

Our goal is to create a winner in the aluminium industry

Four years with crises great and small, economic stagnation in many markets, and at best slow growth rates have been especially demanding for the aluminium industry. Overproduction and large inventories have weighed on aluminium prices, and many of the world's aluminium plants are losing money at today's prices levels.

But for Hydro these have not been "lost" years. We have used these four years wisely. Our response has not been to wait for a favorable tailwind, but strengthen our skills so we can sail in all kinds of weather. We are seeing through substantial improvement programs in all of our business areas and have taken important strategic actions that will make us more robust regardless of what the future brings – and will make us the aluminium industry's winner when demand catches up to production.

Good at operations and industry shaping

In recent years we have reached three milestones of special strategic importance that illustrate that we are capable of strengthening the company and positioning us for the future, even in times of challenging markets.

Qatalum, our joint-venture with Qatar Petroleum, built with Hydro technology, is essential in strengthening Hydro's cost position and helps make us more robust in times like these. The plant has achieved annual production of 600,000 metric tons, already past its design capacity, and it is operating in the first quartile among the world's aluminium producers.

Hydro's ownership in the world's largest alumina refinery, Alunorte, and the bauxite mine Paragominas, in Brazil since 2011 is our key to membership among the global aluminium industry elite by securing us raw materials for the foreseeable future. This, combined with the improvement program "From B to A" and our strategy of tying prices for alumina more to the fundamental conditions in the industry instead of the aluminium price, places us in a good position for the journey forward.

The agreement to join Hydro's extrusion activities with Sapa will give us 50 percent ownership in the new world leader in aluminium solutions, with new, exciting production, increased research and development competence and a greater presence in North America and global growth markets. Value-added activities are and will continue to be increasingly important for Hydro. Value-added activities expand the market for our primary metal, and this play between metal production and product development shows that we can

realize market advantages from our leading competence in alloy technology, among other things, that give our metal qualities that our competitors can't match.

Improvements – not only because we must, but because we can

Just as essential as larger structural actions is our constant focus on continuous improvements throughout our operations in Hydro. It is the sum of all of the incremental improvements in our daily work by individual employees – on the shop floor as well as by our leaders – that have strengthened our ability to face weak markets and prices, and which will give us the strength to create or grasp interesting opportunities when they occur, whether new investments or industry consolidation.

Our goal to reduce the production cost per metric ton of primary aluminium by \$300 from 2010 to 2013 – considered the most ambitious improvement program in the entire industry, and one that we are about to reach – has contributed to making our wholly owned aluminium plants more robust against weak aluminium prices. Just as important is that our list of actions is not exhausted, as new ideas are always leading to lower costs and operational excellence. There is good reason to praise our researchers that have implemented new ideas directly into our electrolysis process, and operators who have contributed new procedures and thereby improve other plants' performance through sharing best-practice. The most important lesson I draw from these improvement programs is that there is an amazing potential for making things better "from the ground up." It is also amazing how our production facilities, whether they are 10 years old or 40, perform better and safer today than when they were new. Our next goal is to transfer the methodology of the "\$300 Program" to plants where we are part-owners in cooperation with our partners.

Cost level is critical in an industry where prices are established in a global market. But lower costs alone are not a sufficient competitive advantage. Our improvement ambitions reach much farther than cost level. Just as important are the culture and motivation behind the improvement programs: We aren't making improvements because we must, but because we can.

More for less

By being aware of what we're good at, and use our capabilities within the framework of our values, as they are formulated in The Hydro Way, our goal is to:

- Create and add value from natural resources
- Optimize operations
- Promote viability of our company and the communities in which we operate
- Exploit commercial opportunities and exceed customer expectations

Our HAL4e research electrolysis cells in Årdal, Norway, now operate at 12.5kWh/kg aluminium (the global industry average is 14 kWh/kg). We're awaiting results from our newest electrolysis technology, HALsee (super-efficient electrolysis), which is expected to perform at less than 12 kWh/kg, a new step toward our goal of 10kWh/kg. When these improvements can be implemented, they will have direct economic and climate benefits, and illustrate both the business idea and social responsibility that lies behind our research and technological development.

We reached our most important goal in 2012: No fatalities. Unfortunately, that is not the case for 2013. A contractor employee working at Hydro's extrusion plant in France died following an accident in early March. Safe operations continues to be the most important factor for us, and the ambition of zero fatal accidents remains our most important goal.

Finance, health and safety, social responsibility, climate and the environment benefit from the intense focus on continuous improvement in operations. There are no conditions attached to our statement that our employees' safety has the highest priority, for we see no conflict between that and profitability. On the contrary, I am convinced that we can only succeed financially if we take care of the small and

not-so-small details that add up to optimal operations – including good housekeeping in production areas, close cooperation between employees and leaders, good procedures and conscientious safeguarding of our own and our colleagues' safety.

As part of our work in social responsibility, Hydro has signed on to the UN Global Compact, participates in the World Business Council for Sustainable Development and the International Council on Mining and Metals (ICMM), and was included on the Dow Jones Sustainability Indexes and FTSE4Good list for 2012.

The metal of the future

Weakness and uncertainty in the world economy weighs on the aluminium price. When I express my belief in the future of aluminium, it's because the underlying factors point to continued solid growth in demand for aluminium.

Increasing urbanization, new application areas and replacement of other metals has made aluminium the world's fastest-growing metal in the last decade. Because aluminium is light, strong, formable and endlessly recyclable, it can contribute to concrete, practical solutions to the world's challenges in energy consumption and climate change in areas such as transport, building and construction, and packaging.

There is at least one extenuating circumstance with today's low aluminium prices – that our light and very flexible will be even more attractive in relation to other metals that have become more expensive.

There is continued uncertainty when the global economy will give us wind in our sails again. But whether we meet continued demanding challenges or new, exciting opportunities in 2013, either – or both – will demand the best from us.

“We aren't making improvements because we must, but because we can.”


Svein Richard Brandtzæg
President & CEO

