables



INVESTMENTS

- Reinvestments of NOK 203 million in 3Q-2018
 - YTD 2018 reinvestments of NOK 675 million, in line with plan
- Strategic investments of NOK 180 million in 3Q-2018
 - YTD 2018 strategic investments of NOK 444 million, in line with indicated level of NOK 500 – 1,000 million



■ 2017 ■ 2018

Outlook

- Elkem continues to deliver solid results
 - Specialisation strategy is continuing
 - Operational performance exceeding expectations
- The fundamental market demand is expected to be good in the coming quarters, but the short-term market conditions for silicones in China are unclear
- The fourth quarter result is expected to be clearly weaker than the third quarter
 - Significant price decline for silicones in China during October
 - Unclear impact of US trade tariffs going forward
- Elkem look forward to welcoming you to our capital markets day 20 November 2018



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

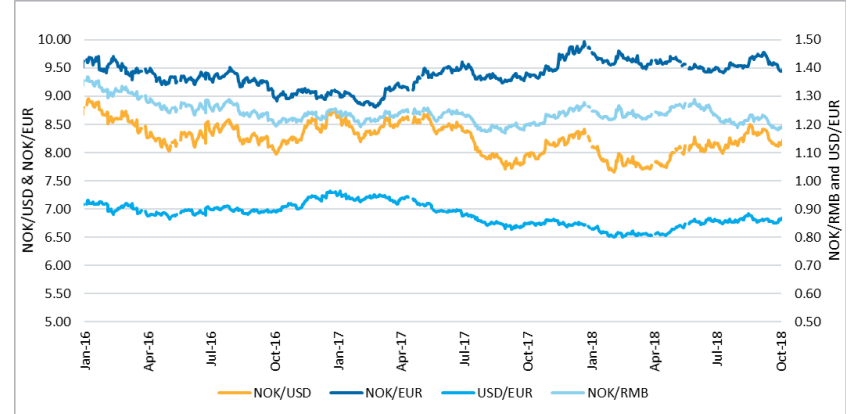
Currency and currency sensitivity

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

- The NOK has been quite stable against the major currencies during 3Q-2018
- Compared to 3Q-2017, the NOK is 2% weaker on average against EUR and 3% weaker on average against USD



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

DELIVERING YOUR POTENTIAL

