Hydro

Lifting profitability, driving sustainability

Pål Kildemo, EVP and CFO

November 25 2020

Agenda

Hydro in brief

Q3 Update

ESG

Financial policy

Strategic priorities

Hydro at a glance

A global aluminium producer with positions across the value chain

Company statistics

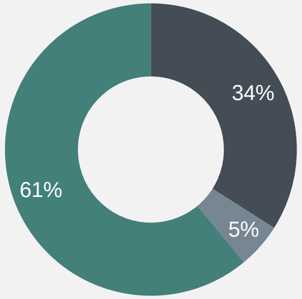
- Founded in 1905
- Headquartered in Norway
- 40 countries
- 36 000 employees

A global supplier of aluminium

Our purpose is to create **a more viable society** by developing **natural resources** into products and solutions in **innovative and efficient** ways

Key shareholders

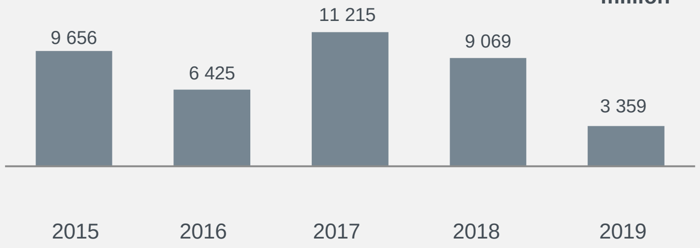
- Listed on the Oslo stock exchange
- Market capitalization NOK ~64 billion[1]



Underlying EBIT last 5 years

NOK million

UEBIT YTD Q3 2020 NOK 4,603 million



Responsible business

- Strive for no serious work-related incidents
- Ambition to reduce own emissions by 10% in 2025, 30% by 2030
- Make a positive difference by strengthening local communities and our business partners

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

asi Aluminium Stewardship Initiative

ICMM International Council on Mining & Metals

Credit ratings & financial policy

- S&P Global: BBB (stable)
- Moody's: Baa3 (negative)
- Financial ratio targets:
  - Funds from operations / Adjusted net cash (debt) > 40%
  - Adjusted net cash (debt) / Equity < 55%
- Revolving credit facility USD 1.6 bn fully available

1) November 4, 2020

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Q3 2020

Underlying EBIT NOK 1 407 million

Free cash flow NOK 3.1 billion

Markets continuing recovery from Q2 lows

Extruded Solutions uEBITDA up 28% vs Q3 2019

Paragominas pipeline maintenance finalized,
Alunorte ramping up to nameplate capacity

RSK value secured through Hydro-Lyse transaction

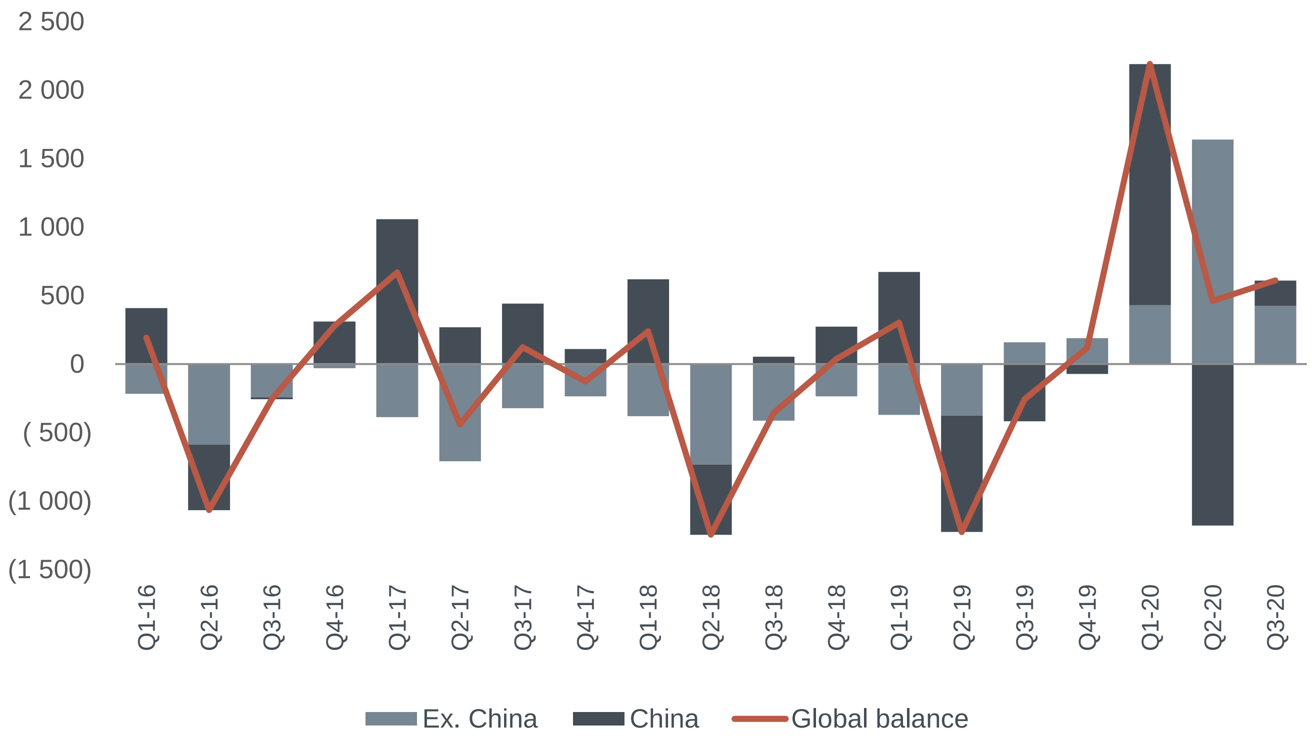
Positive developments in EU regulatory frameworks

Aluminium surplus lower than earlier forecasted

Global recovery reducing over-supply

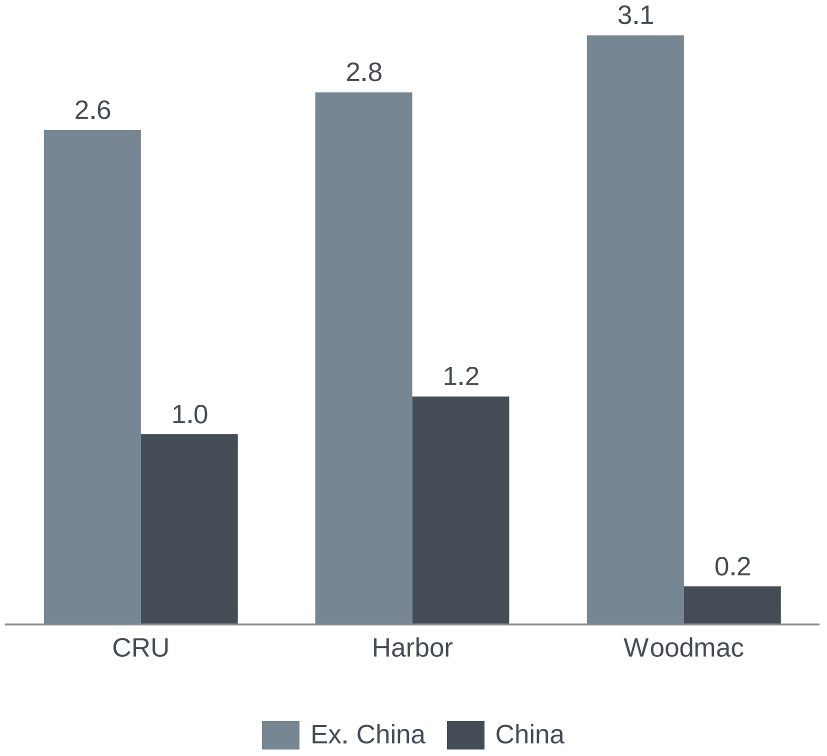
Quarterly market balances, world ex. China and China

Thousand tonnes, primary aluminium



Estimates global balance 2020

Million tonnes, primary aluminium



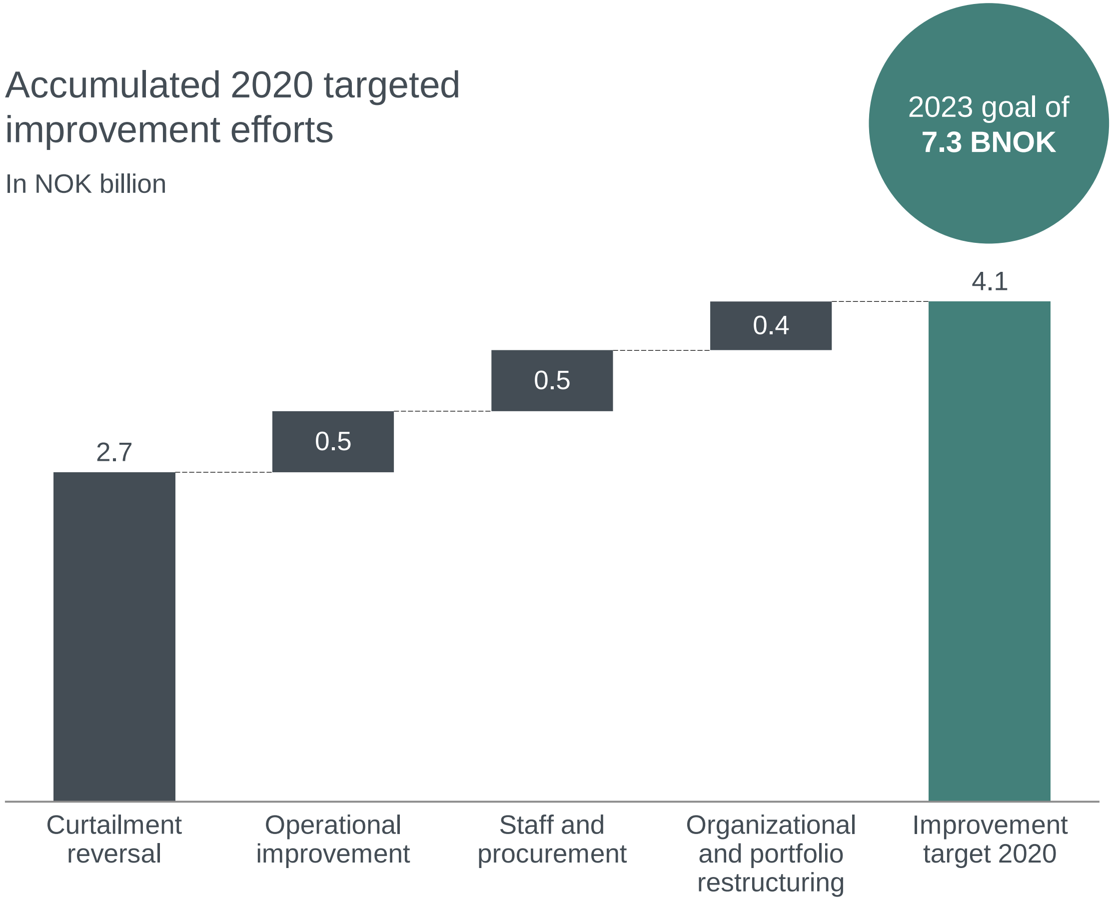
Source: Republished under license from CRU International Ltd , Harbor Aluminium, Wood Mackenzie

Cost initiatives well underway across all business areas and staffs

Improvement program behind plan on pipeline maintenance and slower ramp up in Brazil, expect to catch up to run rate at year end

Accumulated 2020 targeted improvement efforts

In NOK billion



Bauxite & Alumina

- Extended pipeline maintenance negatively affecting production ramp-up
- Alunorte targeting to reach nameplate capacity by end-2020

Primary Metal

- Albras Line 1 ramped up following outage
- Fixed cost reductions ahead of plan

Rolled Products

- Organizational right-sizing efforts exceeding 2020 plan
- Procurement initiatives and metal cost optimization ramped up and ahead of plan in September

Extruded Solutions

- Extruded Solutions realizing targeted improvements through portfolio review and fixed cost initiatives

2020 targets vs baseline 2018

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Sustainability dashboard 2020

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Safety

TRI rate 2.68
YTD October 2020

Ambition: Zero fatalities and injury free environment

Social responsibility

Empowering 500,000 people with education and skills by 2030

Partnership with UNICEF signed

Community response to Covid-19

Collaboration with local authorities

Information and awareness

Donations of funds, property, mineral water, food, test kits, PPE

Biodiversity

On track
2019

Target: 1 to 1 rehabilitation of available mined areas

Climate

Target of 30% reduction in CO_2 emissions by 2030 launched

Certifying sustainability

59 plants
ASI certified, covers entire value chain

Greener products

10 000 mt CIRCAL produced
FY 2019

Combined 2020/21 target: 65,000 mt

EU regulatory developments paving the way for low-carbon aluminium

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Aluminium a strategic material for the EU

- Newly launched "European Raw Material Alliance"
- Aluminium included within scope of materials to reach EU's 2050 climate neutrality goal

CO_2 compensation

- Revised guidelines from EU for 2021-2030
- National states to decide implementation
- Expectation that all European primary aluminium plants will be eligible for compensation

Trade measures

- European Commission has announced provisional anti-dumping duties on Chinese extrusion imports
- EU imports from China rose from 600 thousand tonnes in 2011 to 1.1 million tones in 2019, representing 6% market share
  - YTD 2020 extrusion volumes from China down 30%
- European Commission has opened anti-dumping investigation into flat rolled products from China
- European Commission has opened an anti-dumping investigation into converter foil from China

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Ambitions and targets

Shareholder, financial and hedging policy

Overall risk management strategy

Volatility managed by strong balance sheet and relative positioning

Operational improvement programs: improving efficiency, strengthening margins

Diversified business

Investment grade credit rating

Committed to investment grade credit rating

Financial ratio targets over the cycle

- Funds from operations / Adjusted net cash (debt) > 40%
- Adjusted net cash (debt) / Equity < 55%

Strong liquidity

Dividend policy

Dividend policy

- 40% payout ratio of Net income over the cycle
- Dividend of NOK 1.25 per share to be considered as floor

Dividend payment for 2019 suspended in light of current market conditions and uncertainty

Hedging policy

Fluctuating with the market; primarily exposed to LME and USD

Upstream cyclicality balanced with more stable earnings downstream

Flexibility to hedge LME or currency in certain cases

Funding policy

Centralized funding, aiming at diversified sources and smooth maturity profile

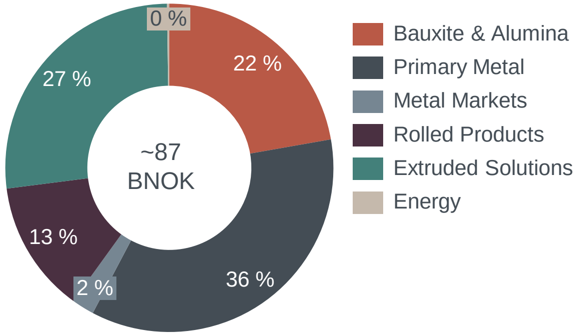
Part-owned subsidiaries according to ownership share, on equal terms with other owners

Project financing depending on situation

Capital return dashboard YTD 2020

Measures to preserve cash and financial strength during the Covid-19 situation

Capital employed1)



Capital returns

URoaCE
3.9%2)

10% target over the cycle

Balance sheet

FFO/aND
35%3)

>40% target over the cycle

Free cash flow YTD 2020

4.1 BNOK4)

Improvement program

Behind on 4.1 BNOK refocused 2020 target

2023 target 7.3 BNOK – maintained

Net operating capital

6.4 BNOK cash release since Q4-18

Target ~ 4 BNOK reduction from end-2018 to end-2020

Capex

~20% cut in 2020

~2 BNOK in cash savings

2020 new estimate 7- 7.5 BNOK
2020 original plan 9.5-10 BNOK

Shareholder payout

2019 dividend freeze5)

40% payout ratio over the cycle
1.25 NOK/share dividend floor

1) Graph excludes (9.0) BNOK in capital employed in Other & Eliminations
2) URoaCE calculated as underlying EBIT last 4 quarters less 30% tax / average capital employed last 4 quarters. RoaCE tax is calculated on UEBIT excluding net Income from equity accounted investments..
3) Funds from operation LTM/Average LTM adjusted net debt
4) Free cash flow – operating cash flow less investing cash fllow excl. sales/purchases of short-term investments
5) AGM has approved to amend dividend proposal of NOK 1.25 per share, granting power of attorney to BoD to resolve distribution of dividend at later stage if conditions allow for it

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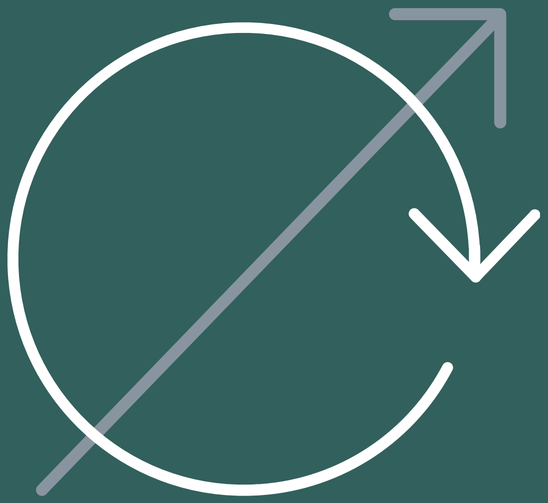
Hydro's strategic direction towards 2025

Seizing opportunities where our capabilities match megatrends

1 **Strengthen position in low-carbon aluminium**

2 **Diversify and grow in recycling and new energy**

Profitability &
Sustainability



Lifting profitability,
driving sustainability

Key priorities

- Targeted capital allocation
- Deliver on improvement programs
- Cash focus through strict capital discipline
- Proactive measures in challenging markets
- Maintain investment grade credit rating
- 10% return target over the cycle

- Safe and efficient operations
- Differentiate through sustainable products
- 30% reduction in CO_2 emissions

Hydro

We are aluminium