

Performance and targets

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Quick overview

In 2019, Hydro launched a new strategic agenda aimed at lifting profitability and driving sustainability in order to increase and drive long-term value for our stakeholders and contribute to a viable society.

Hydro's financial priorities are to create long-term shareholder value by delivering on the capital return target of 10 percent over-the-cycle supported with clear priorities for capital allocation, while at the same time maintaining a strong balance sheet and ensuring a robust shareholder payout. In the shorter-term, Hydro aims to lift cash flows towards 2023 by supporting earnings with the improvement ambition of NOK 7.3 billion, releasing cash with capex and net operating capital optimization, and addressing Rolled Products underperformance with strategic review and restructuring.

Our future profitability depends on our ability to operate sustainably. We have quantified a set of ambitions towards 2030 to improve our performance on climate, environment and social responsibility. By reducing risk, emphasizing safety in our operations, improving relations with stakeholders and neighbours, increasing resource efficiency, reducing our own emissions and developing new markets, Hydro's business will be more robust. Complying with laws, regulations, Hydro's steering documents and respecting human rights, is fundamental to Hydro's way of working and are considered key elements to the company's license to operate.

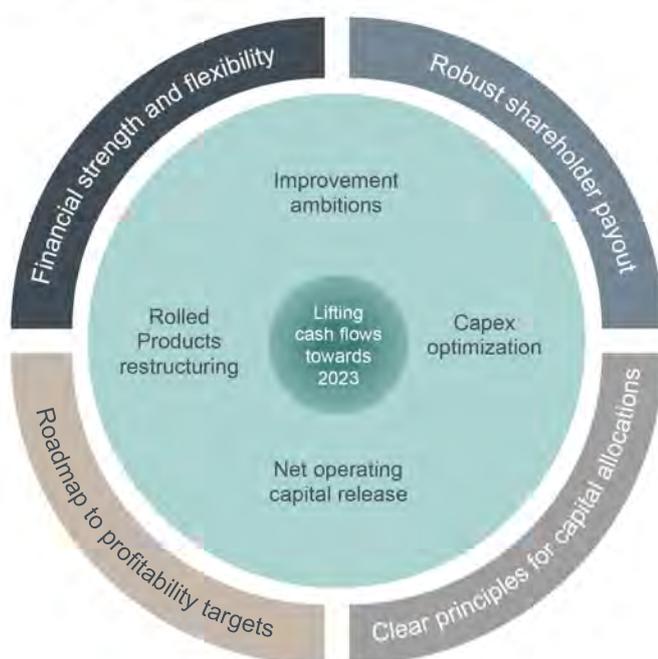
Lifting profitability, driving sustainability

In 2019 Hydro launched a new strategic agenda aiming to lift cash flows and returns with extensive improvement and restructuring efforts across its business areas, while highlighting sustainability as a basis for the company's positioning. To ensure long-term value creation, Hydro has defined four key financial priorities to drive capital and shareholder returns, and at the same time identified four short-term financial targets aiming to lift cash flows towards 2023.

Supported by an increasing interest from the regulators, customers and financial markets, Hydro firmly believes that leading in sustainability is a strong foundation for long-term license to operate and a key driver for long-term profitability. By emphasizing climate, environment and social responsibility, as well as by developing greener product offerings, Hydro will reduce risks and create new profitable opportunities for the future.

The new agenda "Lifting profitability, driving sustainability" has replaced Hydro's previous strategic targets reported under the Better-Bigger-Greener umbrella. A summary status of the Better-Bigger-Greener program is included at the end of this chapter.

Financial priorities and targets



Lifting profitability

Financial priorities

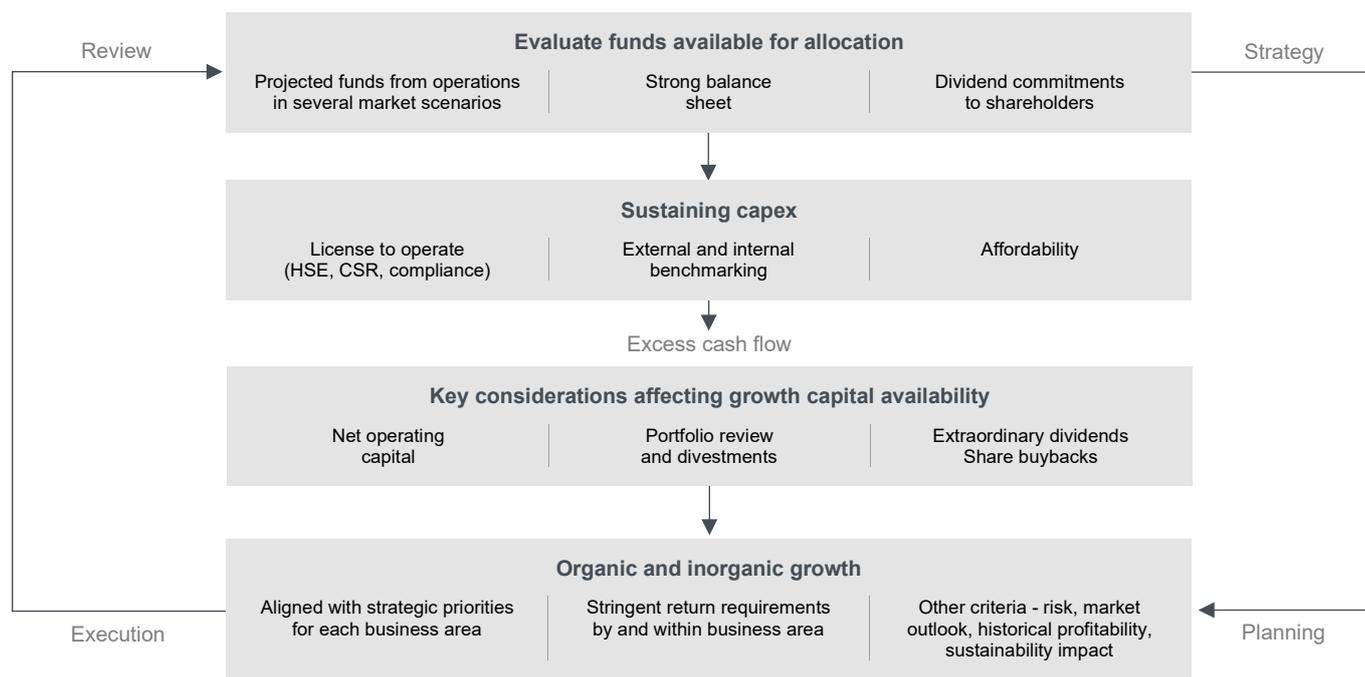
The first of the four financial priorities is to maintain a robust balance sheet, strong liquidity and to maintain an investment grade credit rating. Hydro considers this crucial in order to navigate industry cycles and to be able to invest also during cyclical downturns. Hydro's management follows two key financial ratios as indicators of the balance sheet strength: funds from operations to adjusted net cash (debt), with a target to stay above 40 percent over the cycle, and adjusted net cash (debt) to equity, with a target to stay below 55 percent over the cycle.

Second, Hydro aims to offer a predictable dividend and a satisfactory yield for shareholders. The ambition is to pay out 40 percent of reported net income to majority shareholders over the cycle, with a dividend floor of NOK 1.25 per share. Hydro may evaluate share buybacks and additional dividends with due consideration given to the alternative investment opportunities, financial situation and earnings outlook.

Third, Hydro has established clear priorities and guidelines for capital allocation. This is critical in order to deliver on the company's strategic direction and may be an important differentiator for the long-term financial performance. The strategy is to allocate more growth and return-seeking capital to the areas with increased value generation potential going forward, both from a profitability and sustainability perspective. Historic returns on investments, earnings volatility, differentiation potential, and improved sustainability position will play a key role in the allocation process. All the business areas have been grouped into different strategic modes. The focus in Bauxite & Alumina and Primary Metal is to sustain and improve the current asset base, with the possible exception of growth initiatives within recycling. Extruded Solutions and Energy are in selective growth mode, while the focus in Rolled Products is on the strategic review and restructuring. The principles for capital allocation are described in the figure below.

Finally, Hydro has launched a target to achieve an underlying return on average capital employed of 10 percent over the cycle compared to the group long-term nominal cost of capital of 9 percent. Both the cost of capital and the corresponding return requirements are differentiated for each business area with the ambition to achieve an underlying return on average capital employed above the respective cost of capital. Nominal long-term cost of capital for business areas reflects the risk and volatility of earnings and cash flows. For more cyclical upstream divisions – Bauxite & Alumina and Primary Metal – it is set to 10-11 percent, for the downstream divisions with more stable earnings profiles – Extruded Solutions, Rolled Products and Metal Markets – it is 7-8 percent, while in Energy it is 6-7 percent reflecting a relatively low risk and low earnings volatility.

Clear principles for capital allocation



Financial targets

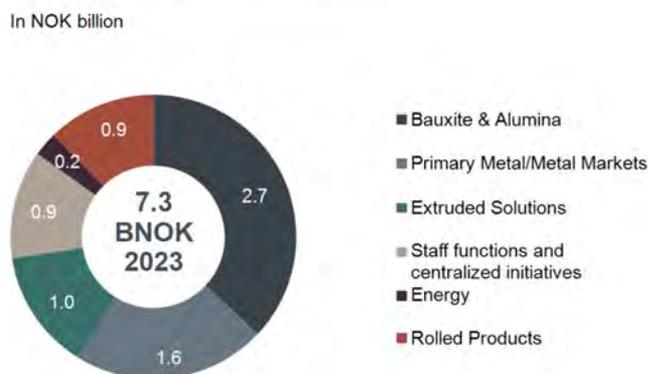
To address the recent performance challenges as well as the weakening market outlook, Hydro has identified four areas to support cash flow generation potential. Within the 2023 horizon, Hydro has launched a new and ambitious improvement program, has initiated a strategic review and restructuring of the Rolled Products business, as well as strengthened focus on optimizing the capex profile and releasing net operating capital.

Improvement ambition

The business areas have defined improvement ambitions for the years 2019-2023.⁷ The consolidated accumulated improvement target for 2023 amounts to NOK 7.3 billion, reflecting the sum of potentials in the business areas in addition to the improvement initiatives within staff and support functions (Fit4Future) and procurement projects. Out of this total, NOK 2.7 billion is related to reversal of curtailment effects in Brazil, of which NOK 2.0 billion in Bauxite & Alumina and the remainder in Primary Metal. Around 80 percent of total improvements or NOK 5.8 billion are expected to be delivered in 2019-2021.

The Bauxite & Alumina improvement program mainly focuses on ramping-up production at Alunorte and Paragominas. The target is to produce at an average capacity utilization of 90-95 percent at Alunorte in 2020, reaching full capacity utilization of 6.3 million tons during 2020. Other elements include optimization of the energy mix as well as fixed costs reduction.

Improvements by business area



Primary Metal target improvements across many categories, including creep (increased production volume) through debottlenecking, spin-offs from the Karmøy Technology Pilot, digitalization of processes through soft sensor technology, advanced analytics, automation and other fixed cost reductions. The restart of Husnes line B is also included in the program, with first metal expected in the first half of 2020.

Improvements in Rolled Products are to be achieved by lifting organizational and operational efficiency as well as shifting the product portfolio towards growth markets like automotive and beverage can. Initiatives include closure of

⁷ The programs use 2018 as the baseline year for, e.g., operational parameters and production. As market conditions and prices in 2018 were heavily

influenced by the Alunorte situation, LME, PAX, raw materials and exchange rates have been based on a 3-year average (2016 – 1H-2018).

two foil lines in Grevenbroich, Germany and demanning of 735 full time equivalents (FTEs).

Extruded Solutions' EBIT improvement target reflects initiatives related to operational improvements and fixed costs optimization, portfolio review and restructuring, commercial optimization, and a continuation of the value-over-volume strategy.

Improvements in Energy include growth in wind power in the Nordics and storage investments, such as batteries, as well as continued emphasis on operational and commercial optimization.

The NOK 0.5 billion Fit4Future program aims at increased efficiency within staff and support functions across Hydro, of which Global Business Services (GBS), and in particular information systems, are to deliver most of the gains. Manning reductions represent around one third of the total cost savings. In addition, Hydro is targeting procurement savings of NOK 0.4 billion related to several initiatives within supplier management, demand and specification management and process management.

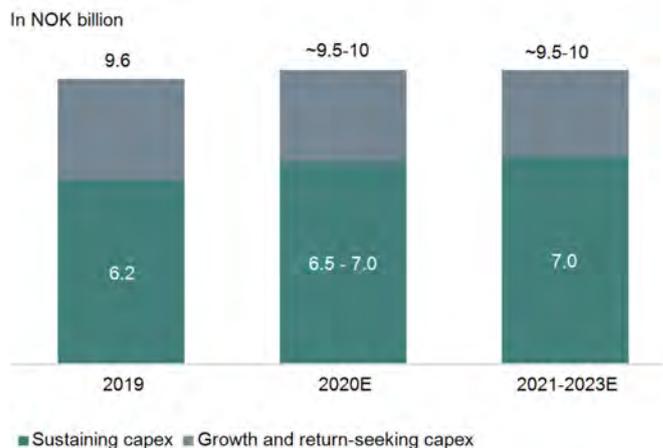
Rolled Products strategic review and restructuring

Hydro has initiated a strategic review and restructuring of the business area to mitigate the declining profitability and the inability of the business area to meet capital return targets in recent years. The ongoing strategic review aims to evaluate the optimal ownership set-up for Rolled Products.

Optimizing capital allocation

Ensuring disciplined capital allocation is key to deliver on return requirements, with growth projects to be aligned with strategic priorities, and sustaining capex to be maintained at competitive and affordable levels. Sustaining capex for 2019 and 2020 combined is estimated at around NOK 12.5-13.5 billion, representing around NOK 1 billion reduction compared to the previous guidance for the same period. The reduction represents short-term optimization, while further measures to ensure long-term competitive sustaining capex are under review. Total capex for 2019 and 2020 is estimated at around NOK 19 -19.5 billion. For the longer-term period of 2021-2023 current investment plans add up to an average of 9.5-10 BNOK per year, of which NOK 7.0 billion in sustaining capex⁸. Furthermore, potential projects will be continuously reviewed based on the updated capital allocation framework and aligned with Hydro's strategic priorities. The main projects requiring sustaining capex in the period 2019-2023 include investments in Alunorte robustness, opening of a new mining area in Paragominas, pipeline replacement in Bauxite & Alumina, and smelter relining and asset integrity in Primary Metal. The main growth and return-seeking projects in the same period include Husnes restart and upgrade, selected customer-driven growth in Extruded Solutions, wind and battery storage investments in Energy, the fuel switch project in Bauxite & Alumina, as well as automation, process control and efficiency initiatives in Primary Metal.

Capex 2019-2023



Net operating capital release

Reflecting the increased focus on cash generation, optimizing net operating capital is a top priority. In 2018 Hydro built up more than NOK 5 billion in net operating capital leading to an increase in the number of NOC days from 53 at the end of 2017 to 64 at the end of 2018. The main reason for the build-up was related to higher raw material inventories in several business areas as a result of the highly uncertain geopolitical and market environmental, including free trade concerns as well as Rusal sanctions, in addition to the Alunorte situation, and a number of other operational issues. Higher prices reflected in the inventories also contributed negatively. As most of the reasons behind the inventory build have now been resolved, Hydro has targeted to release around NOK 4 billion in tied up capital by the end of 2020, which corresponds to a reduction of 12 NOC days, based on 2017 revenues. The main initiatives to reach the target include high focus on inventory reduction in all business areas, optimizing material flow from raw materials to finished goods, establishing benchmarking tools and regular follow-up procedures, and tight collaboration between sales and metal purchasing.

Financial performance review

Status on financial priorities

Hydro maintains its focus on *financial strength and flexibility* with the goal to remain investment grade credit rated. Currently, Hydro has a BBB rating (stable outlook) with S&P Global and a Baa2 rating (negative outlook) with Moody's. Moody's changed the outlook from stable to negative in March 2019, mainly due to the uncertainty related to the Alunorte situation, weak market conditions and weaker cash generation compared to previous years. Both key financial ratios used as indicators of the balance sheet strength have deteriorated in 2019 mainly reflecting weak earnings. Funds from operations to net adjusted debt were 27 percent, below the over-the-cycle target of above 40 percent. Adjusted net debt to equity ended up at 37 percent, well within the targeted level of less than 55 percent. For further details, see

⁸ Growth and return-seeking capex guidance only includes capex necessary for delivering on targeted improvement ambitions

Note 7.1 Capital management to the consolidated financial statements.

In order to ensure strong liquidity, Hydro has replaced the NOK 1.7 billion undrawn revolving credit facility that expired in 2019 with a new NOK 1.6 billion facility expiring in 2025. The margin on the new facility is linked to Hydro's CO₂ emission reduction target, thereby linking financing costs to the progress on Hydro's main climate target and highlighting the important connection between sustainability and profitability.

Reflecting Hydro's *strong shareholder focus* and in line with the shareholder policy, Hydro's Board of Directors proposed an annual dividend of 1.25 NOK per share for 2019⁹. This represents an average five-year payout ratio of 68 percent compared to the policy of 40 percent over the cycle, and a dividend yield of 3.8 percent at the end of 2019.

Underlying return on average capital employed was 1.3 percent in 2019, significantly below the ambition to deliver 10 percent over the cycle, as a result of the Alunorte situation and the cyber attack, challenging markets, as well as several operational issues. Over the last five years, underlying return on average capital employed averaged 6 percent with high volatility in the returns reflecting that 60 percent of capital is allocated into cyclical upstream businesses. For more information on the returns on average capital employed, see the Alternative performance measures (APMs) section in the Appendices to the Board of Directors' report.

Return on average Capital Employed (RoACE)

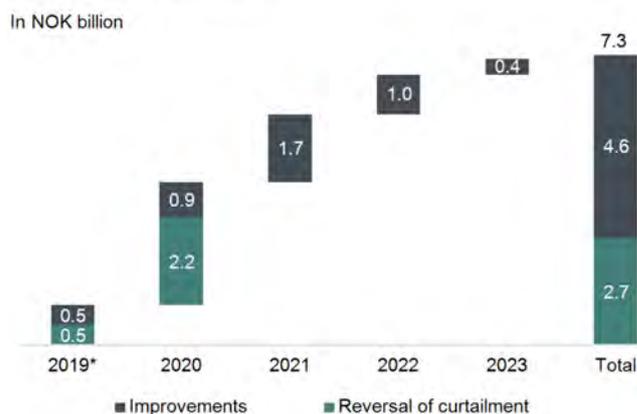
	Reported		Underlying	
	2019	2018	2019	2018
Hydro	(0.9) %	6.0 %	1.3 %	6.6 %
Business areas ¹⁾				
Bauxite & Alumina	1.9 %	4.6 %	2.5 %	6.0 %
Primary Metal	(3.9) %	5.6 %	(2.6) %	4.7 %
Metal Markets	20.7 %	25.1 %	27.3 %	19.4 %
Rolled Products	(5.0) %	1.9 %	2.4 %	2.3 %
Extruded Solutions	3.8 %	5.3 %	5.7 %	7.2 %
Energy	14.7 %	19.4 %	12.9 %	18.8 %

1) RoaCE at business area level is calculated using 25% tax rate. For Energy, 80% tax rate is used in 2019, 70% in 2018. 2018 RoaCE has been restated due to the change in definition.

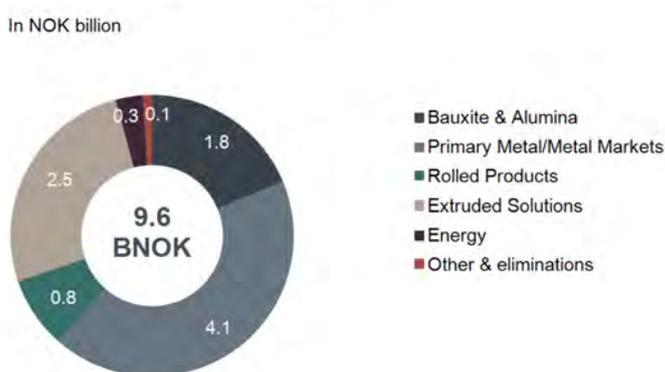
Status on financial targets

In 2019 Hydro realized 1.0 BNOK in *improvement efforts*, well above the target of NOK 0.5 billion for the year, primarily due to faster than expected ramp-up at Alunorte, reaching 90 percent capacity utilization already in Q4 2019. On the contrary, despite significant restructuring efforts and cost reduction initiatives across the operations, Extruded Solutions delivered below their targeted level for the year, due to a weaker market demand, affecting their Net EBIT improvement program. Extruded Solutions still expect to deliver their NOK 1 billion improvement ambition by end 2023. Primary Metal, Rolled Products, Energy as well as staff and services and procurement initiatives realized limited improvements in 2019, in line with the targets.

Improvement program



Total capex by business area



Total capex in 2019 ended up at NOK 9.6 billion, NOK 0.9 billion below the guided level of NOK 10.5 billion, with sustaining capex at NOK 6.2 billion compared to the targeted level of NOK 6.5-7 billion. The reduction is mainly due to postponement of projects into 2020. In the meantime, the work is ongoing to identify further capex reduction potential in the coming years.

Every year capex includes regular maintenance activities needed to safeguard Hydro's production assets in every business area. Examples include smelter relining in Primary Metal and Rolled Products, power plant rehabilitation and upgrades in Energy, various upgrades of presses in Extruded Solutions and remelters in Metal Markets. In addition to those, Bauxite & Alumina accounted for a large share of sustaining investments in 2019. These were related to commissioning of the state-of-the-art press filter technology for processing of bauxite residue, the new solid residue deposit area DRS2 at Alunorte and the new dry residue deposit area at Paragominas. Alunorte also invested in the wastewater handling and treatment systems as well as strengthening of the infrastructure related to water management at the refinery. The main growth and return-seeking capex was related to the Husnes smelter upgrade and restart in Primary Metal, selective growth investments in Extruded Solutions, including acquisitions of strategic assets, and further growth investments in wind and storage

⁹ Pending approval from the AGM on May 11

solutions in Energy. Further, Hydro continued to strengthen its recycling position, and expanded production capacity of the CIRCAL greener product brand. Growth capex also included finalization of the growth projects, such as the Karmøy technology plant in Primary Metal, the recycling line for used beverage cans and the new automotive production line in Rolled Products.

Hydro released NOK 5.6 billion of *cash-effective net operating capital* in 2019, well above the target of NOK 4 billion. All the business areas reduced their NOC with the biggest contribution from raw material and metal inventory reductions in Primary Metal and Metal Markets (NOK 2.8 billion) and Extruded Solutions (NOK 2.1 billion). Bauxite & Alumina and Rolled Products freed up NOK 0.9 billion and NOK 0.6 billion respectively. At the end of 2019, NOC days reached 60 days, representing a reduction of 4 days compared to 64 NOC days at the end of 2018. Weakening market conditions during the second half of 2019 led to falling revenues with a corresponding impact on NOC days.

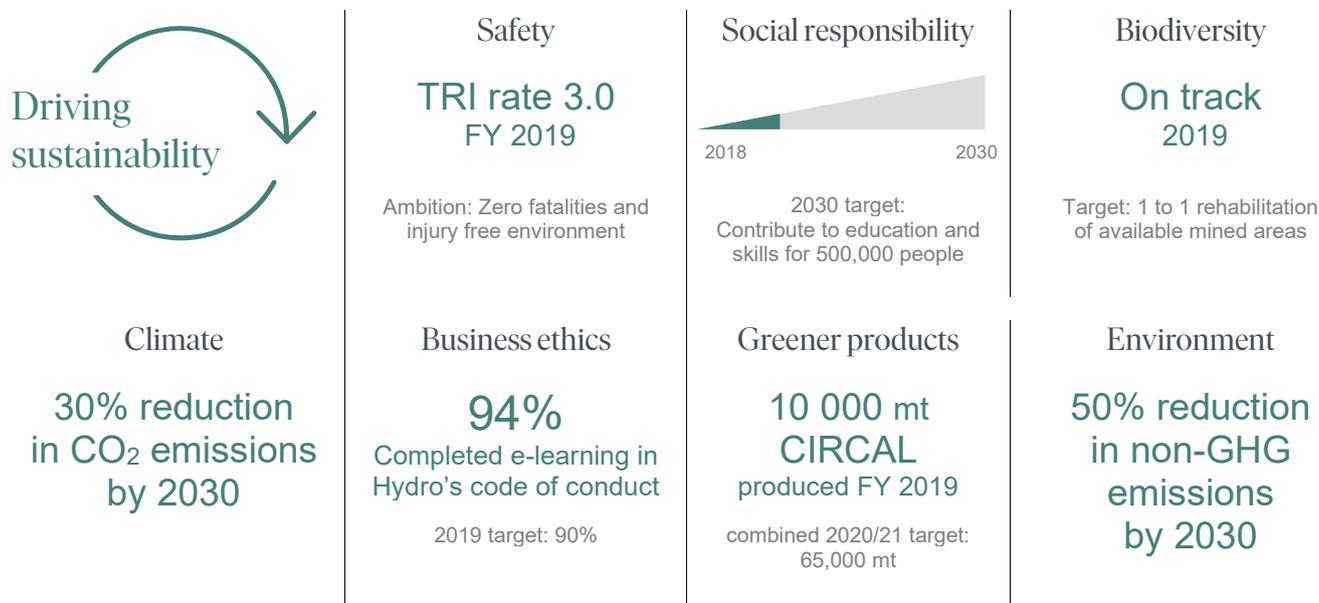
Financial targets for 2020

In line with the 2023 financial targets, 2020 ambitions have been set for the improvement program, capital expenditures and net operating capital:

- The improvement ambition for 2020 is NOK 3.1 billion, including NOK 2.2 billion in curtailment reversal within Bauxite & Alumina and Primary Metal in Brazil.
- Reflecting NOK 0.9 billion in capex carried over from 2019, the capex target for 2020 is NOK 9.5-10 billion, of which sustaining capex is NOK 6.5-7 billion.
- Following the cash-effective NOC release of NOK 5.6 billion in 2019, ahead of the NOK 4 billion target by the end of 2020, Hydro aims to continue optimizing NOC level both in absolute terms and in NOC days. The achievement may be affected by the market developments as well as changes in the portfolio mix.

Driving sustainability

2019 Status and targets



Sustainability is an integrated part of lifting Hydro’s long-term profitability and the basis for our future positioning. By reducing our footprint, improving relations with stakeholders and neighbors, managing impacts, increasing resource efficiency and developing new markets, Hydro will reduce risk and create new opportunities.

Developing a more holistic approach to sustainability we have quantified a set of ambitions towards 2030 to improve our performance on climate, environment and social responsibility. We have new ambitions to reduce our own environmental impacts and emissions in production, developing greener products helping our customers design more sustainable solutions and continue with our ambition to make a positive difference by strengthening local communities and our business partners. We have established a new Corporate Development function to strengthen Hydro’s ability to drive the profitability and sustainability agenda.

The overarching goal of our new climate strategy is to reduce the impact our operations have on the global climate. The climate strategy – “30 by 2030” – calls for a 30 percent reduction of own greenhouse gas emissions throughout the aluminium value chain by 2030. We will do this through greener sourcing and greener production, that will reduce the footprint of the products we deliver to our customers.

The new environment strategy for 2030 addresses the industry's key environmental challenges. Our goal is to mitigate emissions to land, water and air, conserve biodiversity and reduce waste production. To achieve this, we monitor, identify and reduce environmental risk throughout the lifetime of our operational sites. The

emphasis is primarily on continued rehabilitation at our bauxite mine in Para, Brazil, reducing our tailings and bauxite residue footprints, recycling our spent pot lining and halving our non-greenhouse gas emissions (SO₂, NO_x and Particulate Matter) to air.

We recognize that we can only succeed if communities and partners around us succeed. With our social responsibility strategy we aim to make a positive difference by strengthening our business partners and the local communities where we operate. To deliver on this, we will target the fundamental drivers of long-term development and will contribute to education and capacity building for 500,000 people by end of 2030. Community dialogue and stakeholder engagement is the foundation of our work.

In Hydro, we see diversity as a source of competitive advantage, as it encourages innovation, learning and better customer understanding. Through diversity and inclusion, we want all employees to know they are valued for their differences and that they contribute to the success of our business strategy.

Hydro’s new certified low-carbon product brands CIRCAL and REDUXA were launched in 2019, setting a new standard for low-carbon and recycled aluminium, to commercialize the company’s sustainability position. The initial customer feedback and subsequent orders have underlined the potential for these types of products that represent exciting opportunities moving forward. A new recycling line at our Azuqueca plant in Spain will be commissioned and ramped up during 2020. This, in combination with an upgrade at Clearvaux and the remelter Deeside, UK, will add up to 30,000 metric tonnes of post-consumer scrap recycling

capacity, increasing our total capacity from 175,000 metric tonnes pr year at the end of 2019.

Our ambition is to prevent all injuries and ill health to avoid human suffering and we will work continually to avoid damage to property and loss of production. We continue to see high-risk incidents with a potential for fatality or permanent injuries or ill health, but at a lower level than previous years. We consider this the main leading indicator for our safety performance. From 2020, our emphasis will be the closing rate of actions related to high-risk incidents in our operations in 30 days.

Complying with laws, regulations, and Hydro's steering documents, and respecting human rights, is fundamental to Hydro's way of working and are considered key elements to the company's license to operate.

For a description of Hydro's policies, commitments, goals and targets, responsibilities, resources, grievance mechanisms related to sustainability, see Viability Performance and Viability Performance Statements. Hydro reports according to GRI, and the reporting is based on a materiality analysis.

Status on Better Bigger Greener

Summary of the Better-Bigger-Greener program

The Better-Bigger-Greener program was launched in 2015, and included a number of strategic targets for the period 2016-2025. A number of these targets were negatively impacted by the Alunorte curtailment in 2018-2019, including the improvement programs. The table below summarizes the targets and status per end 2019. The Better-Bigger-Greener program has been replaced by the new agenda "Lifting profitability, driving sustainability".

	Ambitions	Target	Timeframe	2019 progress	Comment
Better	Improve safety performance, strive for injury free environment	TRI<2 ¹⁾	2020	3.0 ²⁾	Replaced with a new target
	Realize ongoing improvement efforts Better	BNOK 3.0	2019	BNOK 0,7 ³⁾	Replaced with a new target
	Secure new competitive sourcing contracts in Norway post 2020	4-6 TWh	2020	4.8 TWh, completed	Completed
	Lift bauxite production at Paragominas	11.0 mill mt/year	2018	7,4 mill mt/year ³⁾	Included in the new improvement program
	Lift alumina production at Alunorte	7.0 mill mt/year	2021	4,5 mill mt/year ³⁾	Postponed
	Shift alumina sales to PAX-based pricing	>85% PAX ⁴⁾	2020	76% PAX ⁶⁾	Continued, on track
	Extend technology lead with Karmøy technology pilot Extend technology lead with Karmøy technology pilot	Start production Full ramp-up	2H 2017 Q2 2018	29-Jan-18 27-Jun-18	Completed Completed
Bigger	Realize technology-driven smelter capacity creep	200,000 mt/yr	2025	35,000 mt/yr ^{3), 4)}	Continued, subject to positive business cases 5)
	Increase nominal automotive Body-in-White capacity	200,000 mt/year	2017	Ramping up, qualifications ongoing	Included in the new improvement program
	Complete ramp-up of UBC recycling line	>40,000 mt/year	2017	Run-rate of 40 kmt/yr achieved in 2H 2019	Included in the new improvement program
Greener	Become carbon-neutral from a life-cycle perspective	Zero	2020	On track	Continued, on track
	Increase recycling of post-consumer scrap	>250,000 mt/yr ⁷⁾	2020	175,000 mt/yr	Continued, subject to positive business cases
	Deliver on reforestation ambition	1:1	Continuous	On track ⁸⁾	Continued

1) TRI, total recordable injuries per million hours worked, includes own employees and contractors. On the Group level, TRI has been replaced with High risk incidents (HRI) and fatality targets. However, TRI continues to be closely monitored in every business area.

2) The safety development in 2019 includes one fatality in Qatalum JV

3) Target impacted by the Alunorte situation with 50% production embargo at Alunorte from March 2018 to May 2019 and the corresponding curtailments at Paragominas and Albras

4) Progress excluding Albras. 2019 creep offset by the negative effects from the power outage in Karmøy and inefficiencies caused by different alumina qualities due to increased external alumina sourcing on Alunorte curtailment.

5) Production creep achievements included in the new improvement program

6) Based on sourcing volume of ~ 2.8 million mt for 2019

7) While based on a commercial evaluation we see that the recycling target originally set for 250,000 mt/year of post-consumer scrap by 2020 will not be met, we continue to develop recycling capacity that can be used for post-consumer scrap as well as for process scrap.

8) 1:1 rehabilitation of areas available for rehabilitation within two hydrological seasons after release. Revised definition of target takes into account the nature of the mining cycle and the time lag necessary to ensure quality rehabilitation to restore biodiversity