

Elkem ASA

Third quarter results 2020

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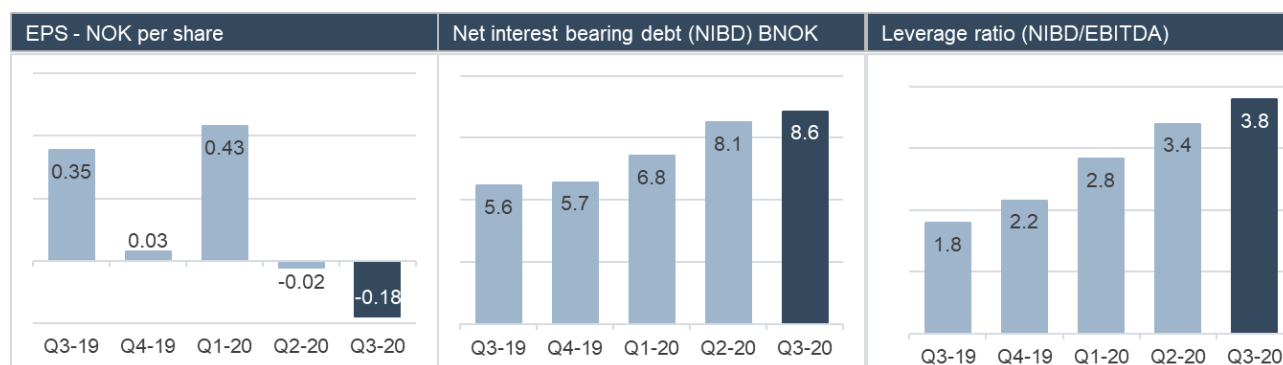
Highlights 3rd quarter 2020

- Elkem maintained good operating performance in the third quarter, but the results were hampered by weak markets
- EBITDA was NOK 512 million in the third quarter 2020, down 20% from third quarter 2019
- In China, the construction and automotive markets show strong recovery. Silicones prices in China were up during the third quarter
- Markets in Europe and the Americas are still weak, particularly impacting the sales of specialties
- The productivity improvement programme with targeted annual savings of more than NOK 350 million proceeds ahead of plan
- There are signs of recovery, but market outlook is still characterised by uncertainty

Key figures

(NOK million, except where specified)	3Q 2020	3Q 2019	YTD 2020	YTD 2019	FY 2019
Total operating income	5,886	5,540	17,563	17,109	22,668
EBITDA	512	640	1,746	2,139	2,656
EBITDA margin (%)	9 %	12 %	10 %	13 %	12 %
EBIT	99	282	508	1,097	1,189
Profit (loss) for the period ⁽¹⁾	-105	206	133	838	855
Earning per share (EPS) (NOK per share)	-0.18	0.35	0.23	1.44	1.47
Equity ratio (%)	40 %	44 %	40 %	44 %	45 %
Net interest-bearing debt (NIBD)	8,571	5,573	8,571	5,573	5,722
Cash flow from operations	182	539	457	1,675	2,140
ROCE - annualised (%)	2 %	7 %	4 %	9 %	7 %

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



Demand recovery in China, market conditions still weak

Elkem maintained good operating performance in the third quarter, but the results were hampered by weak markets. In China, the construction and automotive markets show strong recovery, but the markets in Europe and the Americas are still weak, particularly impacting the sales of specialties. Silicones prices in China were up during the third quarter and silicon and ferrosilicon prices have levelled out and increased slightly from low levels.

Elkem's total operating income for the third quarter 2020 was NOK 5,886 million, up 6% from the corresponding quarter last year. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to NOK 512 million in the quarter, compared to NOK 640 million in the third quarter of 2019. Earnings per share (EPS) was NOK -0.18 in the quarter.

Elkem's strong competitive position has been demonstrated in weak markets and all plants have been in regular operation. Elkem had strong sales in the third quarter and all divisions reported higher volumes compared to the corresponding quarter last year. However, the result was negatively impacted by weak market conditions due to Covid-19. Silicones and Silicon Products reported weaker results than the corresponding quarter last year, due to low sales prices and lower sales of speciality products, while Carbon Solutions reported another strong quarter with improved results in challenging markets.

Elkem continues to progress strategic projects to enhance long-term value creation: Battery Materials, Biocarbon and Digital Office are all key focus areas reporting directly to the CEO. Elkem has selected Herøya, Norway, as the site for a potential large-scale battery materials plant, for which it has now received financial support of NOK 10 million from Enova for initial planning. The battery materials pilot plant in Kristiansand, Norway, will be opened early next year. The Biocarbon pilot plant in Canada is key for the development of biocarbon to replace fossil coal in smelting processes and enable climate-neutral metal production. The Digital Office will make Elkem a more data driven company to drive further improvements and value creation.

Elkem is also progressing its productivity improvement programme, which is ahead of plan. The target is to realise annual cost improvements of more than NOK 350 million. By end of the third quarter the annual run rate was NOK 147 million. The programme comprises the whole group and will mainly be achieved by reduction of personnel costs. In line with the programme, most of the improvement effects will be realised in 2021.

The group's equity as at 30 September 2020 amounted to NOK 12,724 million, which gave a ratio of equity to total assets of 40%. Net interest-bearing debt was NOK 8,571 million, which gave a ratio of net interest-bearing debt to EBITDA of 3.8 times. Elkem had cash and cash equivalents of NOK 3,197 million as at 30 September 2020 and undrawn credit lines of more than NOK 5,500 million.

There are signs of recovery, but the market outlook is still characterised by uncertainty. Elkem is actively working to counter weak market conditions by accelerating cost reductions, optimising investments and by leveraging on strong market positions. Silicones demand in China is expected to remain stable, but the price development is uncertain as construction markets are entering low season. Silicones demand outside of China shows signs of recovery. Silicon and ferrosilicon prices have levelled out and increased somewhat from low levels. The market for carbon products is expected to remain stable. A maintenance stop in Brazil will however, reduce Elkem's sales volumes in the fourth quarter.

Elkem's competitive position remains strong, based on good cost positions, diversified product and geographic positions and a robust financial structure.



Financial review

Group results

KEY FIGURES	3Q 2020	3Q 2019	YTD 2020	YTD 2019	FY 2019
<i>MNOK except where indicated otherwise</i>					
Total operating income	5,886	5,540	17,563	17,109	22,668
EBITDA	512	640	1,746	2,139	2,656
EBIT	99	282	508	1,097	1,189
Other items	-18	35	4	211	195
Net financial items	-153	-25	-179	-160	-239
Profit (loss) before income tax	-74	282	306	1,132	1,134
Tax	-23	-62	-141	-263	-237
Profit (loss) for the period	-97	220	164	869	897

Quarter

Elkem group had total operating income of NOK 5,886 million in 3Q-2020, which was up 6% from NOK 5,540 million in 3Q-2019. Increased operating income was mainly driven by the Silicones division and explained by higher sales volumes and the integration of Polysil. All divisions reported higher sales volumes in 3Q-2020 compared to the corresponding quarter last year despite the challenging market conditions.

The group's EBITDA for 3Q-2020 was NOK 512 million, which was down 20% compared to the corresponding quarter last year. Silicones and Silicone Products reported weaker EBITDA compared to 3Q-2019 due to low sales prices and lower sales of specialty products. Carbon Solutions reported a strong quarter with improved EBITDA explained by higher sales volume, favourable currency and lower operating cost. Other, which comprises group management, centralised functions and strategic projects, reported an EBITDA of NOK -70 million. That included negative currency hedge effects of NOK -52 million. Expenses related to the special focus areas, Digital Office, Battery Materials and Biocarbon, will be reported in Other.

EBIT for 3Q-2020 was NOK 99 million, down from NOK 282 million in 3Q-2019.

Other items include fair value changes commodity contracts, gains/losses on embedded derivatives, currency forward contracts and other income and expenses. Other items amounted to NOK -18 million in 3Q-2020 which mainly consisted of fair value changes and currency items. Net effects of fair value changes and embedded derivatives in power contracts amounted to NOK -8 million and net currency effects amounted to NOK -7 million.

Net financial items were NOK -153 million in 3Q-2020, compared to NOK -25 million in 3Q-2019. Net interest expenses amounted to NOK -57 million, which was in line with the corresponding quarter last year. Losses on foreign exchange amounted to NOK -89 million, compared to gains of NOK 40 million in 3Q-2019. The foreign exchange losses in 3Q-2020 were mainly explained by translation effects on external loans in EUR. Other financial expenses amounted to NOK -7 million.

Profit before income tax was NOK -74 million in 3Q-2020 compared to NOK 282 million in 3Q-2019.

Tax expenses in the quarter was NOK -23 million. Tax expenses in 3Q-2020 were mainly related to countries with taxable profit, while tax losses carried forward were not capitalised.

Profit for the period was NOK -97 million, compared to NOK 220 million in 3Q-2019. Owners of the parent's share of profit was NOK -105 million, which gave earnings per share of NOK -0.18 in 3Q-2020.

Year to date

The group's total operating income was NOK 17,563 million YTD 2020, which was up 3% compared to YTD 2019. EBITDA YTD 2020 amounted to NOK 1,746 million, down 18% from NOK 2,139 million YTD 2019, mainly due to lower results from the Silicones division and negative currency hedge effects of NOK -171 million reported in Other. Earnings per share (EPS) was NOK 0.23 YTD 2020.

Cash flow

CASH FLOW FROM OPERATIONS	3Q 2020	3Q 2019	YTD 2020	YTD 2019	FY 2019
<i>NOK million</i>					
Operating profit (loss) before other items	99	282	508	1,097	1,189
Amortisation, depreciation and impairment	412	358	1,238	1,042	1,467
Changes in working capital	-55	67	-456	186	649
Reinvestments	-269	-155	-829	-640	-1,162
Equity accounted investments	-6	-12	-3	-10	-4
Cash flow from operations	182	539	457	1,675	2,140
Other cash flow items	-879	-903	-1,871	-3,749	-4,773
Change in cash and cash equivalents	-697	-364	-1,414	-2,074	-2,633

¹⁾ Elkem's internal cash flow measure is defined and described in the APM appendix to the report.

Quarter

Cash flow from operations was NOK 182 million in 3Q-2020, compared to NOK 539 million in 3Q-2019. The reduction was mainly explained by lower operating profit, higher reinvestments and negative working capital changes in 3Q-2020 compared to 2Q-2019.

Reinvestments were NOK 269 million in 3Q-2020, which amounted to 65% of depreciation and amortisation (D&A). Strategic investments were included in other cash flow items and amounted to NOK 185 million, down from NOK 299 million in 3Q-2019. The strategic investments were primarily related to Silicones R&D centre and other specialisation projects. In addition, Other cash flow items in 3Q-2020 included NOK 240 million as deferred settlement for the Polysil acquisition.

Cash and cash equivalents have decreased by NOK -703 million in 3Q-2020, explained by negative net cash flow of NOK -697 million and currency exchange differences of NOK -6 million. Total cash and cash equivalents amounted to NOK 3,197 million as at 30 September 2020.

Year to date

Cash flow from operations amounted to NOK 457 million YTD 2020, down from NOK 1,675 million YTD 2019, explained by lower operating profit, negative working capital changes and higher reinvestments. Elkem's reinvestment target is 80-90% of depreciation and amortisation (D&A). Reinvestments YTD 2020 were NOK 829 million, which amounted to 67% of D&A. Strategic investments ex. M&A amounted to NOK 576 million YTD 2020. Including M&A, investments YTD 2020 included NOK 1,032 million in acquisition of subsidiaries in connection with Polysil.

Financial position

FINANCIAL POSITION	3Q 2020	3Q 2019	FY 2019
Total equity (NOK million)	12,724	13,044	12,952
Equity ratio (%)	40 %	44 %	45 %
EPS (NOK per share)	-0.18	0.35	1.47
Net interest bearing debt (NOK million) ⁽¹⁾	8,571	5,573	5,722
Leverage ratio based on LTM EBITDA (ratio)	3.8	1.8	2.2

¹⁾ Excluding receivables from related parties, loans to external parties, accrued interest income and non-current other restricted deposits

Quarter and year to date

Elkem's equity as at 30 September 2020 was NOK 12,724 million, down NOK 228 million from 31 December 2019. Profit YTD 2020 was NOK 164 million. This has been offset by negative effects recognised in other comprehensive income of NOK -48 million and Elkem ASA dividend of NOK 349 million for 2019. The equity ratio as at 30 September 2020 was 40%. Compared to year-end 2019, the equity ratio has been negatively impacted by translation effects from weaker NOK, which has increased the value of total assets.

Net-interest bearing debt as at 30 September 2020 was NOK 8,571 million, which was up NOK 2,849 million from 31 December 2019. The increase was mainly explained by translation effects from weaker NOK, settlements for the Polysil acquisition and dividend payment for 2019. The leverage ratio was 3.8 times as at 30 September 2020.

Segments

Silicones

KEY FIGURES	3Q 2020	3Q 2019	YTD 2020	YTD 2019	FY 2019
<i>MNOK except where indicated otherwise</i>					
Total operating income	3,170	2,876	8,788	8,449	11,274
EBITDA	363	441	780	1,210	1,523
EBITDA margin	11 %	15 %	9 %	14 %	14 %
Sales volume (thousand mt)	98	88	263	250	336

Quarter

The Silicones division had total operating income of NOK 3,170 million in 3Q-2020, up 10% from NOK 2,876 million in 3Q-2019. Increased operating income was explained by higher sales volumes and integration of Polysil.

EBITDA for 3Q-2020 was NOK 363 million, down 18% from 3Q-2019. Lower EBITDA was mainly due to lower sales prices and lower sales of specialties in Europe and the US.

Sales volumes in 3Q-2020 were up compared to third quarter last year due to good demand and improved production.

Year to date

The Silicones division reported total operating income of NOK 8,788 million YTD 2020, which was 4% higher than YTD 2019. The EBITDA was NOK 780 million YTD 2020, down 36% from NOK 1,210 million YTD 2019. The sales volume YTD 2020 was up compared to YTD 2019, but sales prices and sales of silicones specialties have been negatively impacted by Covid-19 effects.

Silicon Products

KEY FIGURES	3Q 2020	3Q 2019	YTD 2020	YTD 2019	FY 2019
<i>MNOK except where indicated otherwise</i>					
Total operating income	2,674	2,653	8,494	8,337	10,933
EBITDA	124	165	872	777	958
EBITDA margin	5 %	6 %	10 %	9 %	9 %
Sales volume (thousand mt) ¹⁾	126	119	379	381	499

1) Excluding Microsilica and quartz

Quarter

The Silicon Products division had total operating income of NOK 2,674 million in 3Q-2020, which was in line with 3Q-2019. Higher sales volumes were partly offset by low sales prices.

The EBITDA for Silicon Products was NOK 124 million in 3Q-2020, down 25% from NOK 165 million in 3Q-2019. The result was negatively impacted by low sales prices and lower sale of specialty products, particularly speciality foundry alloys.

The sales volume in 3Q-2020 was up compared to third quarter last year, but the increase was mainly consisting of standard ferrosilicon at low sales prices.

Year to date

The Silicon Products division reported total operating income of NOK 8,494 million YTD 2020, which was 2% higher than YTD 2019. The division reported an EBITDA of NOK 872 million, which was 12% higher than YTD 2019. EBITDA YTD 2020 included a one-off gain of NOK 61 million in the second quarter.

Carbon Solutions

KEY FIGURES	3Q 2020	3Q 2019	YTD 2020	YTD 2019	FY 2019
<i>MNOK except where indicated otherwise</i>					
Total operating income	452	431	1,409	1,377	1,838
EBITDA	111	71	333	240	312
EBITDA margin	25 %	16 %	24 %	17 %	17 %
Sales volume (thousand mt)	64	60	193	194	257

Quarter

The Carbon Solutions division reported total operating income of NOK 452 million in 3Q-2020, up 5% from 3Q-2019. Higher operating income was explained by higher sales volume and favourable currency effects.

EBITDA for 3Q-2020 was NOK 111 million, an increase of 56% from NOK 71 million in the corresponding quarter last year. Improved EBITDA was mainly explained by higher sales volume, favourable currency and lower operating cost.

The sales volume in 3Q-2020 was higher than the third quarter last year, but crude steel and stainless steel markets remain weak.

Year to date

Carbon Solutions reported total operating income of NOK 1,409 million YTD 2020, which was 2% higher than YTD 2019. EBITDA YTD 2020 was 333 million, up 39% from NOK 240 million YTD 2019. Sales volumes YTD 2020 were in line with YTD 2019. Improved EBITDA YTD 2020 was mainly explained by better sales mix, positive currency effects and lower operating costs.

Outlook for the fourth quarter

There are signs of recovery, but the market outlook is still characterised by uncertainty. Elkem is actively working to counter weak market conditions by accelerating cost reductions, optimising investments and by leveraging on strong market positions. Elkem's strong competitive position has continued to be demonstrated in weak markets with all plants in regular operation. The financial structure is robust.

Silicones demand in China expected to remain stable, but the price development is uncertain as construction markets are entering low season. Silicones demand outside of China shows signs of recovery.

Silicon and ferrosilicon prices have levelled out and increased somewhat from low levels. The market for carbon products is expected to remain stable. A maintenance stop in Brazil will however, reduce Elkem's sales volumes in the fourth quarter.

Elkem ASA

Oslo, 26 October 2020



Condensed consolidated interim statement of income

Amounts in NOK million	Note	Third quarter		Year to date		Year
		2020	2019	2020	2019	2019
Revenue	2	5,723	5,486	17,093	16,840	22,246
Other operating income	2	156	41	447	248	392
Share of profit (loss) from equity accounted companies	2	6	12	23	21	31
Total operating income		5,886	5,540	17,563	17,109	22,668
Raw materials and energy for production		(3,145)	(2,866)	(9,168)	(8,683)	(11,512)
Employee benefit expenses		(910)	(904)	(2,935)	(2,742)	(3,696)
Other operating expenses		(1,318)	(1,130)	(3,714)	(3,545)	(4,804)
Amortisations and depreciations	4	(411)	(355)	(1,231)	(1,038)	(1,456)
Impairment losses	4	(1)	(3)	(7)	(4)	(11)
Operating profit (loss) before other items		99	282	508	1,097	1,189
Other items	5	(18)	35	4	211	195
Operating profit (loss)		82	317	512	1,308	1,384
Share of profit (loss) from equity accounted financial investments		(3)	(10)	(28)	(16)	(12)
Finance income	6	7	8	30	31	41
Foreign exchange gains (losses)	6	(89)	40	6	25	16
Finance expenses	6	(72)	(73)	(215)	(216)	(295)
Profit (loss) before income tax		(74)	282	306	1,132	1,134
Income tax (expenses) benefits		(23)	(62)	(141)	(263)	(237)
Profit (loss) for the period		(97)	220	164	869	897
Attributable to:						
Non-controlling interests' share of profit (loss)		8	15	31	31	42
Owners of the parent's share of profit (loss)		(105)	206	133	838	855
Earnings per share		Third quarter		Year to date		Year
		2020	2019	2020	2019	2019
Basic earnings per share in NOK		(0.18)	0.35	0.23	1.44	1.47
Diluted earnings per share in NOK		(0.18)	0.35	0.23	1.44	1.47
Weighted average number of outstanding shares (million)	9	581	581	581	581	581
Weighted average number of outstanding shares -diluted (million)	9	581	581	581	581	581

Condensed consolidated interim statement of comprehensive income

Amounts in NOK million	Third quarter		Year to date		Year
	2020	2019	2020	2019	2019
Profit (loss) for the period	(97)	220	164	869	897
Items that will not be reclassified to profit or loss					
Remeasurement of defined benefit pension plans	-	-	-	(0)	(26)
Tax effects on remeasurements of defined benefit pension plans	-	-	-	0	3
Change in fair value of equity instruments	(0)	(0)	(0)	11	10
Share of other comprehensive income (loss) from equity accounted companies	-	-	-	0	0
	(0)	(0)	(0)	11	(13)
Items that may be reclassified to profit or loss					
Currency translation differences	49	300	796	138	33
Hedging of net investment in foreign operations	(48)	(57)	(339)	13	24
Tax effects hedging of net investment in foreign operations	11	13	75	(3)	(5)
Cash flow hedges	65	(91)	(727)	(205)	(203)
Tax effects on cash flow hedges	(14)	20	160	45	45
Share of other comprehensive income (loss) from equity accounted companies	(1)	(7)	(12)	(20)	(14)
	62	178	(48)	(32)	(120)
Other comprehensive income, net of tax	62	178	(48)	(21)	(133)
Total comprehensive income	(35)	398	117	848	764
Attributable to:					
Non-controlling interests' share of comprehensive income	7	18	40	35	45
Owners of the parent's share of comprehensive income	(42)	380	77	813	720
Total comprehensive income	(35)	398	117	848	764

Condensed consolidated interim statement of financial position

Amounts in NOK million

Note 30 September 2020 30 September 2019 31 December 2019

ASSETS

Property, plant and equipment	4	14,416	12,791	13,202
Right-of-use assets	4	747	548	580
Goodwill	4	1,439	515	466
Other intangible assets	4	885	715	777
Deferred tax assets		121	59	66
Investments in equity accounted companies		136	134	129
Derivatives	8	21	58	66
Other non-current assets		334	357	407
Total non-current assets		18,099	15,178	15,692

Inventories		5,791	5,280	5,224
Trade receivables		2,706	2,483	2,269
Derivatives	8	51	85	38
Other current assets		1,468	986	1,013
Restricted deposits	7	400	364	271
Cash and cash equivalents	7	3,197	5,071	4,496
Total current assets		13,614	14,269	13,311

TOTAL ASSETS		31,713	29,447	29,004
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EQUITY AND LIABILITIES

Paid-in capital	9	6,288	6,610	6,616
Retained earnings		6,317	6,333	6,240
Non-controlling interests		119	101	96
Total equity		12,724	13,044	12,952

Interest-bearing liabilities	7	9,588	8,655	8,340
Deferred tax liabilities		96	158	243
Employee benefit obligations		651	586	584
Derivatives	8	493	253	210
Provisions and other liabilities		457	186	158
Total non-current liabilities		11,285	9,839	9,536

Trade payables		3,124	2,636	2,767
Income tax payables		44	252	51
Interest-bearing liabilities	7	1,314	1,160	1,262
Bills payable	7	1,267	1,192	887
Employee benefit obligations		667	584	640
Derivatives	8	239	50	37
Provisions and other liabilities		1,048	690	871
Total current liabilities		7,703	6,564	6,516

TOTAL EQUITY AND LIABILITIES		31,713	29,447	29,004
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Condensed consolidated interim statement of cash flows

Amounts in NOK million	Note	Third quarter		Year to date		Year
		2020	2019	2020	2019	2019
Operating profit (loss)		82	317	512	1,308	1,384
Amortisation, depreciation and impairment	4	412	358	1,238	1,042	1,467
Changes in working capital		(55)	67	(456)	186	649
Equity accounted companies		(6)	(12)	(3)	(10)	(4)
Changes fair value of derivatives		(34)	0	(223)	(199)	(218)
Changes in provisions, bills receivables and other		(75)	(148)	328	(628)	(671)
Interest payments received		7	8	30	29	38
Interest payments made		(52)	(51)	(182)	(183)	(248)
Income taxes paid		(4)	(71)	(126)	(422)	(559)
Cash flow from operating activities		276	468	1,118	1,123	1,839
Investments in property, plant and equipment and intangible assets		(329)	(549)	(1,534)	(1,284)	(2,107)
Acquisition of subsidiaries, net of cash acquired		(240)	(215)	(1,015)	(215)	(206)
Other investments / sales		(0)	9	0	21	28
Cash flow from investing activities		(568)	(755)	(2,549)	(1,478)	(2,285)
Dividends paid to non-controlling interests		-	-	(17)	(34)	(49)
Dividends paid to owners		-	-	(349)	(1,511)	(1,511)
Net changes in bills payable and restricted deposits		(72)	26	200	(345)	(556)
Payment of lease liabilities		(25)	(19)	(77)	(53)	(78)
New interest-bearing loans and borrowings		1	87	1,619	1,830	2,082
Payment of interest-bearing loans and borrowings		(308)	(172)	(1,358)	(1,606)	(2,074)
Cash flow from financing activities		(404)	(77)	18	(1,719)	(2,187)
Change in cash and cash equivalents		(697)	(364)	(1,414)	(2,074)	(2,633)
Currency exchange differences		(6)	69	115	63	47
Cash and cash equivalents opening balance		3,900	5,365	4,496	7,082	7,082
Cash and cash equivalents closing balance		3,197	5,071	3,197	5,071	4,496

Condensed consolidated interim statement of changes in equity

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interests	Total
Opening balance 1 January 2020	6,616	6,240	12,855	96	12,952
Profit (loss) for the period	-	133	133	31	164
Other comprehensive income	-	(56)	(56)	9	(48)
Total comprehensive income	-	77	77	40	117
Share-based payment	21	-	21	-	21
Dividends to equity holders	(349)	-	(349)	(17)	(365)
Closing balance 30 September 2020	6,288	6,317	12,605	119	12,724

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interest	Total
Opening balance 1 January 2019	8,102	5,520	13,622	101	13,722
Profit (loss) for the period	-	838	838	31	869
Other comprehensive income	-	(25)	(25)	4	(21)
Total comprehensive income	-	813	813	35	848
Share-based payment	20	-	20	-	20
Dividends to equity holders	(1,511)	-	(1,511)	(34)	(1,545)
Closing balance 30 September 2019	6,610	6,333	12,943	101	13,044

Amounts in NOK million	Total paid in capital	Total retained earnings	Total owners share	Non-controlling interests	Total
Opening balance 1 January 2019	8,102	5,520	13,622	101	13,722
Profit (loss) for the year	-	855	855	42	897
Other comprehensive income	-	(135)	(135)	2	(133)
Total comprehensive income	-	720	720	45	764
Share-based payment	25	-	25	-	25
Dividends to equity holders	(1,511)	-	(1,511)	(49)	(1,560)
Closing balance 31 December 2019	6,616	6,240	12,855	96	12,952

Notes to the condensed consolidated interim financial statements

Note 1 General information, basis for preparation and judgements, estimates and assumptions

Elkem ASA is a limited liability company located in Norway and whose shares are publicly traded at Oslo Stock Exchange. Elkem ASA's condensed consolidated financial statements for the third quarter of 2020 were approved at the meeting of the board of directors on 26 October 2020.

Following changes in Elkem's internal reporting to management the composition of Elkem's operating and reporting segments has changed as of the third quarter of 2020. Segment information for prior periods has been restated to align with the new segment presentation. For further information see Note 2 Operating segments to these Condensed consolidated interim financial statements.

Basis for preparation

The condensed consolidated interim financial statements comprise Elkem ASA and its subsidiaries (Elkem/the Group) and the Group's investments in associates and interests in joint arrangements. Elkem's interim financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. The condensed interim statements are prepared in compliance with the International Accounting Standard (IAS) 34 Interim Financial Reporting and should be read in conjunction with the consolidated financial statements in Elkem's Annual Report for 2019. The accounting policies applied are consistent with those applied in the annual consolidated financial statements 2019, except for the policy for hedge accounting. Elkem has applied IAS 39 applied for its hedging relationships, based on a policy choice in IFRS 9. From 1 April 2020 IFRS 9 is applied also for hedge accounting. The change in policy has not resulted in any significant accounting effects.

The interim financial statements are unaudited. The presentation currency of Elkem is NOK (Norwegian krone). All financial information is presented in NOK million, unless otherwise stated. One or more columns included in the interim report may not add up to the total due to rounding.

Judgements, estimates and assumptions

The preparation of consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions each reporting period.

The main judgements, estimates and assumptions are described in the annual consolidated financial statements for 2019 (note 3).

As a result of the Covid-19 outbreak all significant estimates and underlying assumptions have been reviewed. For more details about impact for Elkem group results please refer to section about Financial review.

In addition to the judgements, estimates and assumptions mentioned in the annual consolidated financial statement for 2019, Elkem has an increased focus on estimates related to credit losses and other provisions/obligations.

Elkem has not identified any impact of Covid-19 in the condensed consolidated financial statement as of 30 September 2020 which requires any changes in the management's judgement, estimates or assumptions.

Note 2 Operating segments

Elkem has three reportable segments; Silicones, Silicon Products and Carbon Solutions.

- The **Silicones division** produces and sells a range of silicone-based products across various sub-sectors including release coatings, engineering elastomers, healthcare products, specialty fluids, emulsions and resins.
- The **Silicon Products division** produces various grades of metallurgical silicon, ferrosilicon, foundry alloys and microsilica for use in a wide range of end applications.
- The **Carbon Solutions division** produces carbon electrode materials, lining materials and specialty carbon products for metallurgical processes for the production of a range of metals.

- **Other** comprise Elkem group management and centralised functions within finance, logistics, power purchase, technology, digital office and strategic projects such as biocarbon and battery projects.
- **Eliminations** comprise intersegment sales and profit. Transactions between operating segments are conducted on an arm's length basis in a manner similar to transactions with third parties.

In the third quarter of 2020, Elkem changed its internal reporting to management, impacting the composition of Elkem's operating and reporting segments. The Silicon Materials division and Foundry Products division have merged and will now be reported combined to management. Centralised sales functions are allocated to respective divisions. Previously sales functions were included in "Other". Strategic projects, such as biocarbon and battery projects are reported separately and included in Other. Previously these projects were included in Foundry Products and Carbon respectively.

Elkem identifies its segments according to the organisation and reporting structure used by group management. Segments performance are evaluated based on EBITDA and operating profit (loss) before other items (EBIT). EBITDA is defined as Elkem's profit (loss) for the period, less income tax (expenses) benefits, finance expenses, foreign exchange gains (losses), finance income, share of profit from equity accounted financial investments, other items, impairment loss and amortisation and depreciation. Elkem's definition of EBITDA may be different from other companies.

Elkem's financing and taxes are managed on a group basis and are not allocated to operating segments.

Third quarter 2020	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Total
Revenue from sale of goods	3,122	2,215	392	(65)	-	5,664
Other revenue	6	14	4	35	-	59
Other operating income	39	101	2	14	-	156
Share of profit from equity accounted companies	-	-	-	6	-	6
Total operating income from external customers	3,167	2,331	397	(10)		5,886
Operating income from other segments	3	343	55	85	(486)	-
Total operating income	3,170	2,674	452	75	(486)	5,886
Operating expenses	(2,807)	(2,550)	(342)	(145)	470	(5,374)
EBITDA	363	124	111	(70)	(16)	512
Operating profit (loss) before other items (EBIT)	132	(25)	90	(82)	(16)	99

Third quarter 2019 *)	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Total
Revenue from sale of goods	2,842	2,199	384	(15)	-	5,410
Other revenue	8	14	3	52	-	76
Other operating income	23	15	2	1	-	41
Share of profit from equity accounted companies	-	-	-	12	-	12
Total operating income from external customers	2,873	2,228	388	51		5,540
Operating income from other segments	3	426	42	103	(574)	-
Total operating income	2,876	2,653	431	154	(574)	5,540
Operating expenses	(2,435)	(2,488)	(360)	(181)	564	(4,900)
EBITDA	441	165	71	(27)	(10)	640
Operating profit (loss) before other items (EBIT)	248	29	52	(36)	(10)	282

*) 2019 figures have been restated, see text above and note 1

Year to date 30 September 2020	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Total
Revenue from sale of goods	8,670	7,097	1,220	(172)	-	16,815
Other revenue	19	123	11	125	-	278
Other operating income	92	282	5	68	-	447
Share of profit from equity accounted companies	-	-	-	23	-	23
Total operating income from external customers	8,780	7,503	1,236	44		17,563
Operating income from other segments	8	991	173	299	(1,471)	-
Total operating income	8,788	8,494	1,409	343	(1,471)	17,563
Operating expenses	(8,008)	(7,622)	(1,076)	(538)	1,427	(15,817)
EBITDA	780	872	333	(195)	(44)	1,746
Operating profit (loss) before other items (EBIT)	90	418	269	(225)	(44)	508

Year to date 30 September 2019 *)	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Total
Revenue from sale of goods	8,332	7,111	1,230	(37)	-	16,635
Other revenue	23	37	6	139	-	205
Other operating income	89	140	4	15	-	248
Share of profit from equity accounted companies	-	-	-	21	-	21
Total operating income from external customers	8,443	7,287	1,240	138		17,109
Operating income from other segments	6	1,050	137	265	(1,458)	-
Total operating income	8,449	8,337	1,377	403	(1,458)	17,109
Operating expenses	(7,240)	(7,560)	(1,137)	(503)	1,470	(14,970)
EBITDA	1,210	777	240	(100)	12	2,139
Operating profit (loss) before other items (EBIT)	649	380	187	(131)	12	1,097

*) 2019 figures have been restated, see text above and note 1

Year 2019 *)	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Total
Revenue from sale of goods	11,047	9,271	1,638	(66)		21,890
Other revenue	80	73	12	191		356
Other operating income	132	229	10	22		392
Share of profit from equity accounted companies	-	(1)	-	31		31
Total operating income from external customers	11,259	9,572	1,659	178		22,668
Operating income from other segments	15	1,361	179	361	(1,916)	-
Total operating income	11,274	10,933	1,838	539	(1,916)	22,668
Operating expenses	(9,750)	(9,976)	(1,526)	(694)	1,934	(20,012)
EBITDA	1,523	958	312	(155)	18	2,656
Operating profit (loss) before other items (EBIT)	742	382	237	(190)	18	1,189

*) 2019 figures have been restated, see text above and note 1

Note 3 Changes in composition of the group

During the first three quarters Elkem invested NOK 1,015 million to acquisition of new subsidiaries and business (business combinations). The amount comprises cash consideration transferred, reduced by cash and cash equivalents of the acquiree.

In December 2019 Elkem entered into an agreement to acquire all of the shares in Guangdong Polysil Technology Co. Ltd. (hereafter Polysil), a leading Chinese silicone elastomer & resins material manufacturer with strong positions in baby care and food grade silicones, as well as silicone products for the electronics and medical markets. The parties have agreed an enterprise value for Polysil of up to CNY 941 million, including potential earn-out depending on pre-agreed criteria. On 1 April 2020 the transaction was completed and Elkem acquired 100% of the shares in Polysil.

	Year to date 2020
Net cash outflow	
Cash transferred on acquisition	(792)
Preliminary net debt and working capital adjustment	(161)
Settlement of deferred consideration	(267)
Discounting element on settlement of deferred consideration	(2)
Foreign exchange gains (losses) from date of control	30
Cash and cash equivalents of the acquiree	178
Acquisition of subsidiaries, net of cash acquired	(1,015)

The table below summarise the total consideration and the provisional amounts recognised for assets acquired and liabilities assumed after the business combination:

Consideration	
Cash transferred on acquisition	792
Deferred and contingent consideration	549
Agreed enterprise value	1,341
Net debt and working capital adjustment	161
Total consideration	1,502

	Carrying amount	Excess value	Fair value
Non-current assets	142	-	142
Current assets	525	-	525
Non-current liabilities	-	-	-
Current liabilities	(155)	-	(155)
Total identifiable net assets	512	-	512
Non-controlling interests	-	-	-
Goodwill	-	991	991
Total recognised	512	991	1,502

Both the deferred and contingent consideration are due in instalments, as at 30 September 2020. NOK 81 million is recognised as current and NOK 194 million is recognised as non-current provisions and other liabilities. The final net debt and working capital adjustment is expected to be settled during the fourth quarter of 2020.

The goodwill of NOK 991 million is attributable to the know-how in the acquired business and synergies for the Silicones segment. The allocation is based on provisional assessment of the fair value.

Note 4 Fixed assets, right-of-use assets, goodwill and intangible assets

30 September 2020	Property, plant and equipment	Right-of-use assets	Goodwill	Other intangible assets
Cost				
Opening balance	29,437	702	466	1,987
Additions	1,282	188	-	124
Reclassifications	(14)	3	-	11
Business combinations	113	27	991	0
Disposals	(113)	(22)	-	(0)
Currency translation differences	1,926	50	(18)	200
Closing balance	32,632	949	1,439	2,323
Accumulated depreciation				
Opening balance	(13,668)	(123)	-	(1,209)
Addition	(1,049)	(82)	-	(99)
Reclassifications	1	(1)	-	(0)
Disposals	89	12	-	0
Currency translation differences	(777)	(8)	-	(129)
Closing balance	(15,405)	(202)	-	(1,437)
Impairment losses				
Opening balance	(2,567)	-	-	(1)
Addition	(7)	-	-	-
Reclassifications	-	-	-	-
Disposals	9	-	-	-
Currency translation differences	(247)	-	-	(0)
Closing balance	(2,812)	-	-	(1)
Net book value 30 September 2020	14,416	747	1,439	885

30 September 2019	Property, plant and equipment	Right-of-use assets	Goodwill	Other intangible assets
Cost				
Opening balance	27,883		342	2,062
IFRS 16 Opening balance	-	373	-	-
Additions	1,138	40	-	69
Reclassifications	5	223	-	(228)
Business combinations	46	-	166	-
Disposals	(287)	-	-	(1)
Currency translation differences	146	5	7	(2)
Closing balance	28,931	641	515	1,900
Accumulated depreciation				
Opening balance	(12,856)		-	(1,139)
Addition	(897)	(59)	-	(82)
Reclassifications	(0)	(37)	-	37
Disposals	255	-	-	0
Currency translation differences	(53)	3	-	0
Closing balance	(13,551)	(93)	-	(1,183)
Impairment losses				
Opening balance	(2,582)		-	(1)
Addition	(3)	-	-	(1)
Reclassifications	-	-	-	-
Disposals	11	-	-	1
Currency translation differences	(14)	-	-	0
Closing balance	(2,589)	-	-	(1)
Net book value 30 September 2019	12,791	548	515	715

31 December 2019	Property, plant and equipment	Right-of-use assets	Goodwill	Other intangible assets
Cost				
Opening balance	27,883		342	2,062
IFRS 16 Opening balance	-	412	-	-
Additions	2,031	74	-	94
Reclassifications	(45)	223	-	(179)
Business combinations	70	-	122	31
Disposals	(461)	(6)	-	(8)
Currency translation differences	(41)	(2)	3	(14)
Closing balance	29,437	702	466	1,987
Accumulated depreciation				
Opening balance	(12,856)			(1,139)
Additions	(1,241)	(93)		(122)
Reclassifications	0	(37)		37
Disposals	415	6		7
Currency translation differences	14	1		8
Closing balance	(13,668)	(123)	-	(1,209)
Impairment losses				
Opening balance	(2,582)		-	(1)
Addition	(10)	-	-	(1)
Disposals	16	-	-	1
Currency translation differences	10	-	-	0
Closing balance	(2,567)	-	-	(1)
Net book value 31 December 2019	13,202	580	466	777

The IFRS 16 opening balance per the consolidated annual financial statement 2019 were adjusted from NOK 372 million to NOK 412 million. The effect has not been restated for the quarterly financial statements in 2019.

Note 5 Other items

	Third quarter		Year to date		Year
	2020	2019	2020	2019	2019
Change in fair value commodity contracts ¹⁾	(78)	13	(103)	272	272
Embedded EUR derivatives power contracts, interest element	70	(14)	233	(59)	(25)
Ineffectiveness on cash flow hedges	(1)	0	(2)	(13)	(13)
Net foreign exchange gains (losses) - forward currency contracts	13	(3)	43	8	23
Operating foreign exchange gains (losses)	(20)	42	51	7	(45)
Other gains / (losses)	(16)	38	221	215	211
Dividend from interest in other companies	(0)	1	1	1	1
Change in fair value from shares in other companies	(2)	0	(3)	1	1
Gains (losses) disposal of subsidiaries	-	0	-	0	0
Other income	(2)	1	(2)	2	3
Restructuring expenses ²⁾	-	-	(199)	-	-
Other	0	(5)	(16)	(6)	(18)
Other expenses	0	(5)	(215)	(6)	(18)
Total other items	(18)	35	4	211	195

¹⁾ Mainly fair value changes of the 30-øring contract, see note 26 Financial assets and liabilities to the consolidated financial statements for the year ended 31 December 2019.

²⁾ Elkem launched a productivity improvement programme in Q1 2020. The amount includes restructuring and related productivity improvement expenses.

Note 6 Finance income and expenses

	Third quarter		Year to date		Year
	2020	2019	2020	2019	2019
Interest income on loans and receivables	7	7	29	30	40
Other financial income	0	0	1	1	1
Total finance income	7	8	30	31	41
Foreign exchange gains (losses)	(89)	40	6	25	16
Interest expenses on interest-bearing liabilities measured at amortised cost	(54)	(54)	(168)	(169)	(221)
Interest expenses from other items measured at amortised cost	(7)	(7)	(18)	(20)	(25)
Interest expenses on lease liabilities	(4)	(4)	(13)	(11)	(17)
Capitalised interest expenses	-	-	-	-	-
Unwinding of discounted liabilities	(4)	(1)	(7)	(3)	(5)
Interest on net pension liabilities	(2)	(2)	(5)	(6)	(10)
Other financial expenses	(2)	(5)	(4)	(7)	(18)
Total finance expenses	(72)	(73)	(215)	(216)	(295)
Net Finance income (expenses)	(153)	(25)	(179)	(160)	(239)

Note 7 Interest-bearing assets and liabilities

	30 September 2020	30 September 2019	31 December 2019
Non-current interest-bearing debt			
Lease liabilities	447	315	323
Loans from external part, other than bank	4,200	3,956	3,928
Bank financing	4,941	4,385	4,089
Total non-current interest-bearing debt	9,588	8,655	8,340
Current interest-bearing debt			
Lease liabilities	90	50	85
Loans from external parties, other than banks	380	268	266
Bank financing, current	812	811	887
Accrued interest	32	32	25
Total current interest-bearing debt	1,314	1,160	1,262
Bills payable, current	1,267	1,192	887
Restricted deposits bills payable, current	394	358	267
Net bills payable	873	833	620
Cash and cash equivalents	3,197	5,071	4,496
Other restricted deposits, current	7	5	4
Other restricted deposits, non-current	39	96	42
Receivables from related parties	1	1	1
Loans to external parties	8	8	8
Accrued interest income	1	1	2
Total other interest-bearing assets	3,254	5,183	4,553
Net interest-bearing assets / (liabilities)	(8,522)	(5,466)	(5,669)

Note 8 Cash flow hedging

Hedge Accounting

Elkem is applying hedge accounting for parts of its forward currency contracts, certain parts of EUR loans, for embedded EUR derivatives in power contracts and for certain power contracts. Forward currency contracts and embedded derivatives are designated in a cash flow hedge to hedge currency fluctuations in highly probable future sales, mainly in USD and EUR. The power contracts designated as hedging instruments in a cash flow hedge of price fluctuations for highly probable future purchases. Hence, the effective part of change in fair value of the hedging instruments is booked against OCI, and booked as an adjustment to revenue and energy for production respectively, when realised.

Derivatives as at 30 September 2020

	Nominal value	Fair value	Hereof recognised in OCI	Effects to be recycled from OCI			
				Within 1 year	Within 2 years	Within 3 years	Within 4 years or more
Purchase contracts							
Forward currency contracts	3,276	(35)	(73)	(71)	(6)	(5)	9
Embedded EUR derivatives	4,901	(504)	(603)	(36)	(87)	(88)	(392)
Power contracts ¹⁾	2,649	(128)	(106)	(51)	(9)	(3)	(43)
Platinum contracts	49	7	-	-	-	-	-
Total derivatives		(660)	(782)	(158)	(101)	(96)	(427)
EUR loan designed as cash flow hedging instrument		(207)	(39)	(11)	(11)	(11)	(6)
Total			(820)	(169)	(112)	(107)	(432)

¹⁾ Hedge accounting is applied for some of the contracts /part of contracts.

Realised effects hedge accounting, recycled from OCI	Third quarter		Year to date		Year
	2020	2019	2020	2019	2019
Realised effects from forward currency contracts, Revenue	(39)	(12)	(137)	(29)	(50)
Realised effects from embedded derivatives EUR, Revenue	(14)	(3)	(37)	(6)	(11)
Realised effects from EUR loans, Revenue	0	0	(6)	(2)	(5)
Realised effects from power contracts, Raw materials and energy for production	(111)	(0)	(326)	68	87
Total realised hedging effects recycled from OCI	(164)	(15)	(506)	31	21

See note 26 Financial assets and liabilities, note 27 Hedging and note 28 Financial risk to the consolidated financial statements for the year ended 31 December 2019.

Note 9 Number of shares

The development in share capital and other paid-in equity is set out in the Condensed consolidated interim statement of changes in equity.

	Outstanding
As at 1 January 2020	581,310,344
As at 30 September 2020	581,310,344

In the annual general meeting held on 8 May 2020, the board of directors was granted an authorisation to repurchase the company's own shares within a total nominal value of up to NOK 290,655,172. The maximum amount that can be paid for each share is NOK 150 and the minimum is NOK 1. The authorisation is valid until the annual general meeting in 2021, but not later than 30 June 2021. The authorisation can be used to acquire shares as the board of directors deems appropriate, provided however, that acquisition of shares shall not be by subscription.

In the annual general meeting held on 8 May 2020, the board of directors was granted an authorisation to increase the company's share capital with an amount up to NOK 290,655,172. The authorisation is valid until the annual general meeting in 2021, but not later than 30 June 2021. The authorisation can be used to cover share capital increases against contribution in kind and in connection with mergers.

In the annual general meeting held on 8 May 2020, the board of directors was granted an authorisation to increase the share capital by up to NOK 40,000,000 to be used in connection with the issuance of new shares under share incentive scheme. The authorisation is valid until the annual general meeting in 2021, but not later than 30 June 2021. The authorisation does not cover capital increases against contribution in kind or capital increases in connection with mergers.

On 29 July 2020 8,000,000 options are granted to members of the management and certain other key employees. Each option gives the option holder the right to subscribe or purchase one share in the Elkem at an exercise price of NOK 19.10, which is equal to the share price at closing on the first 20 working days of July 2020. The options will vest over a period of three years from grant with one-third vesting each year and the first one-third vesting on 29 July 2021. The options will expire two years after vesting, i.e. on 29 July 2023, 2024 and 2025, respectively. As at 30 September 2020 22,767,000 options are granted to members of the management and certain other key employees.

Appendix - Alternative performance measures (APMs)

An APM is defined as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework (IFRS). Elkem uses EBITDA and EBITDA margin to measure operating performance at the group and segment level. In particular, Management regards EBIT and EBITDA as useful performance measures at segment level because income tax, finance expenses, foreign exchange gains (losses), finance income, other items are managed on a group basis and are not allocated to each segment. Elkem uses Cash flow from operations to measure the segments cash flow performance, this measure is excluding items that are managed on a group level. Elkem uses ROCE or return on capital employed as measures of the development of the group's return on capital. Elkem relies on these measures as part of its capital allocation strategy. Elkem uses net interest-bearing debt less non-current interest-bearing assets / EBITDA as leverage ratio for measuring the group's financial flexibility and ability for step-change growth and acquisitions.

The APMs presented herein are not measurements of performance under IFRS or other generally accepted accounting principles and should not be considered as a substitute for measures of performance in accordance with IFRS. Because companies calculate the APMs presented herein differently, Elkem's presentation of these APMs may not be comparable to similarly titled measures used by other companies.

Elkem's financial APMs, EBITDA and EBIT

- EBIT, also referred to as operating profit (loss) before other items is defined as Elkem's profit (loss) for the period, less income tax (expenses), finance expenses, foreign exchange gains (losses), finance income, share of profit from equity accounted financial investments and other items.
- EBITDA is defined as Elkem's profit (loss) for the period, less income tax (expenses), finance expenses, foreign exchange gains (losses), finance income, share of profit from equity accounted financial investments, other items, impairment loss and amortisation and depreciation.
- EBITDA margin is defined as EBITDA divided by total operating income.

Below is a reconciliation of EBIT and EBITDA

	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Elkem
Third quarter 2020						
Profit (loss) for the period						(97)
Income tax (expense) benefit						23
Finance expenses						72
Foreign exchange gains (losses)						89
Finance income						(7)
Share of profit from equity accounted financial investments						3
Other items						18
EBIT	132	(25)	90	(82)	(16)	99
Impairment losses						1
Amortisations and depreciations						411
EBITDA	363	124	111	(70)	(16)	512
Third quarter 2019						
Profit (loss) for the period						220
Income tax (expense) benefit						62
Finance expenses						73
Foreign exchange gains (losses)						(40)
Finance income						(8)
Share of profit from equity accounted financial investments						10
Other items						(35)
EBIT	248	29	52	(36)	(10)	282
Impairment losses						3
Amortisations and depreciations						355
EBITDA	441	165	71	(27)	(10)	640

Year to date 30 September 2020	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Elkem
Profit (loss) for the year						164
Income tax (expense) benefit						141
Finance expenses						215
Foreign exchange gains (losses)						(6)
Finance income						(30)
Share of profit from equity accounted financial investments						28
Other items						(4)
EBIT	90	418	269	(225)	(44)	508
Impairment losses						7
Amortisations and depreciations						1,231
EBITDA	780	872	333	(195)	(44)	1,746

Year to date 30 September 2019	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Elkem
Profit (loss) for the year						869
Income tax (expense) benefit						263
Finance expenses						216
Foreign exchange gains (losses)						(25)
Finance income						(31)
Share of profit from equity accounted financial investments						16
Other items						(211)
EBIT	649	380	187	(131)	12	1,097
Impairment losses						4
Amortisations and depreciations						1,038
EBITDA	1,210	777	240	(100)	12	2,139

Year 2019	Silicones	Silicon Products	Carbon Solutions	Other	Eliminations	Elkem
Profit (loss) for the year						897
Income tax (expense) benefit						237
Finance expenses						295
Foreign exchange gains (losses)						(16)
Finance income						(41)
Share of profit from equity accounted financial investments						12
Other items						(195)
EBIT	742	382	237	(190)	18	1,189
Impairment losses						11
Amortisations and depreciations						1,456
EBITDA	1,523	958	312	(155)	18	2,656

Elkem's financial APMs, Cash flow from operations

- Cash flow from operations is defined as cash flow from operating activities, less income taxes paid, interest payments made, interest payments received, changes in provision, pension obligations and other, changes in fair value commodity contracts, other items (from the statement of income) and including reinvestments.
- Reinvestments generally consist of maintenance capital expenditure to maintain existing activities or that involve investments designed to improve health, safety or the environment.
- Strategic investments generally consist of investments which result in capacity increases at Elkem's existing plants or that involve an investment made to meet demand in a new geographic or product area.

	Third quarter		Year to date		Year
	2020	2019	2020	2019	2019
Reinvestments	(269)	(155)	(829)	(640)	(1,162)
Strategic investments	(185)	(299)	(576)	(565)	(963)
Periodisations ¹⁾	125	(94)	(129)	(79)	18
Investments in property, plant and equipment and intangible assets	(329)	(549)	(1,534)	(1,284)	(2,107)

¹⁾ Periodisations reflect the difference between payment date and accounting date of the investment.

	Third quarter		Year to date		Year
	2020	2019	2020	2019	2019
Cash flow from operating activities	309	468	1,151	1,123	1,839
Income taxes paid	4	71	126	422	559
Interest payments made	52	51	182	183	248
Interest payments received	(7)	(8)	(30)	(29)	(38)
Changes in provisions, bills receivables and other	42	148	(362)	628	671
Changes in fair value commodity contracts	34	(0)	223	199	218
Other items	18	(35)	(4)	(211)	(195)
Reinvestments	(269)	(155)	(829)	(640)	(1,162)
Cash flow from operations	182	539	457	1,675	2,140

Elkem's financial APMs, ROCE

- ROCE, Return on capital employed, is defined as EBIT divided by the average capital employed, where capital employed comprises working capital, property, plant and equipment, right-of-use assets, investments equity accounted companies and trade payables and prepayments related to purchase of non-current assets.
- Working capital is defined as accounts receivable, inventory, other current assets, accounts payable, employee benefit obligations and other current liabilities. Accounts receivable are defined as trade receivables less bills receivable. Other current assets are defined as other current assets less current receivables to related parties, current interest-bearing receivables, tax receivables, grants receivable and accrued interest income. Accounts payable are defined as trade payables less CAPEX payables. Other current liabilities are defined as provisions and other current liabilities less current provisions and liabilities to related parties.
- Capital employed consists of working capital as defined above, property, plant and equipment, right of use assets, investments equity accounted companies, accounts payable and prepayments related to purchase of non-current assets.
- Average capital employed is defined as the average of the opening and ending balance of capital employed for the relevant reporting period.

Below is a reconciliation of working capital and capital employed, which are used to calculate ROCE:

Working capital bridge from statutory accounts to company definition

	30 September 2020	30 September 2019	31 December 2019
Inventories	5,791	5,280	5,224
Trade receivables	2,706	2,483	2,269
Bills receivable	(660)	(665)	(675)
Accounts receivable	2,045	1,817	1,594
Other current assets	1,468	986	1,013
Current interest-bearing receivables	-	-	-
Other current receivables to related parties interest-free	(0)	(14)	(2)
Grants receivables	(479)	(262)	(361)
Tax receivables	(148)	(109)	(137)
Accrued interest	(1)	(2)	(2)
Other current assets included in working capital	840	600	510
Trade payables	3,124	2,636	2,767
Trade payables related to purchase of non-current assets	(243)	(173)	(389)
Accounts payable included in working capital	2,882	2,463	2,378
Employee benefit obligations	667	584	640
Provisions and other current liabilities	1,048	690	871
Current provisions	(307)	(161)	(161)
Liabilities to related parties	(54)	(86)	(81)
Other current liabilities included in working capital	688	443	629
Working capital	4,440	4,207	3,681
Property, plant and equipment	14,416	12,791	13,202
Right-of-use assets	747	548	580
Investments equity accounted companies	136	134	129
Trade payables and prepayments related to purchase of non-current assets	(234)	(170)	(323)
Capital employed	19,505	17,510	17,269

Elkem's financial APMs, Leverage ratio

- Net interest-bearing debt that is used to measured leverage ratio is excluding non-current interest-bearing financial assets and accrued interest income. These assets are not easily available to be used to finance the group's operations. Below a calculation of Elkem's leverage ratio.

	30 September 2020	30 September 2019	31 December 2019
Net interest-bearing assets / (liabilities)	(8,522)	(5,466)	(5,669)
Non-current interest-bearing assets	(48)	(105)	(51)
Accrued interest income	(1)	(1)	(2)
Net interest-bearing debt	(8,571)	(5,573)	(5,722)
EBITDA (LTM)	2,263	3,113	2,656
Leverage ratio	3.8	1.8	2.2