

# ELKEM FOURTH QUARTER RESULTS 2018

12 February 2019



# Agenda

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

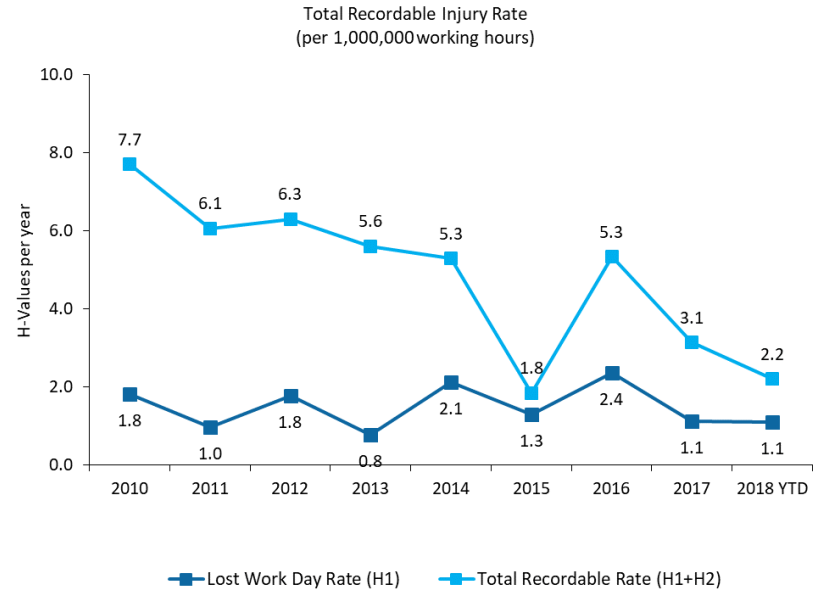
# Fourth quarter concludes an extraordinary year

- Elkem completes a strong 2018, but fourth quarter earnings hampered by weaker market sentiment
- Total operating income of NOK 6,265 million, in line with fourth quarter 2017
- EBITDA of NOK 974 million, down 10% from fourth quarter 2017, mainly due to special items and one-off effects of approx. MNOK 55
- Strong financial position with low leverage, strong cash position and long-term maturity profile
- The board has proposed a dividend of NOK 2.60 per share based on an extraordinary strong year combined with leverage below target



# 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
- Health and safety performance also tend to correlate with operational performance
- The total recordable injury rate in 2018 is 2.2
  - 15 H1 injuries and 14 H2 injuries for own employees
  - Elkem's second best year ever
- No environmental issues



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

# Delivering on strategy – 2018 highlights



- Strong growth in 2018 – operating income up 21%
- Leading positions in China – silicones capacity further increased and strengthened positions in specialty markets
- Foundry Products with expansions in China and Paraguay
- Cost position enhanced by furnace upgrades at Yongdeng and energy recovery project at Salten
- Value chain integration delivering synergies, especially within R&D in silicones
- Promising development for synthetic graphite to batteries by the Carbon division
- All time high EBITDA of MNOK 5,793 in 2018, low leverage and strong liquidity

# Growth and specialisation

## Elkem continues to pursue its strategy for growth and specialisation within all product areas

- High focus on R&D with more than 80 new products launched by the Silicones division in 2018. New R&D centre to be built in Lyon
- Several silicones specialisation projects ongoing, particularly for battery applications and electric cable in China and France
- Plan to develop the ferrosilicon plant in Paraguay into specialty foundry products
- New downstream silicones facility in India, as a first step in a growth strategy
- Actively searching for M&A opportunities, particularly bolt-on acquisitions in silicones

## STRONG POSITION IN EV BATTERIES

- Sealing and bonding for electrical vehicle (EV) batteries
  - Application developed by Elkem generated revenue of more than EUR 30 million in 2018
  - Estimated to reach approx. EUR 45 million in 2019
  - The application is now being implemented on new EV models
  - In addition, the application is being tailormade and developed to meet qualification requirements from other car manufacturers



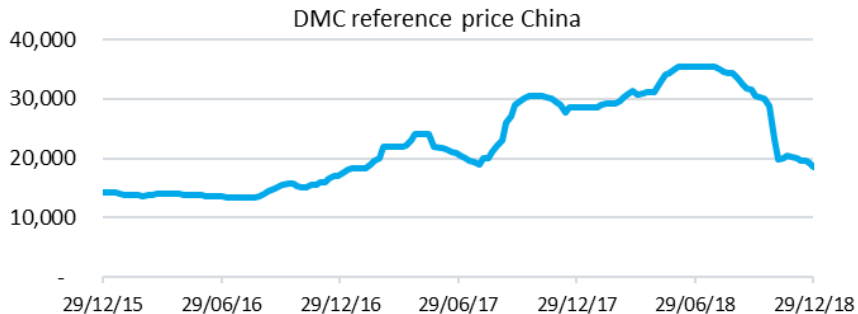
# Operational efficiencies and synergies

- Accelerated improvement programme initiated to counter weaker market conditions
  - Cost initiatives based continuous improvement methodology
  - Strict prioritisation of reinvestments and other investments
- Step wise debottlenecking project evaluated in Xinghuo
  - Full scale upstream expansion to be evaluated later based on market development
- New agreements with Vattenfall and TrønderEnergi Kraft for approx. 525 GWh per year from 2020 to 2026 to secure stable energy costs for Norwegian smelters
- Focus on working capital improvements – project ongoing
  - Working capital reduced from 21% of revenues by end of 3Q-2018 to 17% by end of 4Q-2018

# Silicones - market update

## SHARP DECLINE IN CHINESE DMC PRICES IN 4Q-2018

- DMC prices in China down by more than 30% since end of 3Q-2018
- DMC prices of approx. RMB 18,500-19,000 by end of 4Q-2018
- Prices have levelled off but remain weak ahead of Chinese New Year
- Approx. 50% of Elkem's sales volumes are commodity products



## RESPONSE TO CHANGING MARKET CONDITIONS

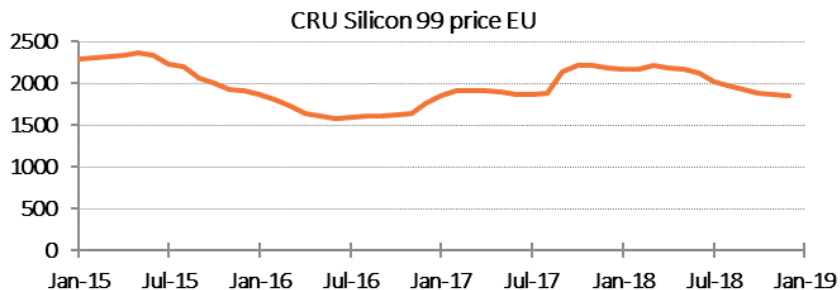
- Elkem continues its focus on specialisation
  - Annual contracts for downstream specialities closed at same or higher price levels than 2018, constitute close to 50% of expected 2019 sales
  - Promising new initiatives in rubber and coating products, such as liquid silicon rubber for medical applications and silicones for artificial leather
- New siloxane capacity announced, mainly in China
  - No new capacity expected before late 2019 or early 2020
  - Increased uncertainty about commissioning of new capacity due to weak markets and the US - China trade conflict



# Silicon and ferrosilicon – market update

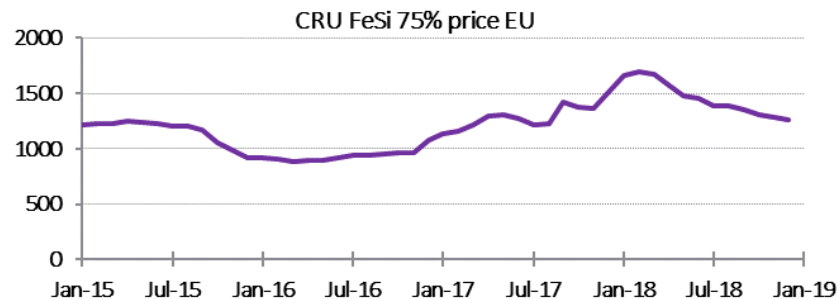
## SILICON – PRICES EXPECTED TO STABILISE

- Reference price for silicon (Si99) of EUR 1,845 by end of 4Q-18
  - Average prices down by 5% from previous quarter
  - Lower prices due to new capacity and weaker demand
- Leading industry players taking out capacity
  - Approx. 15% of Western capacity idled
  - Elkem has temporarily idled approx. 15% of its total silicon metal capacity



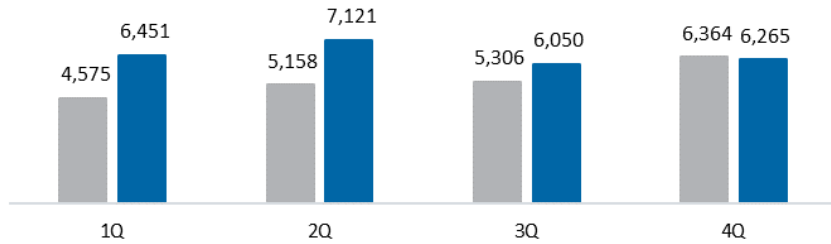
## FERROSILICON – PRICES DOWN FROM GOOD LEVELS

- Reference price for ferrosilicon (FeSi75) EUR 1,262 by end of 4Q-18
  - Average prices down by 7% from previous quarter
- Elkem's high purity grades trade at premium to CRU prices
- Foundry alloys are specialised products with prices independent of ferrosilicon prices and constitute approx. 50% of the sales for the Foundry Products division

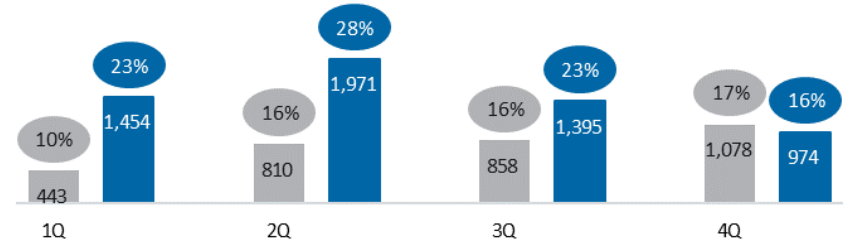


# Elkem group - Good quarter in challenging markets

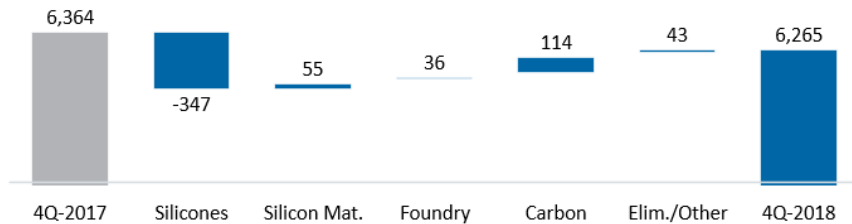
## OPERATING REVENUE IN LINE WITH 4Q LAST YEAR ...



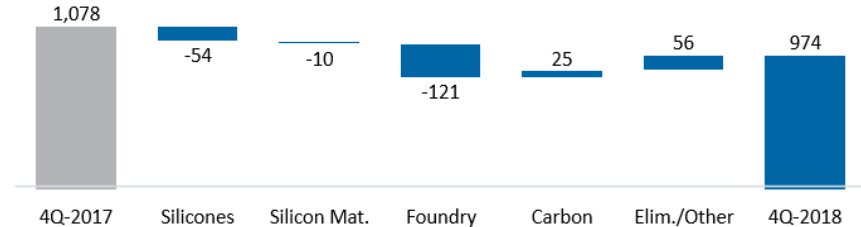
## SLIGHTLY LOWER EBITDA AND EBITDA MARGIN ...



## ... SILICONES PARTLY OFFSET BY OTHER DIVISIONS



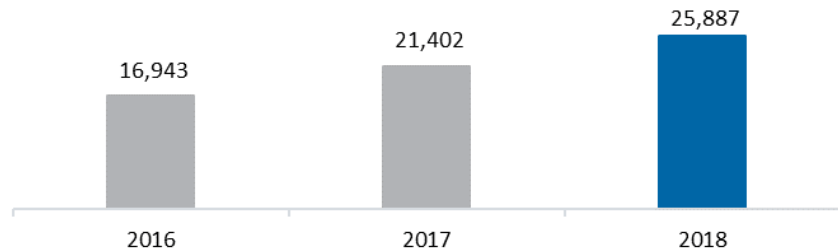
## ... DUE TO LOWER VOLUMES AND SPECIAL ITEMS



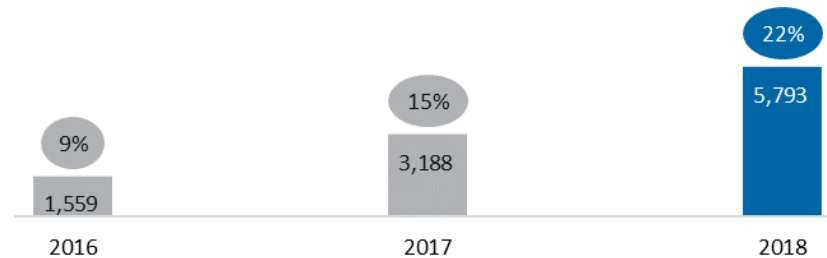
(\*) Waterfall based on external sales

# Elkem group – 2018 an extraordinary year

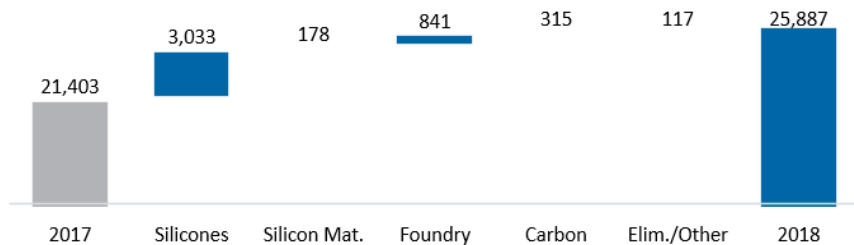
OPERATING INCOME INCREASED BY 21% FROM 2017 ...



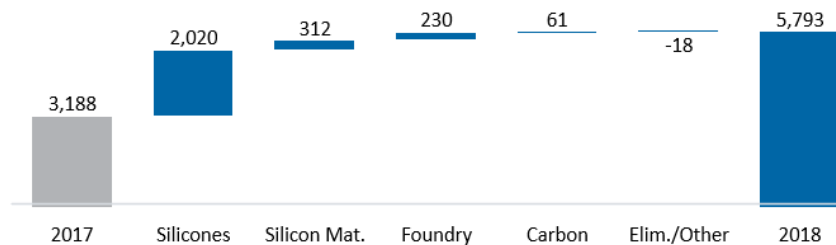
RECORD HIGH EBITDA AND EBITDA MARGINS ...



... MAINLY EXPLAINED BY SILICONES AND FOUNDRY



... MAINLY DUE TO HIGHER SALES PRICES AND VOLUMES



# Elkem group - Excellent financial position

## CONSOLIDATED KEY FIGURES

<i>(NOK million, except where specified)</i>	<b>4Q 2018</b>	<b>4Q 2017</b>	<b>YTD 2018</b>	<b>YTD 2017</b>	<b>FY 2017</b>
Total operating income	6,265	6,364	25,887	21,403	21,403
EBITDA	974	1,078	5,793	3,188	3,188
EBIT	639	768	4,522	1,927	1,927
Other items	-112	66	-380	44	44
Net financial items	-32	-108	-327	-452	-452
Profit before income tax	474	726	3,792	1,519	1,519
Tax	-93	-59	-425	-269	-269
Profit (loss) for the period <sup>(1)</sup>	374	655	3,337	1,211	1,211
<b>Key ratios</b>					
EPS (NOK per share)	0.64	1.13	5.74	2.08	2.08
Equity ratio	44%	34%	44%	34%	34%
Net interest bearing debt (NIBD) <sup>(2)</sup>	3,264	8,111	3,264	8,111	8,111
Leverage	0.6	2.5	0.6	2.5	2.5
Reinvestments % of D&A	117%	110%	84%	72%	72%
ROCE (annualised)	16%	21%	28%	13%	13%

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

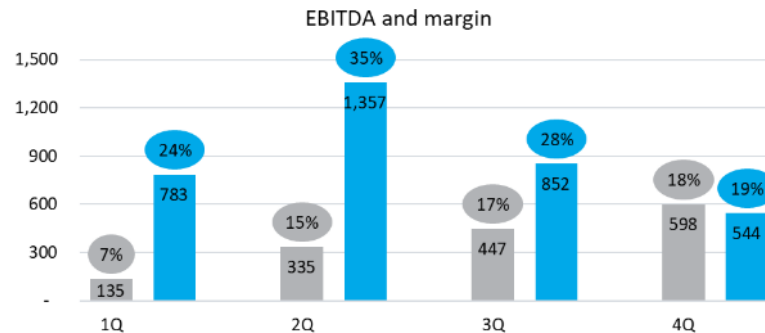
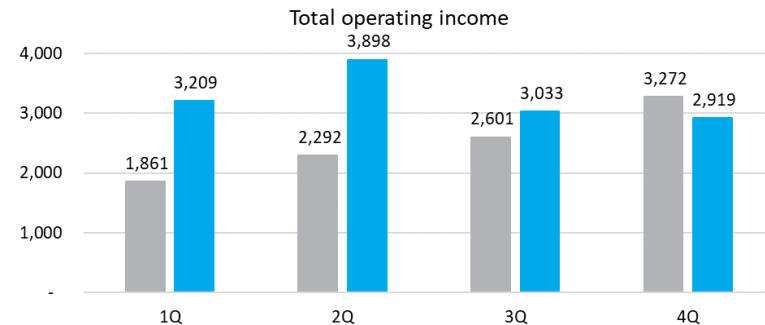
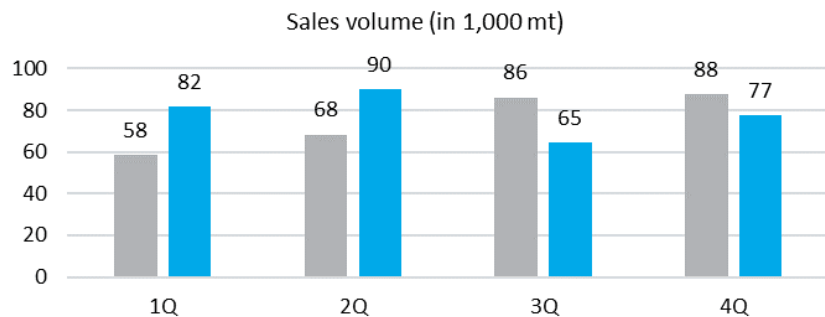
(2) Excluding non-current restricted deposits and interest-bearing financial assets

## COMMENTS

- Other items NOK -112 million
  - Mainly consist of negative change in fair value of power contracts NOK -170 million due to higher power prices. Gain on currency hedging of NOK 60 million. Other items was NOK 2 million
- Net financial items NOK -32 million
  - Net finance expenses of NOK 77 million, partly offset by fx gains of NOK 45 million
- Tax NOK -93 million
  - Effective tax rate has increased from previous quarters as Xinghuo Silicones is in tax position from 4Q-2018

# Silicones – Weaker market sentiment

- Sales revenue down 11% compared to 4Q last year due to lower sales of core products in China
- Lower sales prices for core products partly compensated by higher prices for specialities
- Positive effects from lower raw material prices in China

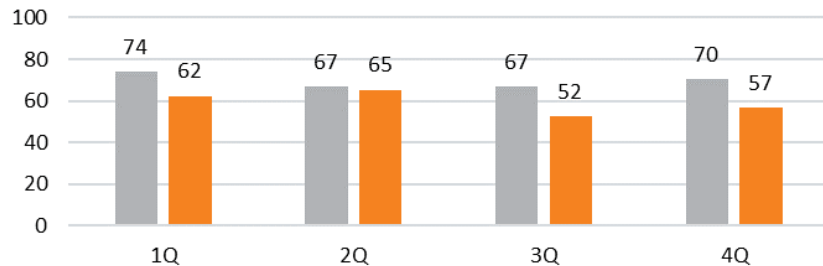


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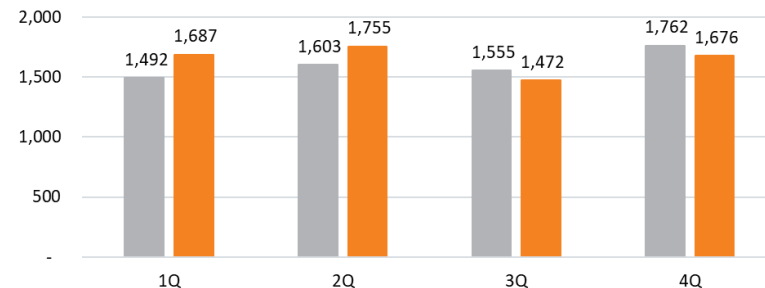
# Silicon Materials – Good result in declining market

- Stable revenue and EBITDA compared 4Q to last year
- Lower sales volumes due to Yongdeng upgrade
- Realised sales prices higher than 4Q last year despite lower reference prices
- Generally higher raw material costs

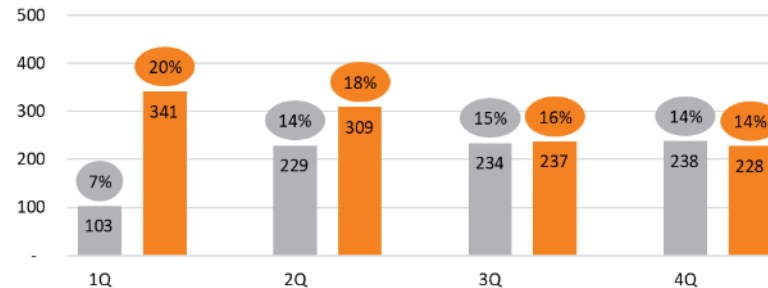
Sales volume (in 1,000 mt)



Total operating income



EBITDA and margin

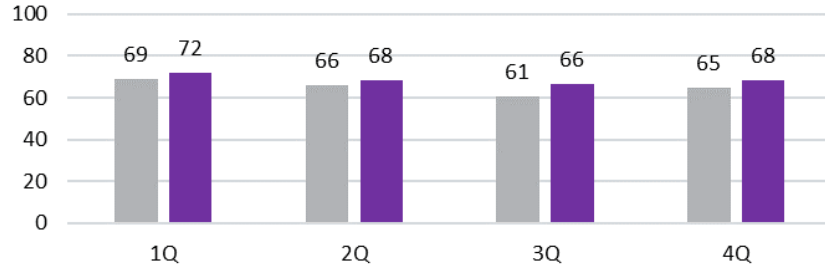


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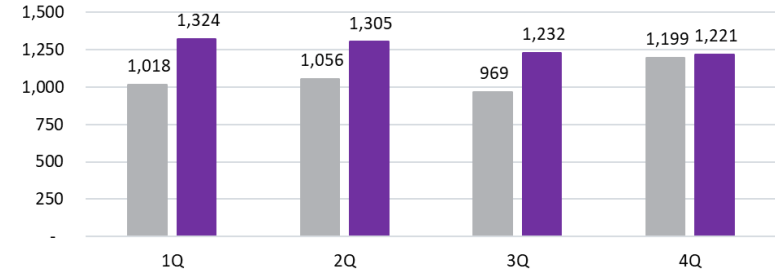
# Foundry Products – Affected by special items

- Stable operating income compared to 4Q last year
- Sales prices and volumes fairly stable compared to 4Q last year
- EBITDA in 4Q negatively impacted by special items and one-offs of MNOK 45

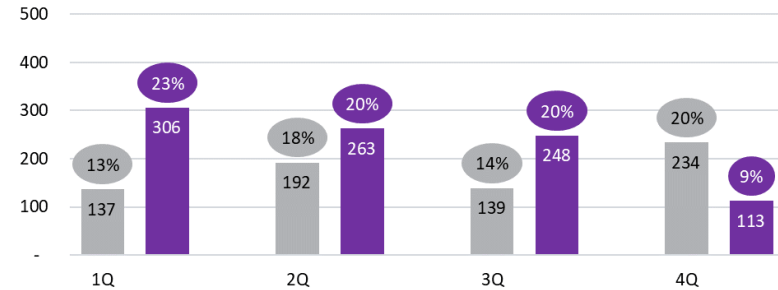
Sales volume (in 1,000 mt)



Total operating income



EBITDA and margin

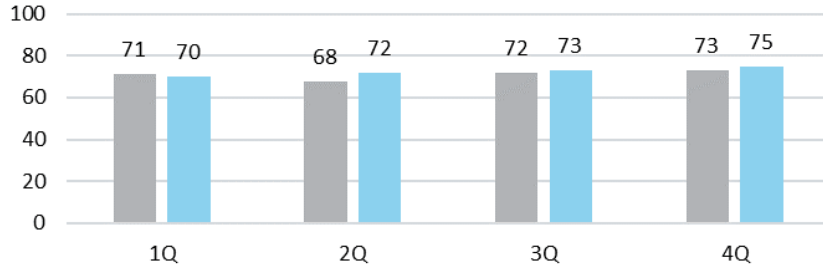


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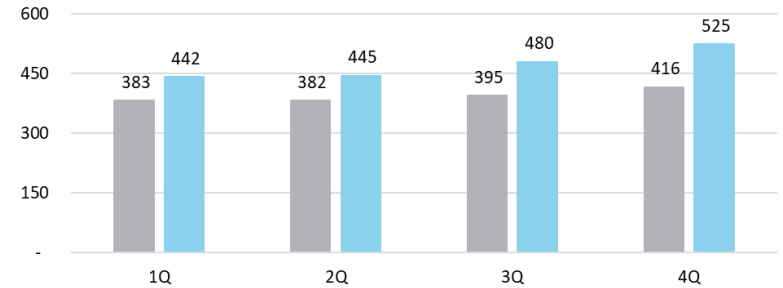
# Carbon – Best year ever

- The division's best year ever, record high revenue and EBITDA
- Revenue growth driven by higher sales prices, partly offset by increased raw material costs
- EBITDA in 4Q negatively impacted by special items and one-offs of MNOK 10

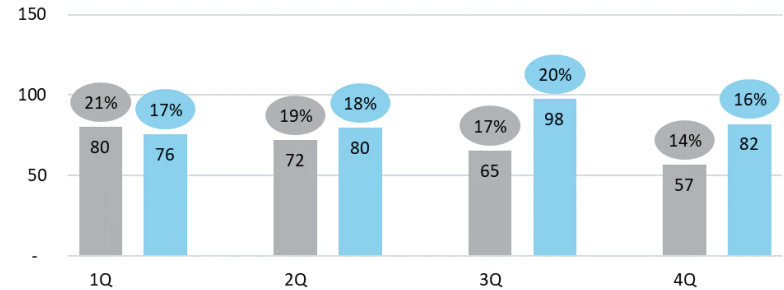
Sales volume (in 1,000 mt)



Total operating income



EBITDA and margin



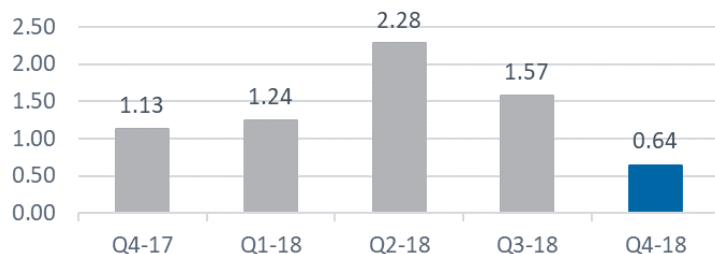
■ 2017 ■ 2018



# Elkem group - Dividend in line with policy

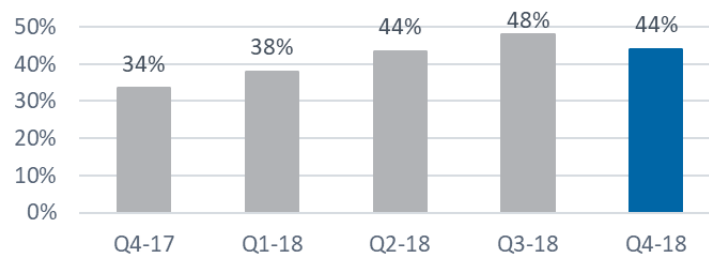
## EARNINGS PER SHARE (EPS) – NOK PER SHARE

- EPS per share amount to NOK 0.64 in 4Q-2018
  - EPS YTD 2018 is NOK 5.74
- Proposed dividend of NOK 2.60 per share, amounting to 45% of net profit



## EQUITY RATIO

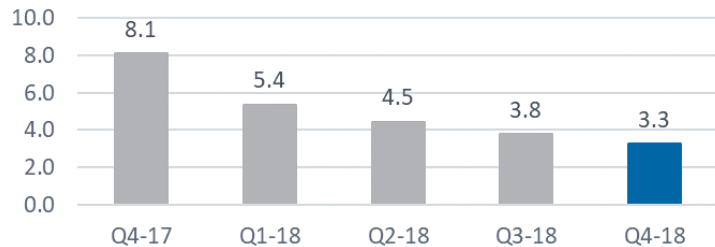
- Equity amounts to NOK 13.7 billion by end of 4Q-2018
  - Increase of NOK 5.2 billion from IPO proceeds and net profit
- Equity ratio of 44%, slightly down from 3Q-2018 due to increased total assets



# Elkem group – Low leverage and financial flexibility

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

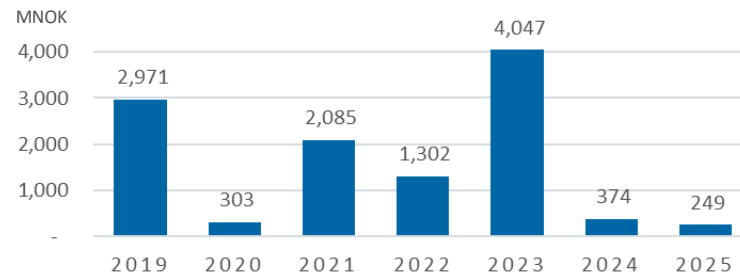
- Net interest bearing debt of NOK 3.3 billion by end of 4Q-18
  - Leverage ratio of 0.6x based on LTM EBITDA NOK 5.8 billion
- New loans in the Norwegian bond and Schuldschein markets
  - Replacing bridge facility for refinancing of local Chinese bank debt
- Expected net interest expenses of approx. NOK 50 million per quarter



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

## MATURITY PROFILE

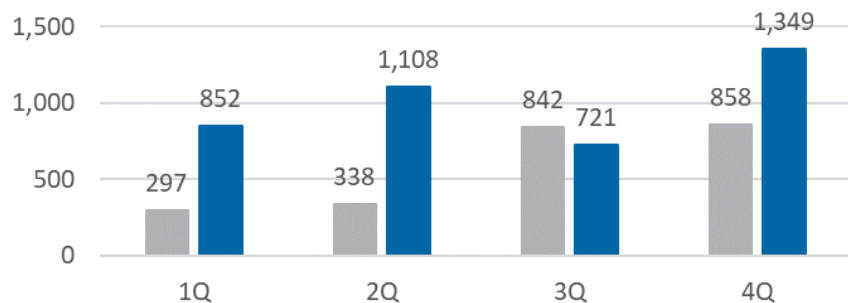
- New 3-year bond loan NOK 1,750 million in the Norwegian market and EUR 215 million in the Schuldschein market on 3 to 7-year maturities
  - Maturity profile adjusted for settlement of EUR 123.5 million and Chinese debt repayments of RMB 650 million in January 2019
- Debt maturities in 2019 mainly consist of local Chinese bank facilities, expected to be rolled over



# Elkem group - Solid cash flow generation

## CASH FLOW FROM OPERATIONS

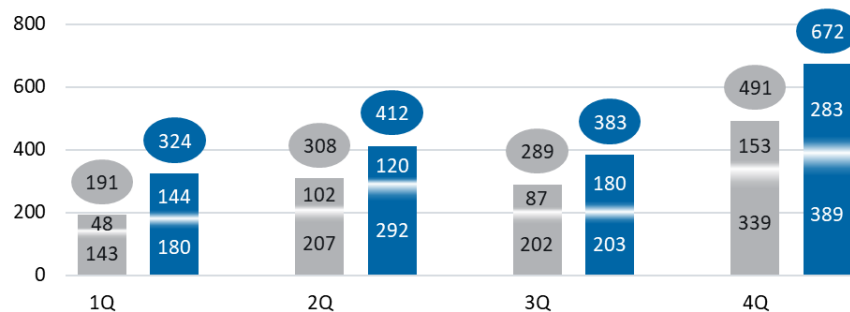
- Cash flow from operations<sup>(1)</sup> was NOK 1,349 million in 4Q-2018, up from the corresponding quarter last year
- Improved cash flow from operations compared to 4Q-2017 mainly explained by positive changes in working capital
  - A non-recourse factoring agreement was established in 4Q-18 reducing account receivables by NOK 480 million



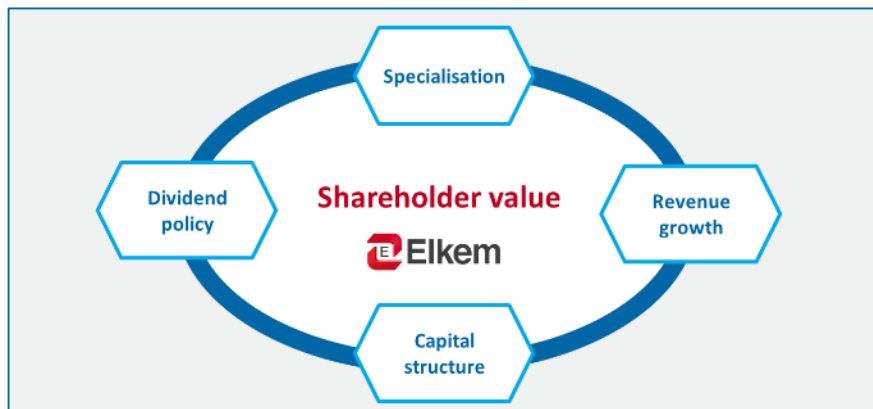
■ 2017 ■ 2018

## INVESTMENTS

- Reinvestments of NOK 389 million in 4Q-18
  - Reinvestments in 2018 of NOK 1,064 million, 84% of depreciations
- Strategic investments of NOK 283 million in 4Q-18, primarily specialisation projects and mainly in China



# Elkem meeting its financial targets



Target metric	Financial target	Performance LTM 4Q-2018	
Revenue growth	5 - 10%	21%	✓
EBITDA margin (%)	15 - 20%	22%	✓
Reinvestments % of DA	80 - 90%	84%	✓
Debt leverage ratio	1.0 - 2.0x	0.6	✓
Dividend target	30 - 50% of net profit	NA	✓

- Strong revenue growth in 2018, explained by higher volumes and very high prices for silicones in China for parts of the year
- EBITDA margin exceeds target driven by extraordinary conditions in China. All divisions above or within the 15-20% range
- Reinvestments in line with target
- Debt leverage still lower than target – adjusted for proposed dividend leverage is 0.8x
- Proposed dividend for 2018 is NOK 2.60 per share, which amounts to 45% of net profit

# Outlook

- Elkem's fundamental position continues to be strong based on favourable market positions and strong financials
- Current market sentiment is weak, partly due to seasonality e.g. in construction
- Market prices have stabilised and are likely to increase after first quarter
- 1Q-2019 expected to be weaker than 4Q-2018, mainly due to temporary production curtailments, lower average realised sales prices due to time-lag and effects of Chinese New Year
- Subsequent quarters in 2019 likely to improve based on expected higher sales volumes, price recovery, lower raw material costs and accelerated improvement programmes



## Important notice

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# Appendix

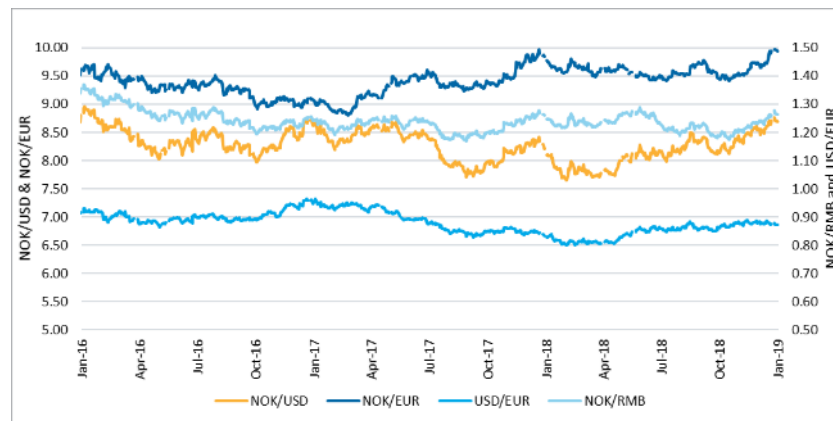
# Currency and currency sensitivity

## 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 360 million
  - USD - net cash flow approx. USD 120 million
- 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 600 million

## CURRENCY DEVELOPMENT

- The NOK has been relatively stable against the major currencies in 2018
- Compared to 4Q-2017, the NOK is unchanged 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 120 million per year<sup>(1)</sup>
  - 10% price change on ferrosilicon is expected to affect result by approx. NOK 150 million per year<sup>(2)</sup>

<sup>(1)</sup> Cost absorption effects are assumed for both silicon metal and silicones. Neutral effect

<sup>(2)</sup> Sensitivities for ferrosilicon include 35% raw materials cost absorption

DELIVERING YOUR POTENTIAL

