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Hydro

# Green and Sustainability-Linked Financing Framework 2022

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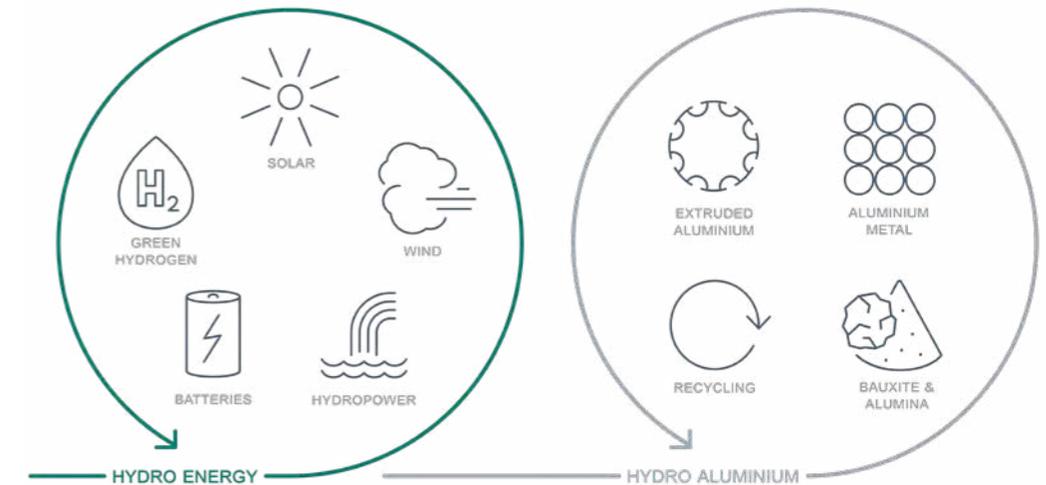
## About Hydro

Hydro is a leading aluminium and energy company committed to a sustainable future. Our purpose is to create more viable societies by developing natural resources into products and solutions in innovative and efficient ways. Hydro is present throughout the aluminium value chain, from energy to bauxite mining and alumina refining, primary aluminium, aluminium extrusions and aluminium recycling. Hydro Energy is a major renewables producer, market operator and developer of businesses for the energy transition. Hydro Bauxite & Alumina represents the first two links of the aluminium value chain through bauxite and alumina refining. Hydro Aluminium Metal is a leading supplier of extrusion ingots, sheet ingots, foundry alloys, wire rods and high-purity aluminium with a global production network. Hydro Extrusions delivers tailored aluminium components and solutions to more than 30,000 customers around the world.

Since 1905, Norway-based Hydro has turned natural resources into valuable products for people and businesses, and today employs more than 30,000 people in more than 140 locations in 40 countries. We own and operate businesses and have investments with a base in sustainable industries in a broad range of market segments for aluminium and metal recycling, and energy, renewables and batteries.

We have more than a century of experience and expertise, and we want to continue to lead the way in creating industries that matter.

As part of its commitment to sustainability, Hydro has designed this Green and Sustainability-Linked Financing Framework (the 'Framework'). This Framework has been established to support the issuance of Green Financing Instruments, as well as Sustainability-Linked Financial products. CICERO Shades of Green have provided a Second Party Opinion on the Framework.



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## Sustainability and Hydro

Hydro is committed to leading the way towards a more sustainable future, creating more viable societies by developing natural resources into products and solutions in innovative and efficient ways. We are committed to reducing emissions in our own operations, and helping our customers and society to do the same.

The green transition will be challenging and require tremendous investments on a global scale. On the other hand, the green transition will also represent a lot of opportunities. We are determined to seize opportunities where Hydro's capabilities match global megatrends, enabling our company to take a leading position in the green transition.

### Why it matters

The Paris agreement sets an ambition to limit global warming below 1.5 degrees. In response to this, Hydro has set its own net-zero ambition by 2050 or earlier and believes low-carbon aluminium products can play an important role in reducing global greenhouse gas (GHG) emissions. Alumina refining and electrolysis of primary aluminium are energy-intensive processes and constitute the majority of Hydro's scope 1 and 2 GHG emissions. The energy source is a decisive factor for total as well as specific emissions, i.e. emissions per tonne of product produced. On the other hand, aluminium can save significant amounts of energy and GHG emissions in the use phase due to its lightweight properties.

### Our approach

Hydro's overarching ambition toward 2050 is to reduce the climate impact of our value chain through greener sourcing, greener production and greener products. A crucial step in this direction is to explore different paths toward achieving net zero emissions toward 2050 or earlier and reduce our own emissions by 30 percent by 2030. Combined with greener sourcing, we aim to help our customers to reduce their emissions.

Hydro's climate strategy is an integral part of our overall business strategy, aiming at driving improvements and development within the company. Impact on the climate strategy is also a criterion for all significant investment decisions. The strategy includes reducing the climate impact of our operations as well as taking advantage of business opportunities by enabling our customers to do the same.

### Greener production

The climate strategy emphasizes reducing Hydro's own emissions. We have established a roadmap towards our 2050 ambitions by reducing GHG emissions by 10 percent by 2025 and 30 percent by 2030, based on a 2018 baseline.

More than 70 percent of the electricity used in Hydro's production of primary aluminium is based on renewable power. Going forward, Hydro will lower our carbon footprint further through reducing the carbon footprint of raw materials and energy, in addition to developing new technologies to address hard-to-abate emissions from the electrolysis process. The electrolysis abatement program is based on two methods. The first is our own proprietary HalZero technology for carbon-free processes, while the second is based on carbon capture and storage in combination with direct air capture to decarbonize our existing primary aluminium facilities.

### Environment and social ambitions

Hydro is setting new ambitions in the areas of environment and social responsibility. Within environment, this includes protecting biodiversity and reducing the environmental footprint. For biodiversity, Hydro has set an ambition to achieve no net loss of biodiversity for all new projects, in addition to the existing 1:1 rehabilitation target for our mining operations. With regards to waste, we will continue to follow our existing 2030 targets for increased utilization of bauxite residue and reduced landfilling of spent pot lining. We will also aim to eliminate the need for new permanent bauxite residue storage by 2050 and to eliminate landfilling of all other recoverable waste by 2040.

Hydro's social ambition is to improve the lives and livelihoods of people wherever we operate. We have supplemented the existing target of empowering 500,000 people with education and skills development by 2030 with business-specific targets to support a just transition, and to ensure responsible business practices throughout Hydro's supply chain, providing traceability and transparency of key sustainability data for our products.

### The UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) embrace a universal approach to the sustainable development agenda. They explicitly call on business to use creativity and innovation to address development challenges and recognize the need for governments to encourage sustainability reporting. Hydro has an impact on all of the 17 development goals, some more than others.

### Technology roadmap towards carbon neutrality in 2050



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## Green Financing Framework

Hydro is a leading aluminium and energy company committed to a sustainable future. Our purpose is to create more viable societies by developing natural resources into products and solutions in innovative and efficient ways.

The aim of this part of the Framework (“Green Financing Framework”), is to mobilize financing to support Hydro’s environmentally sustainable economic activities and the inherent contribution of Hydro’s products to enable a transition towards a low-carbon economy. Hydro strives to follow best market practice and this Framework is developed to align with the Green Bond Principles (GBP) published in June 2021 by the International Capital Market Association (ICMA) and the Loan Market Association’s Green Loan Principles (GLP) 2021, and defines the investments eligible for financing as Green Financing Instruments issued by Hydro.

Green Financing Instruments are financial instruments where the proceeds can be exclusively allocated to finance or refinance Green Projects as defined in this Framework. Green Financing Instruments may include but are not limited to: Green bonds, Green loans, Green hybrids, Green private placements, Green trade finance, Green project finance, Green commercial paper.

In order to reflect emerging regulations, in particular with regards to the EU Sustainable Finance Action Plan and the EU Taxonomy, the eligibility criteria are set to align with the EU taxonomy technical screening criteria for substantial contribution to climate change mitigation as outlined by the EU Taxonomy regulation Delegated act annex 1 (June 2021).


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## Use of Proceeds

### Allocation of net proceeds

An amount equal to the net proceeds of the Green Financing Instruments will finance or refinance, in whole or in part, investments undertaken by Hydro or its subsidiaries ("Green Projects"), in each case as determined by Hydro in accordance with the Green Project Categories defined in the next pages. Green Projects will form a portfolio of assets eligible for financing and refinancing by Green Financing Instruments. Investments can also be in the form of joint ventures or other equity investments<sup>1</sup>.

### Financing and refinancing

An amount equal to the net proceeds can finance both existing and new Green Projects financed by Hydro or its subsidiaries. New financing is defined as Green Projects financed in and after the reporting year when the Green Financing Instrument is issued, and refinancing is defined as financing prior to the reporting year of when the Green Financing Instrument is issued. Under this framework, Green Projects with disbursements that occurred within a 3-year period preceding the reporting year of issuance (look-back period) or that are expected to occur in a 3-year period following the reporting year of issuance (look-forward period) will be considered. The distribution between new financing and refinancing will be reported on in Hydro's Annual Green Financing Report.

### Exclusions

The proceeds from Hydro's Green Financing Instruments will not be directly allocated to projects for which the purpose is fossil energy production, nuclear energy generation, weapons and defence, potentially environmentally harmful resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco. For the avoidance of doubt, eligible solar, wind and hydropower use of proceeds will not be directly connected to fossil fuel production assets.

### EU Taxonomy

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities, with the purpose of scaling up sustainable investments. The taxonomy regulation (Taxonomy)<sup>2</sup> states that an activity must make a substantial contribution to at least one of the six environmental objectives set out by the EU, while it does not cause significant harm towards the other five objectives and meets minimum social safeguards.

Hydro acknowledges the importance of a common definition of sustainable activities and supports the continued development of the green bond market. Consequently, Hydro has established its Green Financing Framework to reflect the technical screening criteria in the EU Taxonomy regulation Delegated act annex 1 for substantial contribution to climate change mitigation.

Additionally, on a corporate level, we believe it is reasonable to assume that our operations in Europe meet the Do No Significant Harm ("DNSH") criteria for all environmental objectives as long as they are within normal, lawful operations, comply with emission permits to air and water, have performed environmental impact assessments and taken necessary action required. Hydro's major production sites have performed a climate risk and vulnerability assessment. Uncertainties relate to aluminium assets outside of Europe as the criteria reference EU law. Documentation requirements for hydropower production are substantial, and we are working together with other Norwegian hydropower producers to come to a common understanding for shared waterways.

Hydro's activities are carried out in compliance with the minimum social safeguards set out in the taxonomy regulation related to international minimum human and labour rights and standards. This is further described and covered by our policy documents available on [Hydro's website](#)<sup>3</sup>. The taxonomy regulation defines the minimum rights and standards as being defined by the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO), the eight fundamental conventions of the ILO and the International Bill of Human Rights.

<sup>1</sup> Equity participations in entities where at least 90 per cent of the revenues can be attributed to one or more of the Eligible Green Project Categories

<sup>2</sup> [ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852_en)

<sup>3</sup> [www.hydro.com/principles](https://www.hydro.com/principles)



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## Green Project Categories

### Green Projects

#### Manufacture of aluminium

Manufacture of aluminium through primary alumina (bauxite) process or secondary aluminium recycling.

#### EU Taxonomy activity:

3.8 Manufacturing of aluminium

#### Hydropower

Construction or operation of electricity generation facilities that produce electricity from hydropower.

#### EU Taxonomy activity:

4.5. Electricity generation from hydropower

#### Wind power

Construction or operation of electricity generation facilities that produce electricity from wind power.

#### EU Taxonomy activity:

4.3. Electricity generation from wind power

#### Solar power

Construction or operation of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology or concentrated solar power technology.

#### EU Taxonomy activities:

4.1. Electricity generation using solar photovoltaic technology

4.2. Electricity generation using concentrated solar power (CSP) technology

### Eligibility Criteria

The activity manufactures one of the following:

- (a) primary aluminium where the economic activity complies with two of the following criteria until 2025 and with all of the following criteria<sup>4</sup> after 2025:
- (i) the GHG emissions do not exceed 1,484 tCO<sub>2</sub>e per ton of aluminium manufactured;
  - (ii) the average carbon intensity for the indirect GHG emissions does not exceed 100g CO<sub>2</sub>e/kWh;
  - (iii) the electricity consumption for the manufacturing process does not exceed 15.5 MWh/t Al
- (b) secondary aluminium.

The activity complies with either of the following criteria:

- (a) the electricity generation facility is a run-of-river plant and does not have an artificial reservoir;
- (b) the power density of the electricity generation facility is above 5 W/m<sup>2</sup>;
- (c) the life-cycle GHG emissions from the generation of electricity from hydropower, are lower than 100g CO<sub>2</sub>e/kWh<sup>5</sup>

For new hydropower projects, necessary environmental and social impact assessments will be undertaken and there should be no significant controversies identified.

Onshore and offshore wind energy generation facilities.

Solar energy technologies, such as Photovoltaic systems (PV) and Concentrated Solar Power (CSP).

### UN SDGs



<sup>4</sup> Combined to a single threshold resulting in the sum of direct and indirect emissions, calculated as the average value of the top 10% of installations based on the data collected in the context of establishing the EU ETS industrial benchmarks for the period of 2021-2026 and calculated in accordance with the methodology for setting the benchmarks set out in Directive 2003/87/EC plus the substantial contribution to climate change mitigation criterion for electricity generation (100gCO<sub>2</sub>e/kWh) multiplied by the average energy efficiency of aluminium manufacturing (15.5 MWh/t Al)

<sup>5</sup> Calculated using Recommendation 2013/179/EU or, alternatively, using ISO 14067:2018, ISO 14064-1:2018 or the G-res tool. Quantified life-cycle GHG emissions are verified by an independent third party

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**Disclaimer****Green Projects****Manufacture of batteries**

Recycling of end-of-life batteries.

Manufacture of rechargeable batteries, battery packs and accumulators for transport, stationary and off-grid energy storage and other industrial applications. Manufacture of respective components (battery active materials, battery cells, casings and electronic components).

**EU Taxonomy activity:**

3.4. Manufacture of batteries

**Manufacture of hydrogen**

Manufacture of hydrogen and hydrogen-based synthetic fuels.

**EU Taxonomy activity:**

3.10. Manufacture of hydrogen

**Storage**

Construction and operation of facilities that store electricity and return it at a later time in the form of electricity.

**EU Taxonomy activities:**

4.10. Storage of electricity

4.11. Storage of thermal energy

4.12. Storage of hydrogen

**Eligibility Criteria**

The economic activity manufactures rechargeable batteries, battery packs and accumulators (and their respective components), including from secondary raw materials, that result in substantial GHG emission reductions in transport, stationary and off-grid energy storage and other industrial applications. Recycling of end-of-life batteries.

Life-cycle GHG emissions savings requirement of 73.4% for hydrogen<sup>6</sup> and 70% for hydrogen based synthetic fuels relative to fossil fuel comparator of 94g CO<sub>2</sub>e/MJ.

**Storage of hydrogen**

The activity is one of the following:

- (a) construction of hydrogen storage facilities;
- (b) conversion of existing underground gas storage facilities into storage facilities dedicated to hydrogen-storage;
- (c) operation of hydrogen storage facilities where the hydrogen stored in the facility meets the criteria for manufacture of hydrogen.

**Storage of thermal energy**

The activity stores thermal energy, including Underground Thermal Energy Storage (UTES) or Aquifer Thermal Energy Storage (ATES).

**Storage of electricity**

The activity is the construction and operation of electricity storage including pumped hydropower storage<sup>7</sup>.

**UN SDGs**

<sup>6</sup> Resulting in life-cycle GHG emissions lower than 3tCO<sub>2</sub>e/tH<sub>2</sub>

<sup>7</sup> Where the activity includes chemical energy storage, the medium of storage (such as hydrogen or ammonia) complies with the criteria for manufacturing of the corresponding product specified in Sections 3.7 to 3.17 of the EU Taxonomy regulation Delegated act annex 1 for climate change mitigation. In case of using hydrogen as electricity storage, where hydrogen meets the technical screening criteria specified in Section 3.10 of the same Annex, re-electrification of hydrogen is also considered part of the activity

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## Green Project Evaluation and Selection

### Green project evaluation & selection process

The evaluation and selection process for Eligible Green Projects is key in ensuring that the amount equivalent to the net proceeds from Green Financing Instrument are allocated to Eligible Green Projects under this Framework.

Green Projects shall comply with the eligibility criteria defined under the Green Project Categories. The process of evaluating and selecting eligible Green Projects as well as the allocation of Green Financing Instrument proceeds to eligible Green Projects comprise the following steps:

1. Representatives from Hydro's different business segments, supported from time to time by sustainability experts, will put forward potential Green Projects to Hydro's Green Finance Committee ("GFC").
2. A list of potential Green Projects is presented to Hydro's Green Finance Committee ("GFC"). The GFC is solely responsible for the decision to acknowledge the project as green, in line with the Eligibility Criteria in this Framework. Green Projects which are approved will be tracked using a dedicated "Green Project Register". A decision to allocate net proceeds will require a consensus decision by the GFC. The decisions made by the GFC will be documented and filed.

### Green Finance Committee (GFC)

The GFC is chaired by the Chief Financial Officer and includes senior member representatives from the following departments:

- Group Performance, Planning & Control
- Group Accounting and Reporting
- Group Treasury and Tax
- Group Sustainability
- Portfolio Development

The GFC may call upon other business segments as relevant. The GFC will convene every 6 months or when otherwise considered necessary. For the avoidance of doubt, the GFC holds the right to exclude any Green Project already funded by Green Financing Instrument proceeds if the Green Project no longer meets the eligibility criteria defined in the Framework. If a Green Project is sold, or for other reasons loses its eligibility, funds will then follow the procedure under Management of Proceeds until reallocated to other eligible Green Projects.

The GFC will also be responsible for preparing and verifying annual reporting on the allocation and impact of the net proceeds raised through Green Financing Instrument.

### Policies in place to identify and mitigate potential environmental and social risks

Hydro has put in place a strong evaluation and selection process, corporate sustainability and risk management framework in order to ensure mitigation of potential environmental and social risks associated with the Eligible Green Projects, in addition to applicable national and international environmental & social standards and regulations.

All of Hydro's sites shall follow our own internal policies and procedures, related to environmental management, supported by comprehensive health, safety and environment (HSE) management systems, audit programs, training and awareness initiatives. In addition, the large majority of our sites are ISO14001 certified, and many have received certification to ASI's Performance and Chain of Custody standards.

In addition, all of Hydro's operations have the potential to impact negatively upon biodiversity and ecosystem services, through direct land-use change, harmful emissions to air, water and land, waste disposal, or introduction of invasive species. In 2021, we set an ambition to achieve no net loss of biodiversity in all new projects.

Hydro's human rights management is based on the OECD Due Diligence Guidance for Responsible Business Conduct and follows four steps:

- Policy, commitment and governance
- Rightsholder and stakeholder management
- Grievance mechanisms and remediation
- Due diligence: identifying, assessing, acting monitoring and communicating risks and impacts.

Due diligence is carried out with a risk-based approach in line with the UN Guiding principles on Business and Human Rights and the OECD guidelines.

Before new projects, major developments or large expansions are undertaken, we aim to conduct risk-based environmental and social impact assessments, when relevant, which include evaluating risks for adverse human rights impacts. We are

guided by the IFC Performance Standards on Environmental and Social Sustainability in doing so.

In order to reduce the risks for our operations and potential consequences related to climate change, we have performed extensive risk assessments. This includes modelling of future weather patterns and their impact on Hydro's facilities based on existing climate models and scenarios from the Intergovernmental Panel on Climate Change (IPCC). We have also assessed scenarios for policy and legal risk, technology, market and reputation risk.

## Management of Proceeds

### Tracking of Green Financing Instrument net proceeds

Hydro will use a Green Project Register to track the allocation of an amount equivalent to the net proceeds from a Green Financing Instrument to Green Projects. The purpose of the Green Register is to ensure that an amount equivalent to the net proceeds only supports the financing of Green Projects or to repay a Green Financing Instrument. The management of proceeds will be reviewed by an independent external party appointed by Hydro.

The balance of proceeds should be periodically adjusted, in order to match allocations to Eligible Green Projects (re) financed during this period. To this end, if for any reason projects became no longer eligible, Hydro commits to substitute them as soon as practical, on a best effort basis.

### Temporary holdings

The balance of unallocated Green Financing Instrument net proceeds will be held in temporary investments such as cash, cash equivalents and/ or other liquid marketable investments in line with Hydro's treasury management policies.

### Exclusions

Temporary investments will not be placed in entities with a business plan focused on fossil energy generation, nuclear energy generation, research and/or development within weapons and defence, environmentally negative resource extraction, gambling or tobacco.



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## Reporting and Transparency

To enable the monitoring of performance and provide insight into prioritised areas, Hydro will annually publish an allocation and impact report until full allocation of the net proceeds, and in the event of any material changes until the relevant maturity date of the Green Financing Instrument issued in a Green Financing Report. The Green Financing Report will, to the extent feasible, also include a section on methodology, baselines and assumptions used in the impact calculations. This report will be made available on [Hydro's website](#).

### Allocation reporting

Allocation reporting will include the following information:

- Nominal amount of outstanding of Green Financing Instrument issued
- Amount of net proceeds allocated to each project category
- Relative share of new financing versus refinancing
- Descriptions of selected projects financed, subject to confidentiality considerations
- The remaining balance of unallocated proceeds, if any

### Impact reporting

The impact reporting aims to disclose the environmental impact of the Green Projects financed under this Framework, based on Hydro's financing share of each project. The impact report will also disclose what environmental objectives the Green Projects contribute to.

As Hydro can finance a large number of smaller Green Projects in the same Project Category, impact reporting will, to some extent, be aggregated.

The impact assessment is provided with the reservation that not all related data can be covered and that calculations therefore will be on a best effort basis. The methodologies as well the assumptions and baselines used to determine the impact reporting indicators will be provided as well as a distinction between where actual and estimated impact metrics are reported.

The impact assessment will, if applicable, be based on the Impact Reporting Metrics presented in the table on the right. Hydro intends to align, on a best effort basis, the reporting with the portfolio approach described in ICMA's "Handbook – Harmonized Framework for Impact Reporting" (June 2021)<sup>8</sup>.

## Green Projects

## Impact Indicators

### Manufacture of aluminium

- Tonnes of produced aluminium
- Tonnes of recycled aluminium, pre- and post-consumer
- Annual GHG emissions avoided (tonnes of CO2e emissions)
- GHG performance compared to strategy baseline
- Emission intensity compared to world average
- Electricity intensity compared to world average

### Renewable Energy

Hydropower, wind, solar

- Installed renewable energy capacity (GW)
- Annual renewable energy generation (GWh)
- Annual GHG emissions avoided (tonnes of CO2e emissions)
- New capacity installed/financed (if SPVs)

### Manufacture of batteries

Recycling of end-of-life batteries

- Anode material – kilo tonnes per year
- Circular solutions – kilo tonnes per year
- Systems and solutions – GWh installed capacity

### Manufacture of hydrogen

- Tonnes of produced hydrogen

### Storage

- Storage capacity

<sup>8</sup> [ICMA's "Handbook – Harmonized Framework for Impact Reporting" \(June 2021\)](#)



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**Second party opinion**

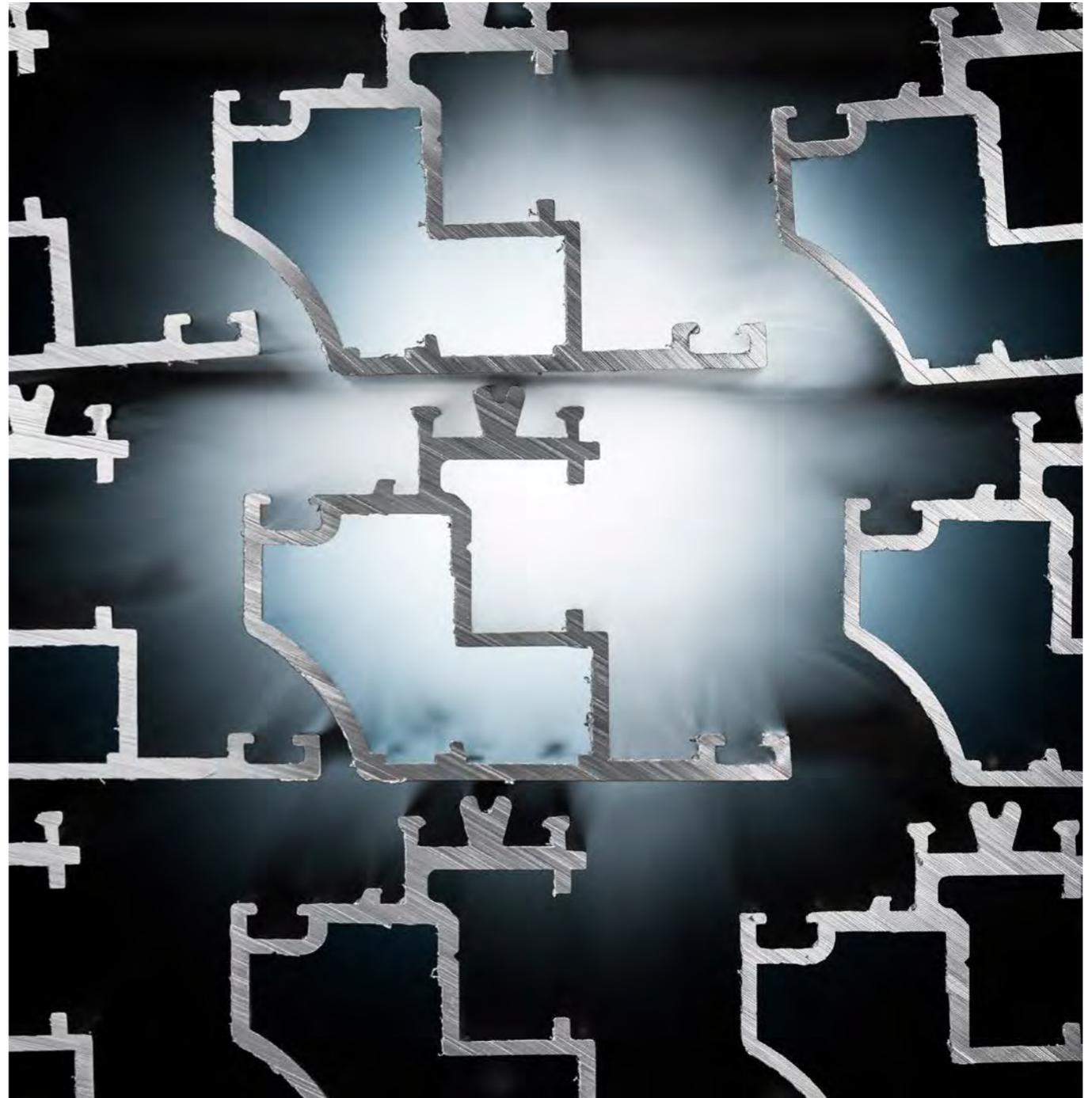
CICERO Shades of Green has provided a second opinion to this Framework verifying its credibility, impact and alignment with the Green Bond and Loan Principles, including an assessment of the EU Taxonomy alignment.

**Post-issuance review**

An independent external party, appointed by Hydro will on an annual basis until full allocation of the net proceeds, and in the event of any material changes until the relevant maturity date, provide a review, confirming that an amount equal to the Green Financing Instrument net proceeds has been allocated to Green Projects.

**Publicly available documents**

The Green Financing Framework and the second party opinion will be publicly available on [Hydro's website](#), together with the post-issuance review and the Annual Green Financing Report once published.



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# Sustainability-Linked Financing Framework

By setting up this part of the Framework (the “Sustainability-Linked Financing Framework”), Hydro intends to link its funding with key objectives that are material for our long-term sustainability performance. The objectives will be achieved through an ambitious timeline, Key Performance Indicators (KPIs) and the Sustainability Performance Targets (SPTs). The Framework is developed to align with the Sustainability-Linked Bond Principles (SLBP) published in June 2020 by the International Capital Market Association (ICMA) and the Sustainability-Linked Loan Principles (“SLLP”) 2021. The Framework will apply to Sustainability-Linked Financial Products issued by Hydro such as Sustainability-Linked Bonds, Sustainability-Linked Loans and any other type of Sustainability-Linked financial instrument.

The terms and conditions of the underlying documentation for each Sustainability-Linked Financial Product issued by Hydro shall provide a reference to this Framework. The purpose of the Sustainability-Linked Financing Framework is to define the KPIs, SPTs, financial characteristics, disclosure and verification related to our sustainability-linked financing.



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## Selection of Key Performance Indicators

### KPI 1: Scope 1 & 2 absolute GHG emissions (million tonnes CO<sub>2</sub>e)

#### Relevant, core and material to Hydro

The Paris agreement sets an ambition to limit global warming below 1.5 degrees. In response to this, Hydro has set its own net-zero ambition by 2050 or earlier and believes low-carbon aluminium products can play an important role in reducing GHG emissions.

Hydro's climate strategy – “30 by 2030” – also calls for a 30 percent reduction of scope 1 & 2 GHG emissions by 2030 and 10% by 2025.

Hydro's climate strategy is an integral part of our overall business strategy, aiming at driving improvements and development within the company. The strategy includes reducing the climate impact of our operations as well as taking advantage of business opportunities by enabling our customers to do the same. Impact on the climate strategy is also a criterion for all significant investment decisions.

Hydro's scope 1 GHG emissions are associated with sources that are owned or controlled by Hydro, notably:

1. Fuel combustion in furnaces and boilers
2. Alumina calcination
3. Production of carbon anodes
4. Consumption of carbon anodes in the aluminium electrolysis process
5. PFC emissions from electrolysis process

In 2021, scope 1 emissions accounted for approximately 27% of Hydro's emissions.

Hydro's scope 2 GHG emissions (also referred to as indirect emissions) are associated with the consumption of imported/purchased electricity, heat or steam and accounted for approximately 13% of Hydro's total emissions in 2021.

Hydro has already made great progress over the last three decades in reducing their scope 1 and 2 emissions, by cutting

their direct CO<sub>2</sub>e emission intensity per tonne by 70% at their fully owned Norwegian smelters.

Alumina refining and electrolysis of primary aluminium are energy-intensive processes and constitute the majority of Hydro's scope 1 and 2 GHG emissions, with energy source being a decisive factor.

Hydro is pursuing three decarbonization paths to reduce the carbon footprint of aluminium to net zero, that focus on greener sourcing, greener products and greener production.

Scope 1 and 2 emissions are therefore a key indicator for the sustainability of Hydro's own operations and importantly contribute to the United Nations Sustainable Development Goal 13 “Climate Action”.

#### Measurable, quantifiable and verifiable

Hydro quantitatively measures and monitors scope 1 and 2 GHG emissions in line with the principles of the WRI/WBCSD GHG Protocol. This data has been verified and has been tracked for the last 20 years.

### KPI 2: Post Consumer Scrap (PCS) Aluminium Recycling Capacity (tonnes)

#### Relevant, core and material to Hydro

The majority of Hydro's scope 3 emissions are from purchased goods and services, with the remainder from external transportation.

In 2021, Hydro's scope 3 emissions were approximately 60% of total emissions (17 million tonnes of CO<sub>2</sub>e in 2021). Of this, 80-90% fall into Category 1 - Purchased goods and services, as a result of the purchase of a significant amount of cold metal and aluminium scrap from external providers. As Hydro regards the carbon footprint<sup>9</sup> of process scrap as equal to its metal origin, its scope 3 emissions are significant<sup>10</sup>.

Hydro is making progress on its Scope 3 emissions, which have reduced by 18 percent since 2018. The reduction was due to conscious sourcing of metal with a lower carbon footprint. However, to meet our net zero goals, our scope 3 footprint needs to significantly reduce.

Hydro is still in the process of developing a robust scope 3

target. We have therefore chosen a scope 3 KPI proxy that addresses the largest proportion of our scope 3 emissions and our strategy.

Aluminium can save significant amounts of energy and GHG emissions in the use phase due to its lightweight properties and the inherent properties of aluminium make recycling attractive. It can be recycled infinitely without degradation in quality, and recycling requires 95 percent less energy than primary aluminium production.

Hydro therefore aims to increase its green sourcing and procure metal with a lower carbon footprint. This will primarily be achieved through increasing the use of post-consumer scrap in our metal production due to its zero-carbon footprint.

Post-consumer scrap is defined as aluminium scrap that comes from products which have fulfilled the purpose for which they were produced. This scrap might range from aluminium cans with a lifetime of about 60 days to buildings with a lifetime of more than 50 years. When this scrap is recycled, it starts its second life as a recycled product, with no carbon footprint attached to it except from the remelting. As a result, postconsumer scrap has a carbon footprint of about 0.5 or less tonnes of CO<sub>2</sub> per mt of aluminium. This footprint results from scrap collection, transportation, sorting and remelting.

The volume of post-consumer scrap is therefore a key indicator of progress towards reducing the most material scope 3 emissions. It also addresses the United Nations Sustainable Development Goal 12 “Responsible Consumption and Production”.

#### Measurable, quantifiable and verifiable

As post-consumer scrap is a key input to the manufacturing process, the volume figures used are quantifiable measured, tracked and verified.

<sup>9</sup> [ee.hydro.com/l/422852/recycled-Aluminium-May-2020-pdf/2lqw1y](https://ee.hydro.com/l/422852/recycled-Aluminium-May-2020-pdf/2lqw1y)

<sup>10</sup> Further information can be found in [Note E1 Annual report 2021](#)



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## Calibration of Sustainability Performance Targets

**SPT 1a: Reduce GHG emissions, direct and indirect emissions (Scope 1 and 2), by 30 percent by 2030 compared to 2018 baseline.**

**SPT 1b: Reduce GHG emissions, direct and indirect emissions (Scope 1 and 2), by 10 percent by 2025 compared to 2018 baseline.**

### Target setting and benchmarking

Hydro has for a long time been pushing the boundaries for low-carbon aluminium. From 1990 Hydro has reduced absolute emissions for the primary aluminium production in Norway by around 55 percent and increased production from 600 000 tons to 1 million. Emissions per produced ton aluminium have decreased by 70 percent.

To understand the impact of climate change and the implications of the Paris Agreement for the aluminium industry, Hydro has taken part in the International Aluminium Institute's (IAI's) work to develop greenhouse gas pathways toward 2050 consistent with the Paris Agreement, as seen in chart on the right.

These are in line with the International Energy Agency's 1.5°C scenario, combined with IAI's analysis of demand in the aluminium market and material flows. These pathways are integrated in Hydro's strategy.

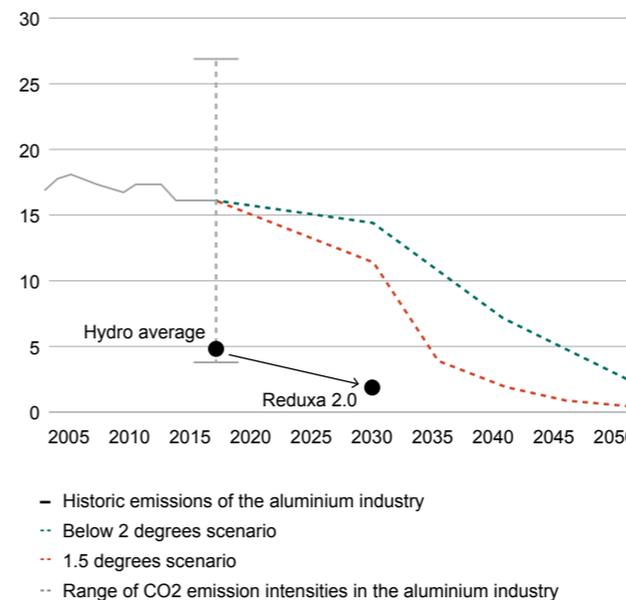
The Science Based Targets initiative (SBTi) has not yet developed a sectoral decarbonisation approach for the aluminium sector, however, it is working with the IAI to do so during 2022. The current SBTi criteria and recommendations (Version 5.0, published in October 2021) therefore requires industrial sectors, including aluminium, to set scope 1 and 2 targets to be in line with an available 1.5 °C Sustainable Development Scenario (SDS) pathway or absolute contraction approach. Once SBTi's aluminium sector approach is finalised, Hydro will review its targets to ensure its long-term alignment.

The SPT of 30 percent reduction of Scope 1 and 2 by 2030 compared to 2018 baseline is aligned with the Well Below 2 Degrees Scenario (WB2C) pathway. This is further supported by an assessment of the preparedness for the transition to a low carbon economy, performed by the Transition Pathway Initiative<sup>11</sup>.

The 2018 baseline was chosen as Hydro's reduction targets were set in 2019 following the launch of Hydro's new climate strategy. 2018 was therefore the latest year with complete emission data<sup>11</sup>.

### IAI emission projection pathways toward 2050

Tonnes CO2e/t primary aluminium



Source: International Aluminium Institute (IAI), Hydro analysis

### Historical performance and baseline figures – Greenhouse gas emissions<sup>12</sup>

	2021	2020	2019	2018 strategy baseline <sup>13</sup>
Direct GHG emissions	7.74	7.13	6.76	7.705
Indirect GHG emissions	3.54	3.46	3.81	3.57
<b>Total GHG emissions</b>	<b>11.31</b>	<b>10.59</b>	<b>10.57</b>	<b>11.28</b>

Hydro's direct greenhouse gas emissions increased in 2021 due to increased production volumes and restart of line B at Hydro Husnes. Emissions per ton alumina and aluminium produced remained stable. Production at Alunorte was impacted by the embargo in 2018 and 2019, and returned to normal levels during 2020.

### Strategy to achieve the SPT 1a and b

In 2021, Hydro launched a new climate ambition, reaffirming the target of cutting our own carbon emissions by 30 percent by 2030 and setting new ambitions of becoming net zero in terms of direct and indirect emissions from power generation (Scope 1 and 2) by 2050 or earlier. Hydro's SPTs therefore directly align with our corporate targets.

Hydro's roadmap to net-zero emissions by 2050 for the upstream aluminium business includes planned activities to replace fuel oil with natural gas and electrify boilers at the Alunorte alumina refinery in Brazil, where we also plan to pilot using hydrogen for calcination. Hydro made a final build decision to invest BRL 1.3 billion in the project to replace fuel oil with natural gas at Alunorte.

Achieving near-zero emissions throughout the value chain also requires that our portfolio of primary aluminium plants has access to a higher share of renewable energy and that renewable hydrogen, electricity, or biogas is available for use in the casthouses and recyclers.

<sup>11</sup> [Aluminium - Transition Pathway Initiative](#)

<sup>12</sup> Data presented here benefits from an external assurance as part of Hydro's annual reporting

<sup>13</sup> 2017 for Paragominas, Alunorte and Albras due to the production embargo at Alunorte and curtailment at Albras and Paragominas)

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Hydro is pursuing three technology pathways toward near zero aluminium:

1. To secure the value of existing primary aluminium plants, Hydro is developing carbon capture and storage (CCS) solutions that can be retrofitted into the existing plants. Hydro has evaluated more than 50 CCS technologies and is planning to test and pilot the most promising, up to industrial scale by 2030. The most likely outcome will be a combination of off-gas capture and direct air capture.
2. Another pathway more suited for greenfield aluminium plants is Hydro's proprietary HalZero technology. This technology converts alumina to aluminium chloride prior to electrolysis in a process where chlorine and carbon are kept in closed loops, resulting in a fully decarbonized process. Hydro has been working on lab-scale development of this technology for five years and has now developed a roadmap to bring this to an industrial scale before 2030.
3. A third and faster pathway to zero-carbon aluminium is by recycling more post-consumer scrap. Using only post-consumer scrap, we will be able to produce a near-zero carbon product at a competitive cost. This

will be made possible by Hydro's patented aluminium sorting technology and alloying expertise, in combination with replacing natural gas with renewable hydrogen or electrical heating at recyclers and casthouses. Near-zero carbon aluminium should be commercially available in small volumes during 2022.

The overall carbon footprint of primary aluminium is highly dependent on the source of energy used to produce the metal. More than 70 percent of the electricity used in Hydro's production of primary aluminium is based on renewable power.

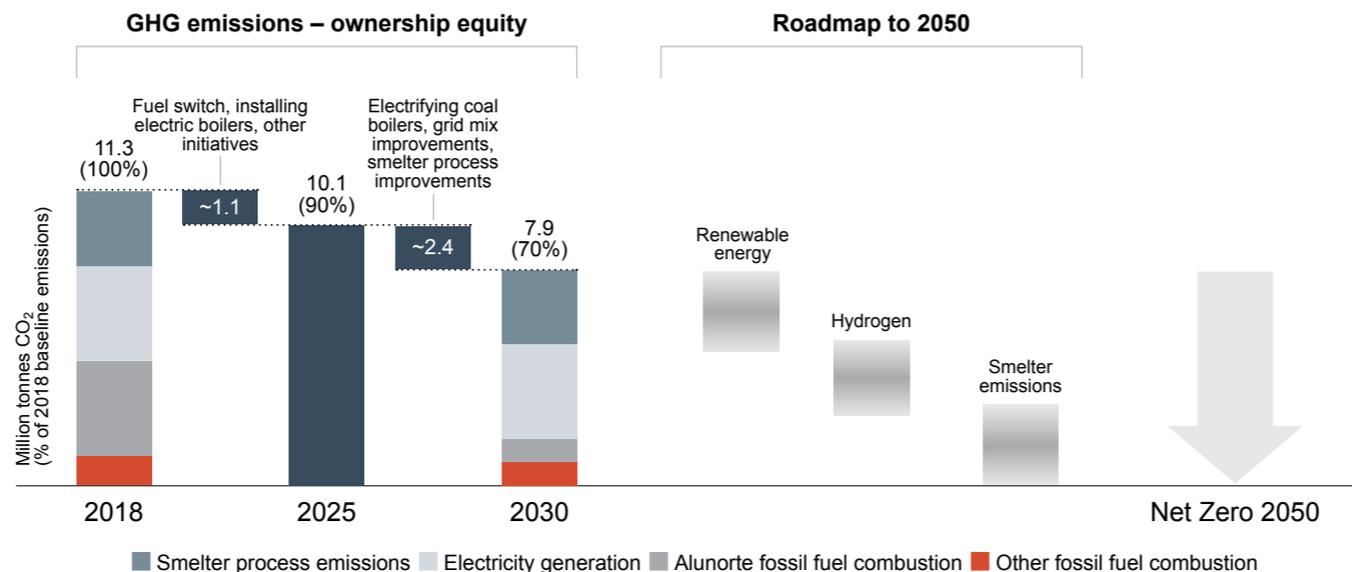
Energy efficiency is an important part of Hydro's ongoing efforts to reduce costs and air emissions. Our alumina refinery in Brazil, Alunorte, is among the most energy-efficient refineries in the world. We have made a final build decision to invest BRL 1.3 billion to replace fuel oil with natural gas. The fuel switch project will reduce the refineries' annual greenhouse gas emissions by 700,000 tonnes. In addition, we are planning to reduce emissions from Alunorte by an additional 400,000 tonnes by 2025 by

installing electrical boilers for steam generation, replacing coal-fired boilers. Alunorte is already positioned in the first quartile of GHG emission intensity, and 35 percent lower than industry average. By 2030, the aim is to fully decarbonize all processes, except the calcination process. This will be done mainly by electrification of remaining boilers and will lead to a total emission reduction of 70% at Alunorte by 2030.

Innovation and technology development are key enablers towards reducing CO<sub>2</sub> emissions. We have initiated a significant R&D program towards 2030 to look into different alternatives to achieve CO<sub>2</sub>-free processes. We are currently following two pathways to decarbonize our primary aluminium production – addressing the process emissions in the smelters, in addition to decarbonizing the rest of the aluminium value chain using green hydrogen and green electricity.

**SPT 2: Increase the post-consumer scrap recycling capacity to 660,000 tonnes by 2025.**

Technology roadmap towards carbon neutrality in 2050



Target Setting and Benchmarking

Production of primary aluminium is energy intensive. The carbon footprint of primary aluminium is thus highly dependent on the source of electricity used. Recycling of aluminium requires a lot less energy than primary aluminium production, and thus emits less GHG. The footprint of recycled aluminium is dependent on the life-cycle of the aluminium.

According to the International Energy Agency (IEA)<sup>14</sup>, the combined share of pre- and post-consumer scrap of aluminium production needs to reach 40 percent, and at least 70 percent of that should be post-consumer scrap, to align with their Net Zero Emissions by 2050 pathway. The share of secondary production has remained relatively constant at 31-33% since 2000. The IEA refers to better scrap collection and sorting as the main lever to achieve this, and aluminium product's long life-cycle as an obstacle.

Hydro's position<sup>15</sup> is that process scrap, which arises during processing of aluminium and has never fulfilled its purpose,

<sup>14</sup> [Aluminium – Analysis - IEA](#)  
<sup>15</sup> [ee.hydro.com/422852/recycled-Aluminium-May-2020-pdf/2lqw1y](https://ee.hydro.com/422852/recycled-Aluminium-May-2020-pdf/2lqw1y)

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therefore carries the carbon footprint of the original primary aluminium from which it is produced. Post-consumer scrap comes from products that have fulfilled its purpose and, with no carbon footprint history attached to it.

Given the above, to be able to drive down the embedded emissions in the products we deliver to our customers, we have to increase our utilization of post-consumer scrap. This position differentiates Hydro from its peers, which do not make the distinction between pre- and post-consumer scrap. Hydro is the only aluminium company with a target on post-consumer scrap capacity increase.

Post-consumer scrap might range from aluminium cans with a lifetime of about 60 days to buildings with a lifetime of more than 50 years. The main challenge with post-consumer scrap is to make sure that the quality of the metal is preserved in the recycling process, and to identify the alloys and properties of the used metal we purchase. Hydro produces extrusion ingot with much higher quality requirements than other casthouse products, such as secondary foundry alloys and sheet ingot. We are working together with customers to develop new markets and specifications, while developing advanced sorting technology<sup>16</sup>.

Hydro's ambition to increase the post-consumer scrap recycling capacity to 660,000 tonnes by 2025 will improve the share of recycled post-consumer scrap to process scrap, and strengthen our position in low-carbon aluminium. Some of this increase will come from greenfield, other will come from expansion projects to increase a site's capability to process post-consumer scrap<sup>17</sup>.

Historical performance

Recycling

1.000 metric tonnes	2021 <sup>18</sup>	2020	2019	2018
Recycled post-consumer scrap	335	104	98	104
Recycled pre-consumer scrap	1,018	317	340	395

The reporting of recycling figures follows the principles for pre- and post-consumer scrap described above. Following the acquisition of Sapa in 2017, now the business area Hydro Extrusions, we have worked to integrate their recycling reporting and harmonize definitions to integrate them in the reporting. This was achieved in 2021. Reporting of recycling data is drawn from the company's production software and ERP system.

Strategy to achieve the SPT 2

As already introduced, one of the pathways to zero-carbon aluminium is to be achieved by recycling more post-consumer scrap. We aim to have the first commercially available volumes of aluminium with a near-zero footprint already in 2022.

The inherent properties of aluminium make recycling attractive. It can be recycled infinitely without degradation in quality, and recycling requires 95 percent less energy than primary aluminium production.

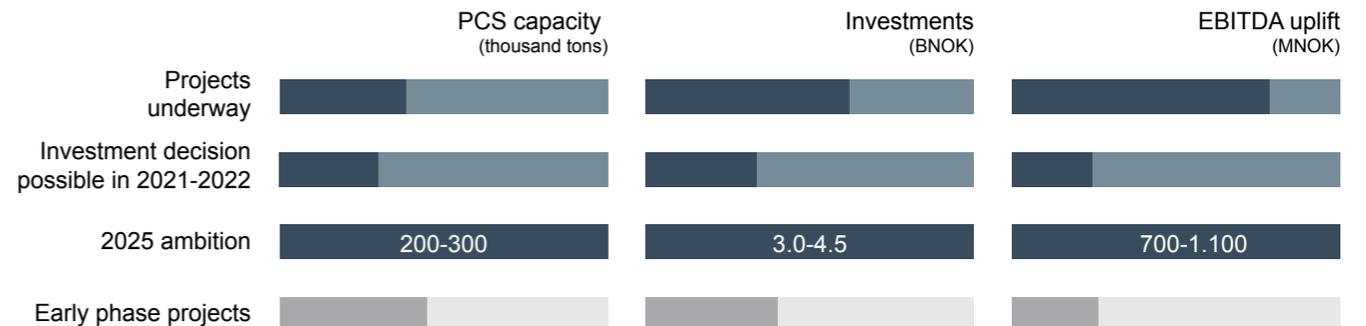
Hydro is a large remelter and recycler of aluminium. We remelt process scrap from our own production and from other companies, as well as post-consumer scrap from the market. We have an ambition to recycle 660,000 tons of post-consumer scrap by 2025, doubling our capacity.

Reaching our 2030 climate ambition will result in an even lower carbon footprint from our products. By 2022, we aim to deliver the first commercial volumes of aluminium with 0.5-1 kg CO<sub>2</sub>/kg aluminium footprint. This is a significant improvement, compared with the current 2.3 kg CO<sub>2</sub>/kg aluminium in Hydro CIRCAL extrusion ingot based on 75 percent post-consumer aluminium scrap.

Demand for low carbon aluminium products is increasing and it is expected to continue growing. Hydro will make key capacity investments over the medium term to ensure our recycling portfolio can facilitate the increasing demand for Hydro CIRCAL.

In Michigan, US, Hydro will invest in the construction of a new aluminium recycling plant producing 120,000 tonnes of aluminium extrusion ingot per year. In Norway, Hydro will invest NOK 105 million to establish Høyanger Recycling, a dedicated aluminium recycling facility located by the Hydro Høyanger primary aluminium smelter with annual capacity of 36,000 tonnes. In Hungary, Hydro will build a new aluminium remelt facility, and the new facility will be built at Hydro's aluminium extrusion plant in Szekesfehervar with an annual capacity of 90,000 tonnes. Also, Hydro made the decision

Strong recycling project pipeline under execution



<sup>16</sup> Read more in Hydro's Annual Report 2021 page 77-78

<sup>17</sup> See more in [Hydro's Capital Markets Day 2021](#) page 35-40

<sup>18</sup> 2021 is the first year we have consolidated recycling data from Hydro Extrusions, making the 2021 results not directly comparable to previous years' data. In 2020-2018, Extrusions remelted in total 800 000 tons of external scrap of which an estimated 20 percent was post-consumer scrap per year.

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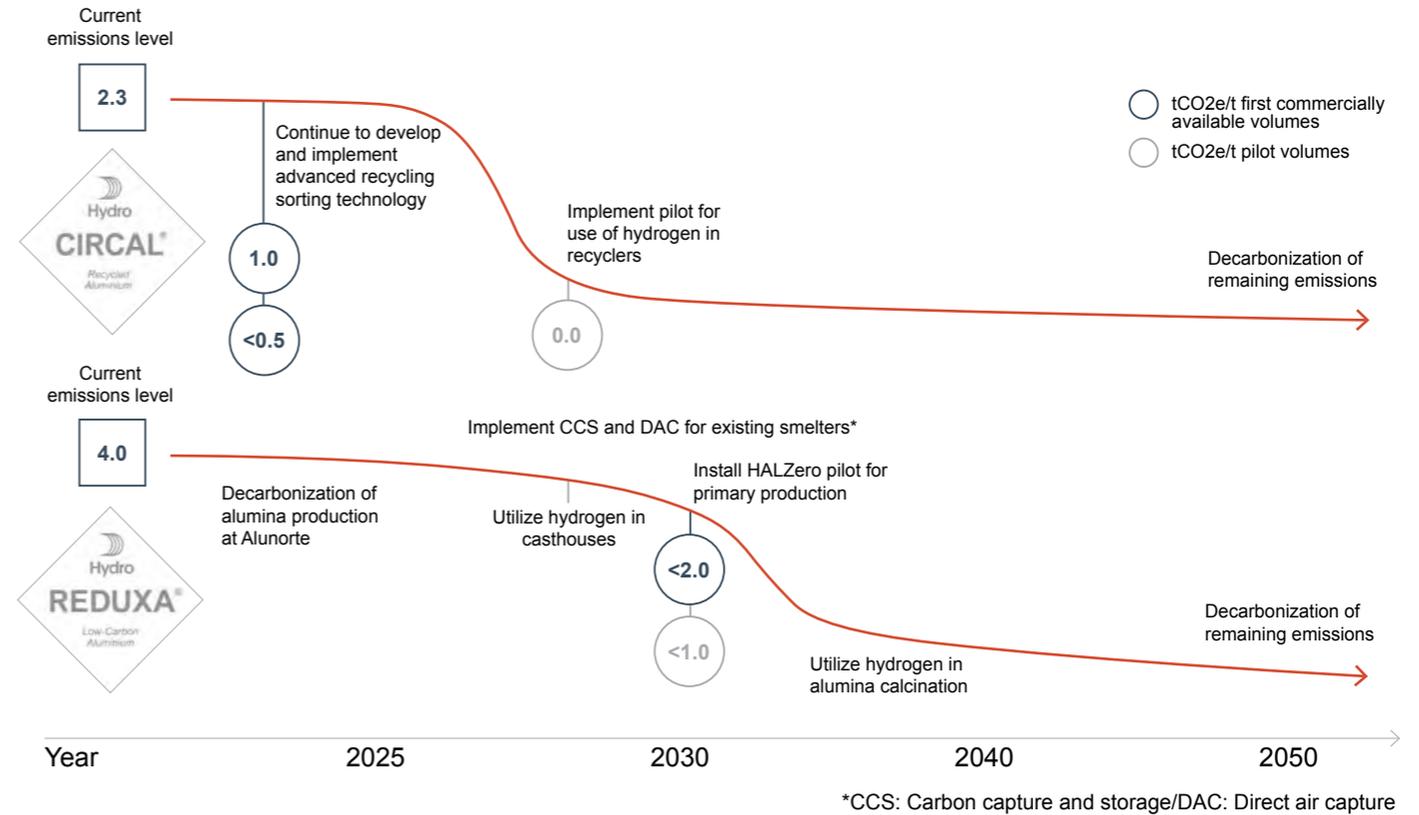
to further invest in the Deeside recycling plant in the UK to increase the plant's aluminium recycling capacity to 70,000 tonnes per year, providing UK customers with low-carbon aluminium such as Hydro CIRCAL<sup>19</sup>.

Hydro has announced a tender offer for 100% of the shares of the Polish recycler, Alumetal S.A. The acquisition of Alumetal will further strengthen Hydro's recycling position in Europe and significantly contribute to the ambition to double PCS usage by 2025<sup>20</sup>.

The production capacity for near-zero carbon aluminium will be developed in line with market demand for this near zero-carbon aluminium. This is also reflected in the ambition to deliver Hydro REDUXA 2.0 with a carbon footprint of less than 2 tonnes of CO<sub>2</sub> per mt of aluminium by 2030.

Net-zero products: Market-paced approach

Capitalize on market demand through circularity while decarbonizing primary value chain



<sup>19</sup> Other recycling projects that support Hydro's recycling strategy can be found on page 38 of [Hydro's CMD presentation](#)

<sup>20</sup> Please refer to the press releases for further details: [Tender offer announcement on Alumetal](#) and [Extension of the subscription period](#)



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## Financial Characteristics

Characteristics outlined in this Framework are applicable to Sustainability-Linked Financial Products issued under it. Hydro may incorporate one or several KPIs per Sustainability-Linked Financial Product issued under this Framework. The proceeds of Sustainability-Linked Financial Products will be used for general corporate purposes.

Depending on Hydro's performance versus the applicable SPT(s) as per the Target Observation Date the characteristics of Sustainability-Linked Financing will change. This may include coupon step-ups and/or increased redemption price of bonds. Regardless of financial characteristic selected, the scale of the impact aims at being meaningful and commensurate. The financial characteristic selected for each Sustainability-Linked Financial Product will be specified in the transaction specific documentation.

In addition, should Hydro fail to provide relevant reporting or verification, in line with this Framework, the financial characteristics will change as outlined in the transaction specific documentation.

The KPIs and SPTs set out in this Framework will remain applicable throughout the tenor of any security issued under the Framework, regardless of any changes to Hydro's sustainability strategy. This includes any changes relating to the company's general sustainability targets and ambitions or changes in applicable benchmarks or industry standards. However, any changes to Hydro's organisational structure, the calculation methodology for a KPI or significant changes in data due to better data accessibility, that lead to an impact on the baseline equal to, or above, 5 per cent, will result in a change in baseline. Any new or updated framework, in relation with any subsequent securities issuance, shall not have any implications on the securities issued under this Framework.

## Reporting

To ensure investors and other stakeholders have updated and adequate information about Hydro's sustainability strategy and the progress on the SPT in relation to the respective KPIs, the progress of each SPT will be included in Hydro's publicly available Annual Report, published on Hydro's webpage. Hydro may also select to report on the information outlined below in a separate Sustainability-Linked Progress Report.

The annual reporting will form the basis for evaluating the impact on respective Sustainability-Linked Financial Products' characteristics as outlined in "financial characteristics" as well as in the respective transaction documentation.

The reporting will include the following points:

- The performance of the KPIs and related SPTs, as per the relevant reporting period and when applicable, including the calculation methodology and baselines when relevant;
- Information about potential recalculations of baselines, if any;
- Information on any relevant updates to Hydro's sustainability strategy and/or governance with an impact on the KPIs and SPTs;
- A list of Sustainability-Linked Financial Products outstanding.

Where feasible and possible the reporting will also include:

- Qualitative and/or quantitative explanations of the contribution of the main factors, including M&A activities, behind the evolution of the performance on the KPIs on an annual basis,
- Illustration of the positive sustainability impacts of the performance improvement,
- Updates on new or proposed regulations from regulatory bodies relevant to the KPIs and the SPTs.

## Verification

### Second party opinion

CICERO Shades of Green has provided a Second Party Opinion to this Framework assessing the relevance, robustness, reliability and ambition level of the selected KPIs and SPTs, and confirming its alignment with the five core components of the Sustainability-Linked Bond and Loan Principles.

### Post Issuance Verification

Hydro will seek independent and external verification of the company's performance of its KPI(s) against the SPT(s) on an annual basis or in relation to any target observation date until the last reporting date. The verification will be performed by a qualified external reviewer with relevant expertise, such as an auditor or an environmental consultant.

Failure to provide the ex-post verification before the reporting dates, specified in the Sustainability-Linked Financial Products specific documentation, will result in an automatic adjustment in the financial characteristics.

### Publicly available documents

The Framework and the second party opinion will be publicly available on Hydro's website together with the annual reporting and verification, once published.



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all of the expected benefits of the Projects as described in this Framework may not be achieved. Factors including (but not limited to) market, political and economic conditions, changes in Government policy (whether with a continuity of the Government or on a change in the composition of the Government), changes in laws, rules or regulations, the lack of available suitable projects being initiated, failure to complete or implement projects and other challenges, could limit the ability to achieve some or all of the expected benefits of these initiatives. In addition, each environmentally-focused potential purchaser of Hydro Bonds should be aware that eligible Green Projects may not deliver the environmental or sustainability benefits anticipated, and may result in adverse impacts. On this basis, all and any liability, whether arising in tort, contract or otherwise which any purchaser of Hydro Bonds or any other person might otherwise have in respect of this Framework or any Hydro Bonds as a result of any failure to adhere to or comply with this Framework is hereby disclaimed. The Sustainability-Linked Financing elements of this Framework contain certain forward-looking statements that reflect Hydro management's current views with respect to future events and financial and operational performance of Hydro. These forward-looking statements are based on Hydro's current expectations and projections about future events. Because these forward-looking statements are subject to risks and uncertainties, actual future results or performance may differ materially from those expressed in or implied by these statements due to any number of different factors, many of which are beyond the ability of Hydro to control or estimate precisely. You are cautioned not to place undue reliance on the forward-looking statements (as well as information and opinions) contained herein, which are made only as of the date of this document and are subject to change without notice. Hydro does not undertake any obligation or responsibility to release any updates or revisions to any forward-looking statements and/or information to reflect events or circumstances after the date of publication of this Framework. The information contained in this Framework does not purport to be comprehensive and, unless differently specified in this Framework, has not been independently verified by any independent third party. This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or

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Hydro is a leading industrial company committed to a sustainable future. Our purpose is to create more viable societies by developing natural resources into products and solutions in innovative and efficient ways.

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