



Global Procedure
Sustainability in the supply chain

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1 Purpose and scope

Sustainability in the supply chain is about creating viable businesses and societies, while preserving the environment. Hydro sets high standards for its own operations and takes an active role in striving to achieve mutually beneficial supplier relationships, built on common values and expected behaviors according to applicable laws and internationally recognized sustainability standards.

The objective of this procedure is to explain Hydro's commitment to sustainability principles in its supply chain and set forth procedures for how to run a due diligence process based on guidance from external standards – see section 6.3 External Standards. The sustainability principles are set out in Ref. 01 Hydro Supplier Code of Conduct. As part of this, Hydro also seeks to establish a system to help control and mitigate sustainability risks in the supply chain.

This Procedure applies to all Hydro wholly owned companies and its personnel worldwide. For legal entities where Hydro holds directly or indirectly less than 100 percent of the voting rights, Hydro representatives in the boards of directors shall act in compliance with this procedure and endeavor to implement the principles herein. Notwithstanding anything contained in this Procedure to the contrary and in recognition of the varying levels of complexity and intricacies in implementing this procedure across the Hydro group of companies, the requirements of this procedure should be implemented as soon as practically possible and the latest by December 31, 2022.

2 Roles and responsibilities

2.1 Line management

Line management in Business Areas (BA's), Global Business Services (GBS) and Corporate Staffs (CS) are responsible for the implementation of this procedure within their respective areas, including proper documentation (e.g., BA/GBS management systems, screening and audit reports) and providing training to relevant personnel. The line management may implement, or continue to use existing, BA/GBS specific systems and tools to support the implementation of this procedure provided they can fulfill the minimum requirements in the procedure.

2.2 Group Sustainability

Group Sustainability (GS) will provide support and advice in the implementation of this procedure. GS is responsible for tracking development in international and global sustainability standards and principles and align Hydro's procurement and commercial processes accordingly. GS shall, upon request, provide appropriate training in sustainability principles, processes and requirements to relevant personnel involved in the procurement processes (including quality controllers/inspectors).

2.3 Group Compliance

Group Compliance (GC) is the subject matter expert regarding anti-corruption, trade sanctions and data privacy, and provides support and advice, should there be any issues with suppliers related to these topics.

2.4 Group Treasury

Group Treasury (GT) is the subject matter expert regarding anti-money laundering and terror-financing and provides support and advice on these topics.

2.5 Group Legal

Group Legal (GL) is the subject matter expert in legal matters and assists in negotiating and drafting material business agreements, including M&A, joint venture, development and construction projects, supply, sales and transportation agreements.

2.6 Procurement Delivery Office

Procurement Delivery Office has the responsibility to embed requirements set out in this Procedure into the overall Hydro procurement governance processes (steering documents, group wide procurement systems, etc.).

2.7 Sustainability Supply Chain Committee (SSCC)

The committee has representatives from GS, GC, GL and relevant BAs and will meet when there is a need to discuss severe non-compliance issues related to a supplier engaged by more than one BA.

3 Definitions

Supplier means any partner in Hydro's supply chain delivering goods/materials and services, including vendors, contractors, traders, consultants and agents.

Raw material is a feedstock, unprocessed material or primary commodity, consisting of a basic material that is used to produce goods, finished products, energy, or intermediate materials that are feedstock for future finished products.

4 Supplier Code of Conduct

Hydro's Supplier Code of Conduct defines Hydro's position and expectations to all suppliers and is the foundation for implementing sustainability requirements in Hydro's supply chain. The Code is based on the same global sustainability principles as this procedure.

5 Procurement process

This section describes how to implement our sustainability requirements through the typical steps in a procurement process, however, not all steps are relevant in each procurement process:



5.1 Sustainability risks

The identified sustainability risks in Hydro's supply chain are summarized below and the minimum requirements to our suppliers related to these risks are described in the Hydro Supplier Code of Conduct.

<u>Business practices</u>	<u>Environmental risks</u>	<u>Risks to people</u>
<ul style="list-style-type: none"> - Compliance with applicable law and regulation - Corruption, bribery and improper business conduct - Money laundering - Trade sanctions - Data privacy 	<ul style="list-style-type: none"> - Emissions to air, water and soil - Waste management - Biodiversity - Energy and climate - Chemical management - Emergency preparedness 	<ul style="list-style-type: none"> - Healthy and safe working conditions - Forced or child labor abuse - Freedom of association - Employment conditions - Non-discrimination - Rights for minority groups - Indigenous and traditional peoples' rights - Conflict minerals

5.2 Qualification phase

5.2.1 Risk assessment and qualification of suppliers

All suppliers shall be categorized and, then based on risk categorization, risk assessed according to the sustainability risk identified in our supply chain (see section 5.1). The supplier categories have been pre-assessed on Hydro group level and are categorized into three inherent sustainability risk categories – see below table.

The line management are responsible to conduct a due diligence process for suppliers in the medium and high-risk category to ensure that these suppliers follow our minimum requirements set out in the Hydro Supplier Code of Conduct. For each risk category, defined requirements for due diligence are set out and described below. Through the due diligence process, the line management is responsible for identifying the residual risk for each supplier and where appropriate implement actions in order to mitigate the risks (e.g., corrective action plan (CAP)).

INHERENT SUSTAINABILITY RISK CATEGORIES			
SUSTAINABILITY RISK	Low	Medium	High
CRITERIA	<ul style="list-style-type: none"> Volume < 1 MUSD/y and Off the shelf materials and supporting services Many providers of these materials and services Not sourced directly from selected high-risk countries (Sanctions + Human Rights) 	<ul style="list-style-type: none"> Volume > 1 MUSD/y or Inherent medium risk of breaches related to environmental and/or human rights standards for the supplier category (e.g., labor-intensive services) 	<ul style="list-style-type: none"> Raw materials for our production Services with potential high risk for negative environmental or social impact, or potential high risk for compliance issues
EXAMPLES	Services	IS/IT, Telecom, Finance, Electricity, Legal*, Consultants*, Travel, HSE services Logistics Services with contracted workers at Hydro sites Maintenance/Construction/ Building services Intermediaries	Agents and intermediaries for interaction with public officials* Hazardous waste services
	Materials	Administrative Packing materials Office supply HSE materials Off the shelf product components + process consumables + tools	Production equipment Marketing materials Raw materials (e.g., aluminium products, scrap, fuel, coal, caustic soda)

Illustration: Inherent sustainability risk categories for suppliers.

** If a consultant or legal service provider is engaged as agents or intermediaries for interaction with public officials, they shall be assessed in accordance to the procedure NHC-GP-09-02 Integrity Risk Management of Hydro’s business partners.*

For scrap suppliers, default inherent sustainability risk level is high. However, for the purpose of further due diligence, the residual risk level is set to medium if the scrap supplier site is located in any of the countries/regions rated as low risk (green) in the Sanction Risk list and Human Rights Country index – see Ref. 02 and 03.

The examples of services and materials in the table above are not exhaustive. The BAs, GBS and CS are responsible for the sustainability pre-assessment of supplier categories not mentioned in the table.

5.2.2 Low inherent sustainability-risk suppliers

This category is for suppliers defined to constitute a low inherent sustainability risk. Suppliers fall in this category if all the following apply:

- a) The annual value of purchase from each supplier (defined by DUNS number) is estimated to be lower than USD 1 million for the whole of Hydro.
- b) Provides off-the-shelf products/materials, IT and other supporting services. These suppliers are not specific for the aluminum industry, and they can easily be substituted.
- c) Not sourced directly (i.e., tier 1) from high-risk countries based on Sanction Risk list and Human Rights Country index – see Ref. 02 and 03.

Since Hydro's impact for improvements among these suppliers is relatively limited, Hydro should endeavor to prioritize suppliers that can demonstrate that they already have adequate programs in place and that they have obtained international recognized sustainability certifications.

It is not mandatory to screen these suppliers unless there are any indications of a higher sustainability risk identified by the responsible procurement team. Then the supplier shall be screened as described for *medium inherent sustainability-risk suppliers* – see section 5.2.3.

5.2.3 Medium inherent sustainability-risk suppliers

This category is for suppliers if one or both of the following apply:

- a) The annual value of purchase from each supplier (defined by DUNS number) is estimated to be higher than USD 1 million for the whole of Hydro or
- b) Provides products/materials or services where there is a medium inherent sustainability risk of breaches related to environmental and/or human rights standards, e.g. labor-intensive products/materials or services and services with contracted workers or agency workers at our sites or transport/logistics providers.

For these suppliers more specific information on their sustainable business practices and management procedures is needed for Hydro to mitigate the risks.

Before signing any contract with suppliers in this category, the suppliers should first be further risk assessed through a due diligence process. This can be done in one of the two following processes:

- i) The supplier responds to a self-assessment, Hydro runs a risk report in an appropriate screening tool and does a desktop search for any red flags
– see Ref. 04 Sustainability Red Flag list and Ref. 05 Self-assessment checklist.
- ii) A third-party runs a digital screening of the supplier on behalf of Hydro.

If the screening process reveals any significant or material findings, the supplier shall either be rejected by Hydro or the supplier must be categorized as a high inherent sustainability risk supplier, triggering additional checks. GS and GC will support, as per respective expertise, if there is a need to define how significant or what the material finding in their value chain implies.

5.2.4 High inherent sustainability risk suppliers

This category is for suppliers where one or both of the following apply:

- a) Provides raw materials as defined in section 3.
- b) Provides services where there is a high inherent sustainability risk related to their operations and production processes.

Before signing any contract with suppliers in this category, the suppliers must be assessed as according to requirements for medium sustainability risk suppliers (*see section 5.2.3*). In addition, an on-site audit shall be conducted. For supplier sites with an ASI Performance Standard certification, screening and audit is not required.

If there are no severe findings in the screening or the audit, the supplier can be accepted as a supplier to Hydro. If there are minor findings, a corrective action plan (CAP) shall be developed and agreed with the supplier. GS and GC will support, as per respective expertise, if there is a need to define what severe findings identified in the screening or audits implies.

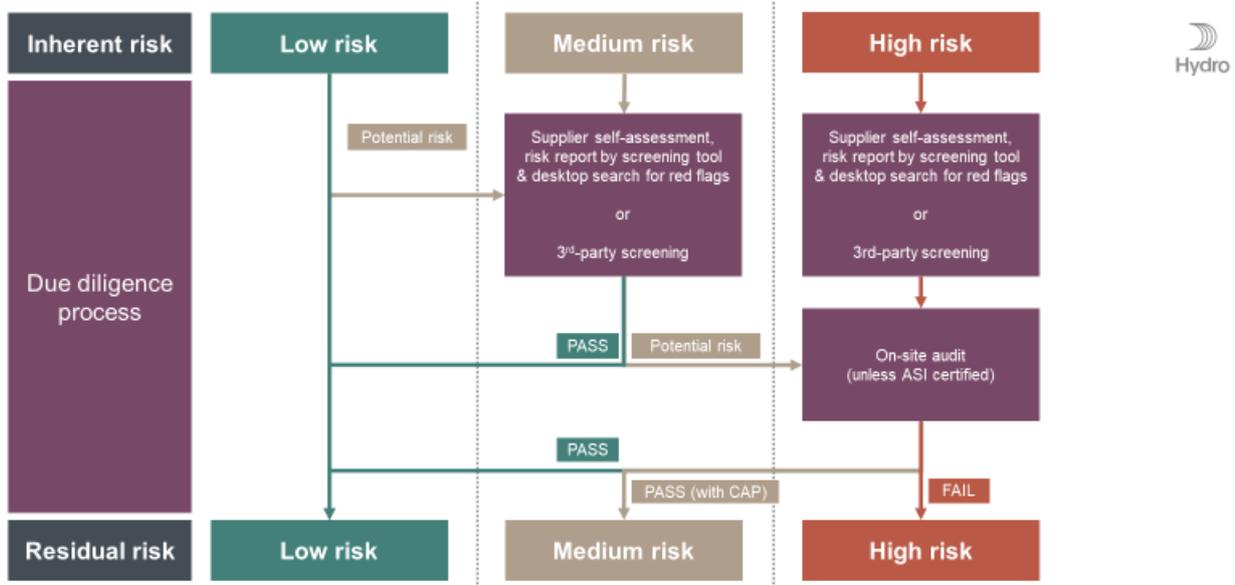


Illustration: Supplier qualification flow based on the due diligence process for each sustainability inherent risk category.

5.2.5 Data privacy

If the due diligence involves the processing of information related to a natural person (personal data), the requirements set out in Hydro’s Global Procedure Personal Data Retention and Deletion (GP-01-08-03) shall be observed.

5.3 Tender/bid and clarification/negotiations processes

During a tender/bid process, the tenderers shall declare that they have reviewed and fully understood the principles of Hydro’s Supplier Code of Conduct to be qualified.

If requested, the Tenderers should be able to provide documentation of the appropriate and adequate policies, procedures and certificates to demonstrate that they are in compliance with the principles of Hydro’s Supplier Code of Conduct.

The sustainability screening in a tender/bid process of potential suppliers identified with a medium or high inherent sustainability risk shall follow the criteria as described in section 5.2.3 and 5.2.4.

5.4 Contract phase

5.4.1 Contracts with suppliers

Except as otherwise set forth herein, the Supplier Code of Conduct shall be attached to all contracts with suppliers categorized with medium or high inherent sustainability risks and is to be made binding through clauses in BA's and GBS' general conditions of purchase/contract – see Ref. 6 for guidance.

For contracts with suppliers of alumina, bauxite or aluminum metal the sustainability principles can refer to the ASI Performance Standard instead of the Hydro Supplier Code of Conduct.

If a supplier rejects the Supplier Code of Conduct based on the fact that they have their own internal code, Hydro may, as a last resort, accept a mutual agreement if the supplier can reasonably demonstrate that its internal code covers the principles of Hydro's code (including procedures designed to promote compliance within its own supply chain partners) and that its code is implemented in an appropriate manner. In such a case, Hydro should seek to include clauses in the contract that:

- a) oblige supplier to comply with its own code,
- b) allow Hydro to audit supplier's compliance, and
- c) allow Hydro to take appropriate action for issues of non-compliance (including termination).

5.4.2 Purchase orders (POs)

POs issued shall have a reference to the Hydro Supplier Code of Conduct either directly or through reference to BA's or GBS' general conditions of purchase/contract.

5.4.3 Working with traders

When conducting due diligence of traders, the trader's business practices is of importance, but the producer's business practices is equally important, i.e. where and how the raw material is extracted, or semi-finished material is produced. If Hydro does not have any information regarding the producer, the trader is responsible for ensuring that the principles set out in the Hydro Supplier Code of Conduct are followed. Provided that Hydro has ensured that the sustainability risk is acceptable at the producer, exemptions to the Supplier Code of Conduct references in the contracts with traders may on a case by case basis be agreed.

5.4.4 Sustainability audits and reviews

For suppliers with high inherent sustainability risk, sustainability audits or reviews shall be performed prior to signing a contract. and thereafter, on a regular basis, based on the supplier's performance to verify compliance with the principles in the Supplier Code of Conduct. Such audits or reviews shall, if possible, be coordinated and conducted jointly with other audit processes (e.g. procurement, quality and/or HSE audits).. For supplier sites with valid ASI Performance Standard certification, follow-up audits are not required.

5.5 Follow-up phase

5.5.1 Non-compliance issues

In case Hydro becomes aware of material non-compliance with the agreed-upon sustainability principles in its supply chain, the first level (tier) supplier shall be contacted to discuss the findings and possible mitigating actions. An action plan shall be established containing the non-compliance issues, mitigating actions and a plan for follow-up. GS shall receive a copy of the plan. In case the matter relates to corruption, GC shall receive a similar copy.

Re-evaluation of non-compliance issues shall take place periodically in accordance with the risk mitigation plan. If the supplier is not able, or shows no willingness to improve, the line management shall evaluate whether it is appropriate to take additional contractual actions. GS, GC and GL should be involved, as per respective expertise, to discuss further actions and potential consequences of a termination of the contract.

If a contract with a supplier is terminated because of a non-compliance to the Supplier Code of Conduct, the line management shall inform the Sustainability Supply Chain Committee (SSCC). The SSCC will in consultation with the other Hydro entities procuring from the same supplier evaluate if the supplier should be excluded on a Hydro Group level. If so, the supplier will be blocked in the relevant ERP systems by GBS Finance.

5.5.2 Supplier development

Hydro may endeavor to support the suppliers in their efforts to implement the sustainability principles in the Supplier Code of Conduct. This may be done through dialogue, sharing of knowledge, innovation processes or supplier development programs.

5.6 Reporting and documentation

BAs, GBS and CS shall document how they implement this procedure. Relevant information about screening and follow-up of Hydro's active suppliers is an integrated part of the annual Extra-Financial report process.

6 References

6.1 Supporting documents and underlying procedures

Ref. 01 - Hydro Supplier Code of Conduct (in all official Hydro languages) – GP-09-01-01

Ref. 02 - Sanctions Risk list – Included in GP-01-14 Sanctions and Trade Compliance procedure

Ref. 03 - Human Rights Country Index – GS-09-01-01

Ref. 04 - Sustainability Red Flag list – GS-09-01-02

Ref. 05 - Self-assessment checklists – GS-09-01-03

Ref. 06 – Contracts with Supply Chain Business Partners – GS-09-01-04

6.2 Other internal references

- GP-09-02 Hydro's Compliance System for managing compliance risks
- GP-01-14 Sanctions and Trade Compliance procedure
- GP-01-08-03 Personal Data Retention and Deletion
- GD03 Health, Safety, Security, Environment (HSE)
- GD09 Hydro's Social Responsibility
- GS-09-01 Hydro's Human Rights Policy
- GP-09-02 Integrity Risk Management of Hydro's business partners
- GD11 Procurement Governance

6.3 External standards

- Aluminium Stewardship Initiative (ASI) Performance Standard
- International Council on Mining & Metal (ICMM) 10 principles
- OECD Guidelines for Multinational Enterprises
- UN Guiding Principles on Business and Human Rights

7 Change log

Rev. nr.	Date	Description of change	Approver/Verifier
1	2021-05-xx	<p>Revision of procedure "CSR in the supply chain". Renamed to "Sustainability in the supply chain".</p> <p>Main changes:</p> <ul style="list-style-type: none"> -The due diligence process of suppliers is now described in the Sustainability in the supply chain procedure. It was formerly described in the Integrity risk management procedure. -The main risk triggers are now supplier category (new), country of origin and volume. -The due diligence process is updated and related to the new inherent sustainability risk criteria. -Roles and responsibilities have been updated based on the new organizational structure in Hydro. -Suggested standard contract clauses are attached to the procedure as guidance. 	Helena Nonka/Bjørn Kjetil Mauritzen