Market Outlook

Investor presentation

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Corporate Strategy & analysis

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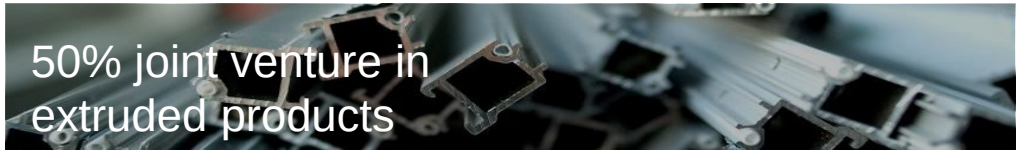
Agenda

1. About Hydro
2. Market Outlook
3. Hydro strategy

A resource-rich, global aluminium company

With robust positions across the value chain



- Global provider of alumina, aluminium and aluminium products
- Leading businesses along the value chain; raw materials, energy, primary metal production, aluminium products and recycling
- 13 000 employees involved in activities in more than 50 countries
- Market capitalization ~NOK 70 billion
- Annual revenues ~NOK 88 billion
- Included in Dow Jones Sustainability Indexes and FTSE4Good

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01

Downstream

Global aluminium demand first in class

Semis demand CAGR 2015 – 2025


Transport 5 – 6 %


Construction 3 – 4 %


Electrical 5 – 6 %

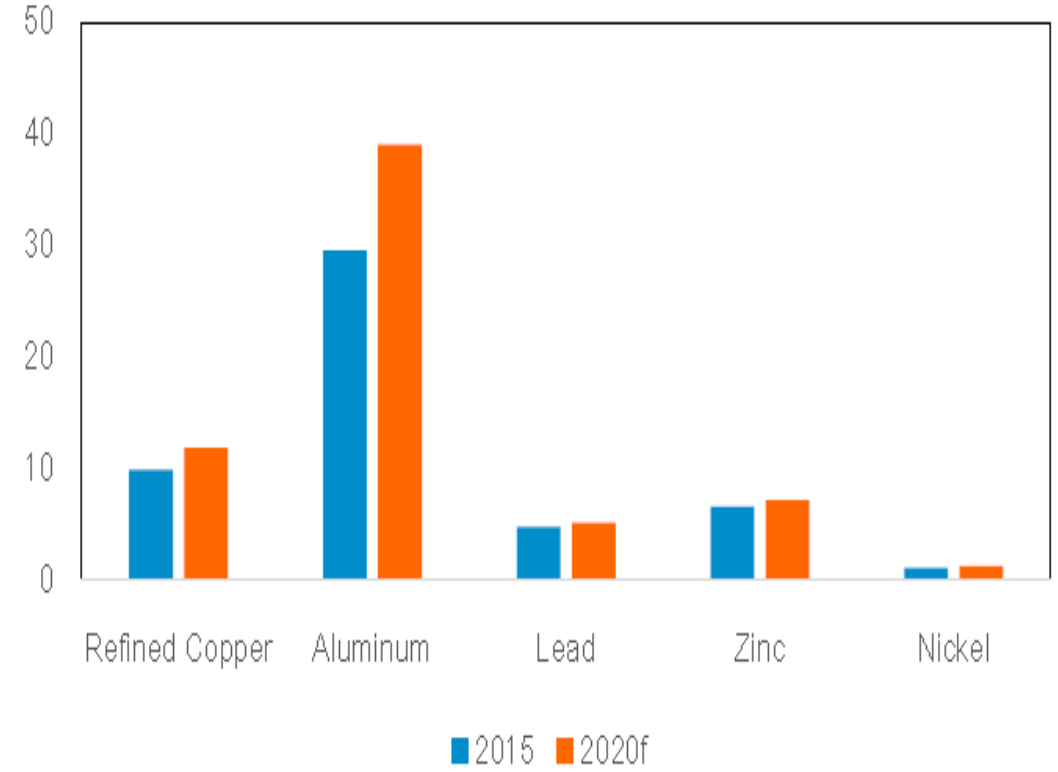

Machinery & equipment 4 – 5 %


Packaging 3 – 4 %

Global semis demand: 4 – 5 %

Chinese primary consumption
(consensus forecast)

Million tonnes



Source: CRU

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Global aluminium demand first in class

Steel substitution in automotive

Lighter vehicles in aluminium make a big impact on the climate challenge:

- US CAFE regulations
- EU CO2 emission reduction targets

Ford Doubles Profits for the Best Quarter in Its History

Leading the way for Ford was the recently redesigned, aluminum-bodied F-150 pickup, *which had strong sales, like those of other trucks and sport utility vehicles, as gas sold for less than $2 a gallon in many parts of the country.*

A year ago, Ford was just starting production of the aluminum model, working out hitches in the new manufacturing process. But now its F-150 lines are humming.

"They can't make enough of them," said David Kudla, chief executive of the investment firm Mainstay Capital Management.

New York Times, April 28th

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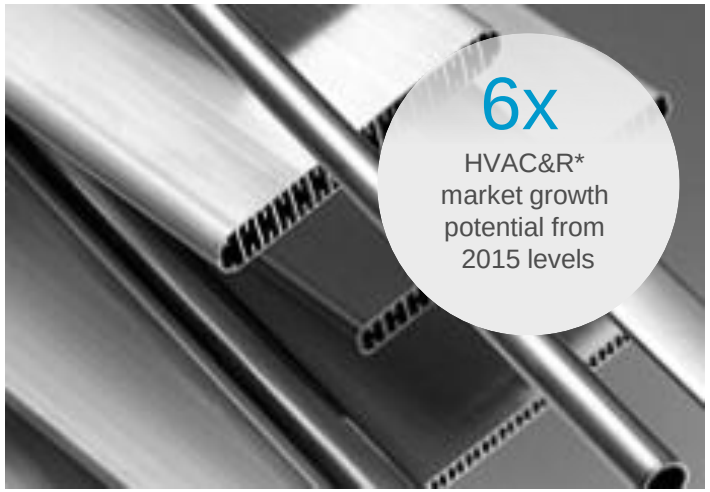
Global aluminium demand first in class

Copper substituion in HVAC&R, cabling and transmission lines



Aluminium weight and price advantages vs copper on a volume conductivity equivalent basis

Energy-efficiency legislation supports aluminium

Buildings account for ~ 40% of energy consumption worldwide, triggering response from the legislators

European Union
2012 Energy Efficiency Directive

US
Building Energy Use laws

Benefits of aluminium in buildings

- Light weight contributes to efficient use of materials
- Design flexibility and formability enable optimized building shapes
- High light reflectivity, electrical and thermal conductivity support overall energy-efficiency
- Recyclability reduces energy consumption from a lifecycle perspective
- Suitable for indoor and outdoor use: corrosion resistant, durable, low maintenance, safe and non-toxic

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Recycling gaining importance

Growth in recycling will contribute to making Hydro carbon-neutral

Market

- Substantial growth in post-consumed scrap
- Recycling driven by product markets and customer demand
- Both recycling and primary aluminium will be needed to satisfy demand growth

Hydro's recycling response

- Primary Metal: From remelting to recycling; utilizing more contaminated and end of life scrap
- Rolled Products: Lift recycling potential in the metal balance to reduce cost

02

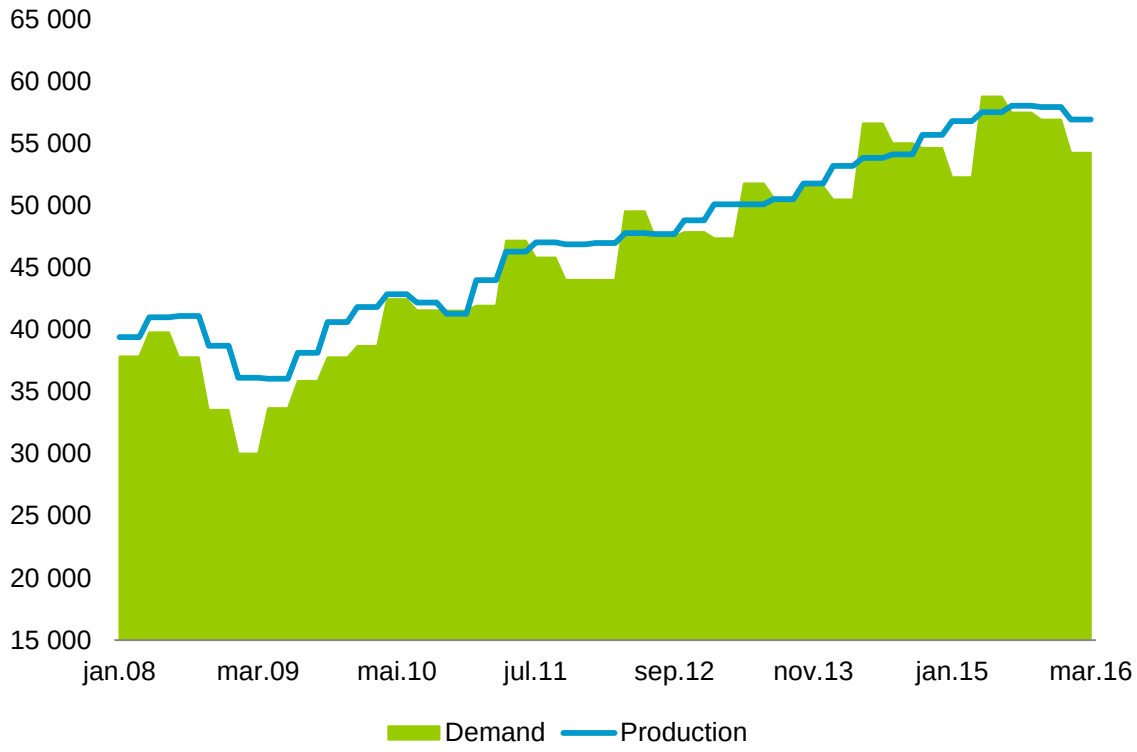
Primary

Declining global oversupply of primary aluminium

Driven by curtailments and stronger demand

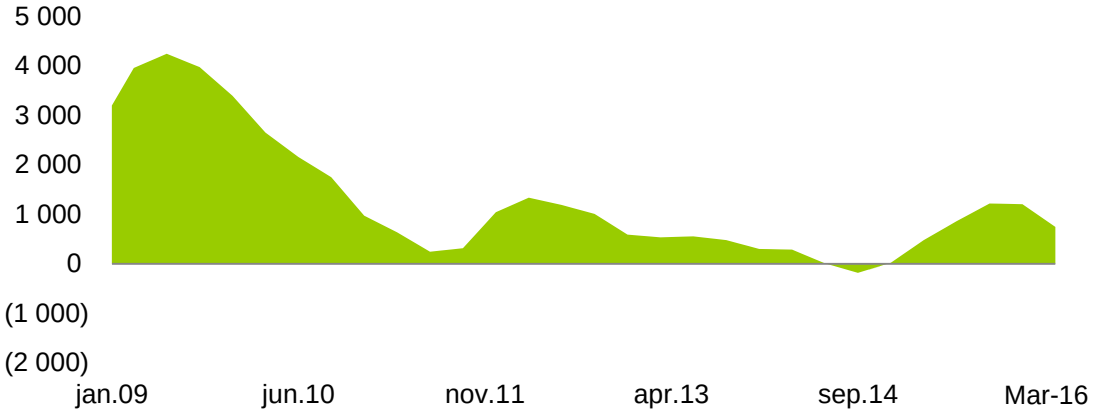
Demand and production (quarterly annualized)

1 000 mt primary aluminium



Production less demand[1)]

1 000 mt primary aluminium



- ~4.9 % demand growth Q1-16 vs Q1-15
  - ~8.1 % China
  - ~1.3 % Western Europe
  - ~1.6 % North America
  - ~(5.3 %) Central and South America
- 2016 demand growth expected unchanged at 3-4 %

Source: CRU/Hydro

1) Yearly rolling average of quarterly annualized production less demand

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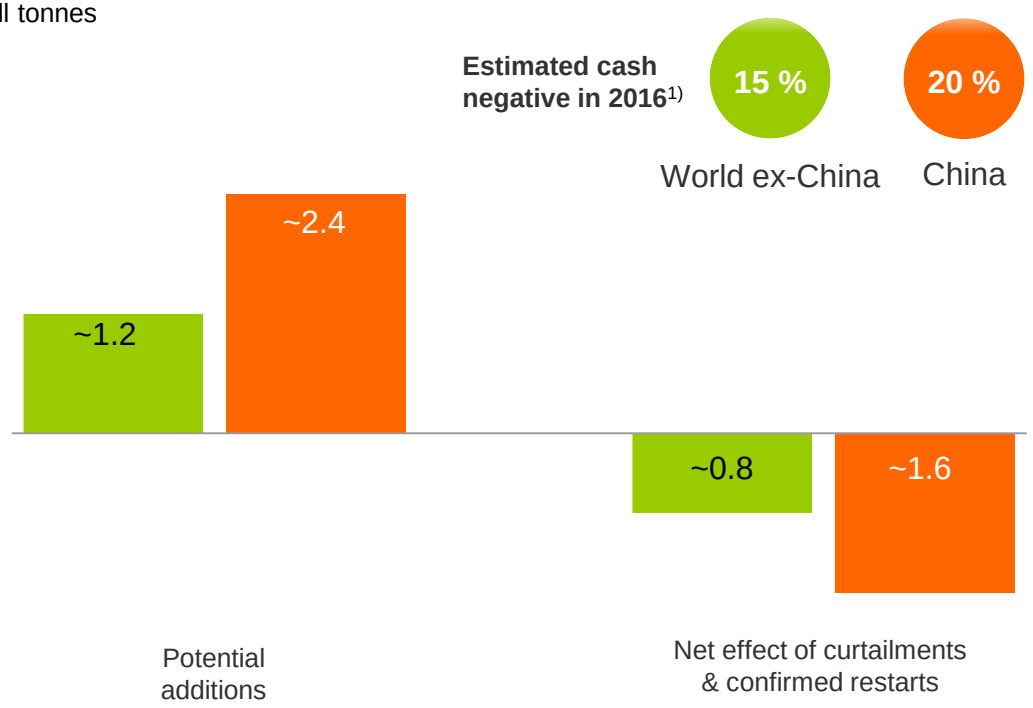
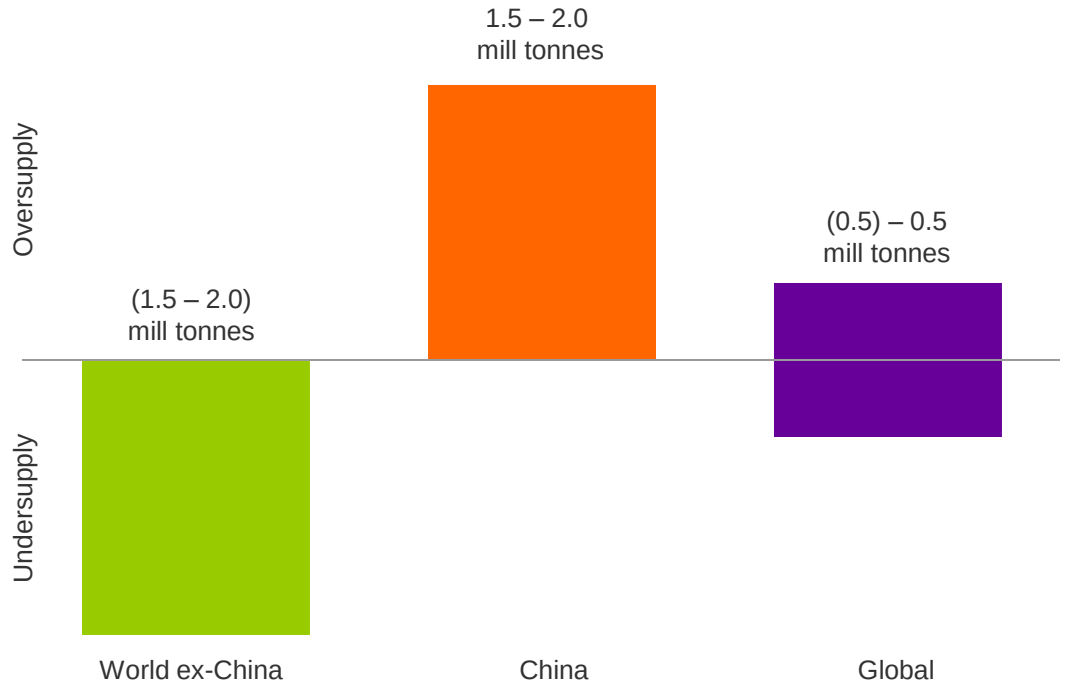
Aluminium market expected to be largely balanced in 2016

Higher risk of capacity restarts in China amid recent price rally

Supply development 2016
Mill tonnes



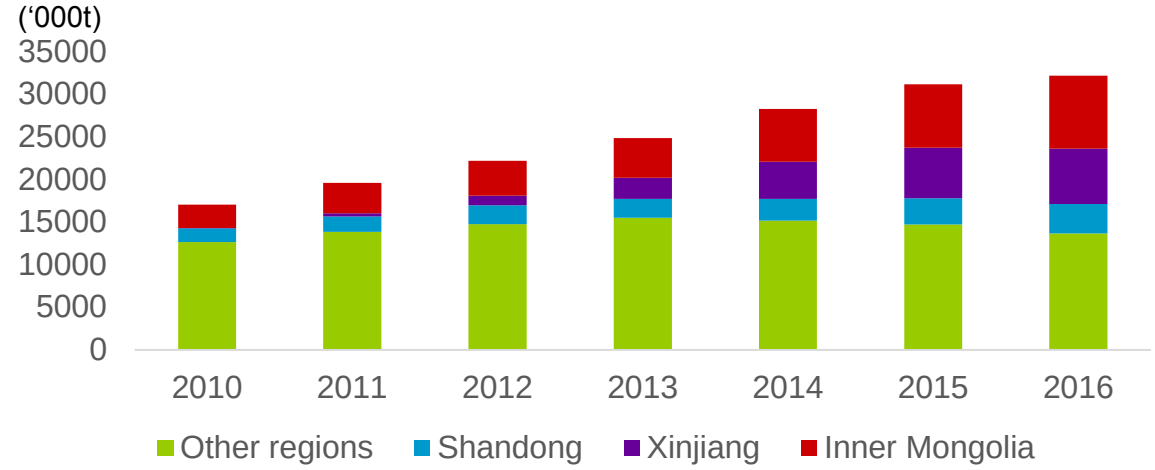
Market balance 2016
Mill tonnes



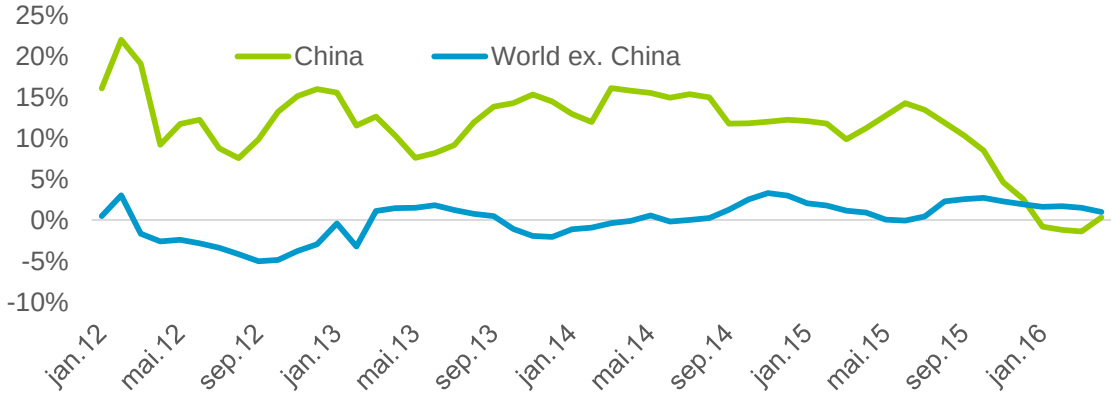
Source: CRU, Hydro Analysis
1) Based on CRU BoC curve 2016 and CRU price assumptions of LME 3m at 1 505 USD/mt and SHFE at 10.950 RMB/mt

Concentrated Chinese primary capacity expansions

Limited restarts



Annualized growth per month



- Smelter expansions largely taken place in Shandong, Xinjiang and Inner Mongolia
- Traditionally high cost; new smelters added further down on the global cost curve
- Value chain integration increasing
- Three major Chinese players among global six largest producers
  - Weiqiao
  - Xinfa
  - Chalco

Source: CRU, Hydro analysis

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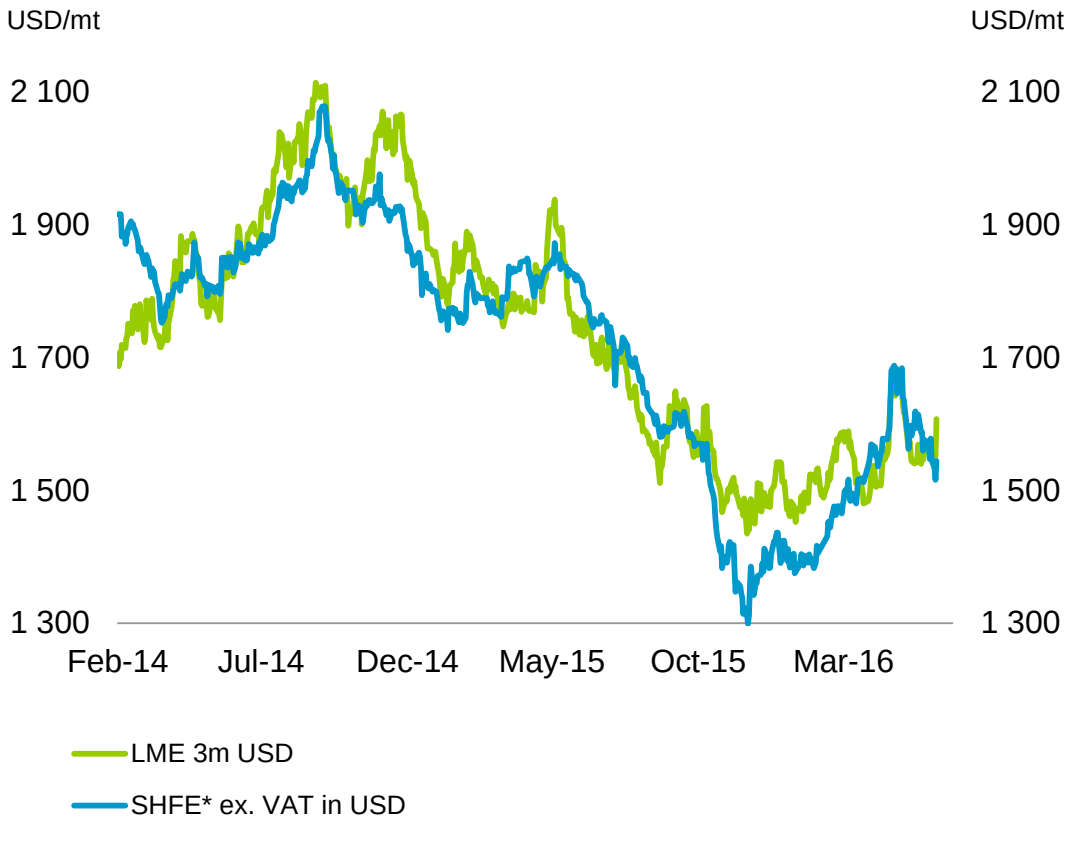
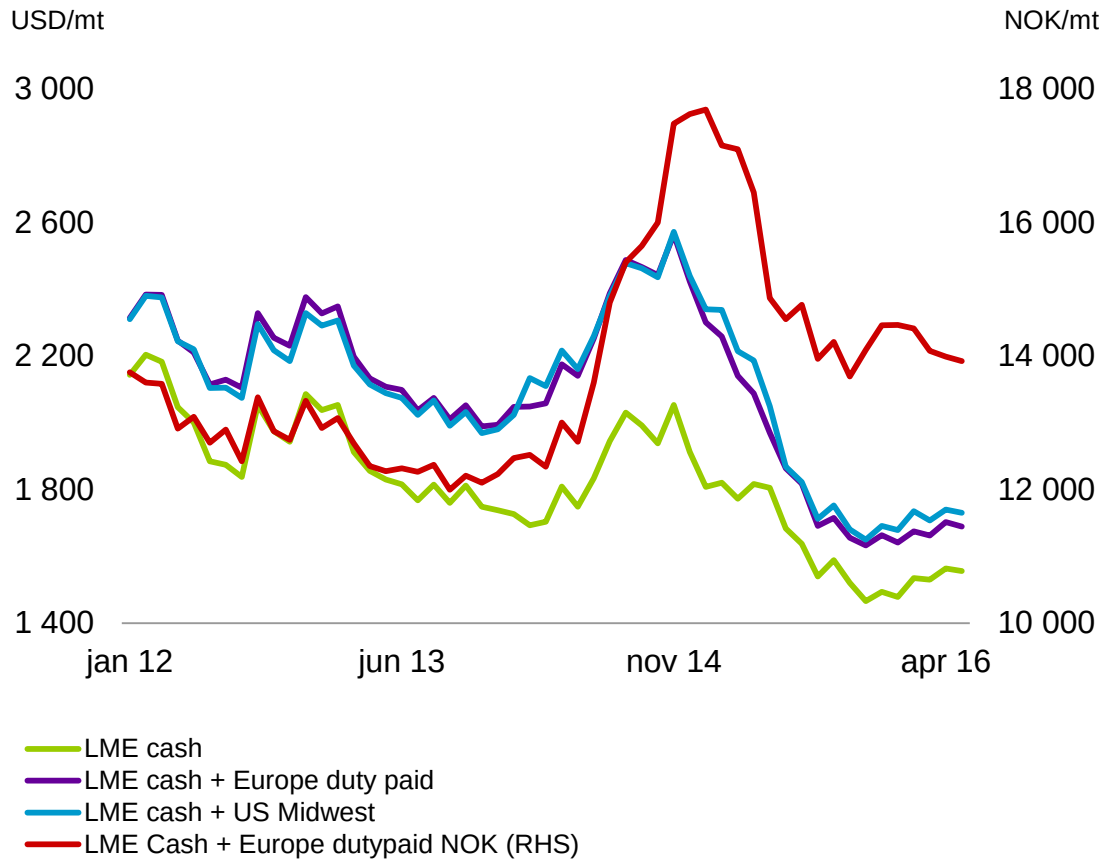
SHFE prices increase on tighter market, stable all-in LME prices

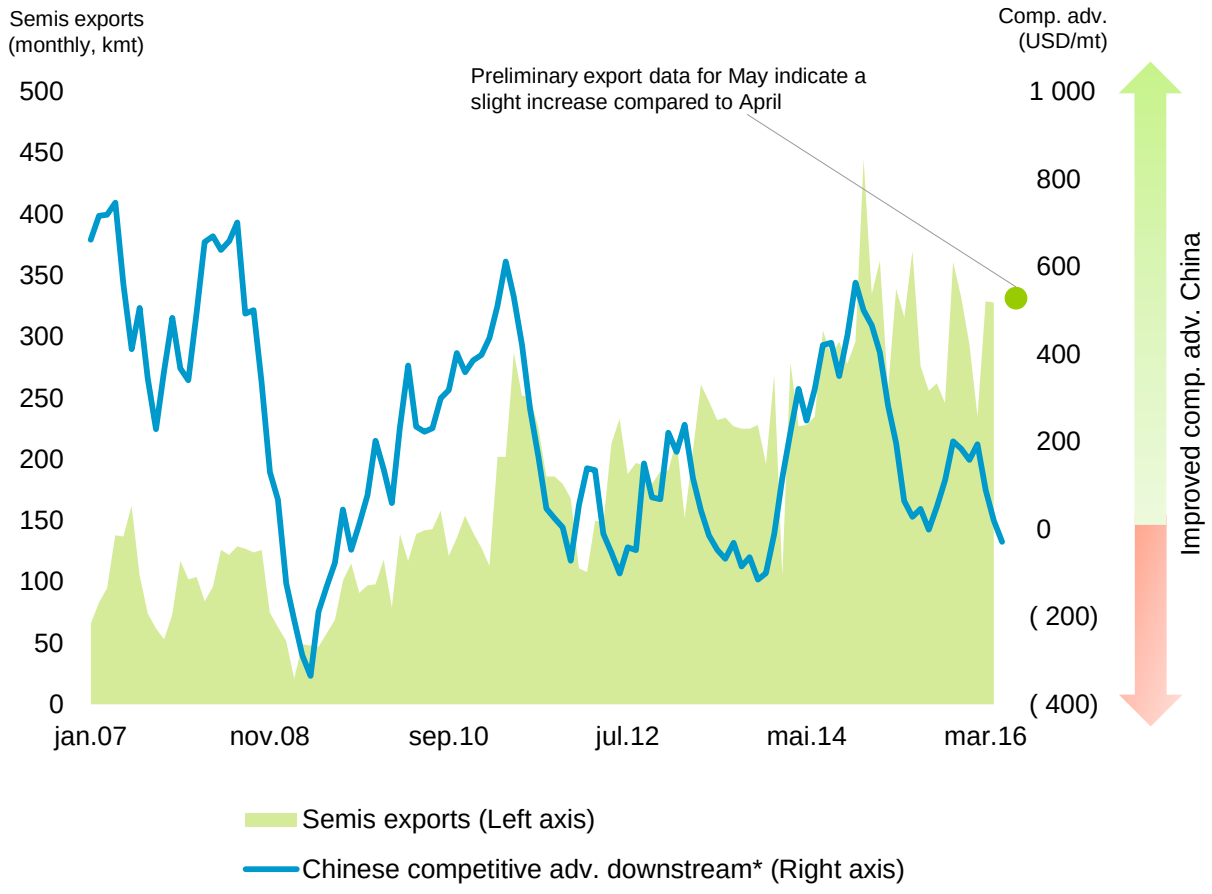


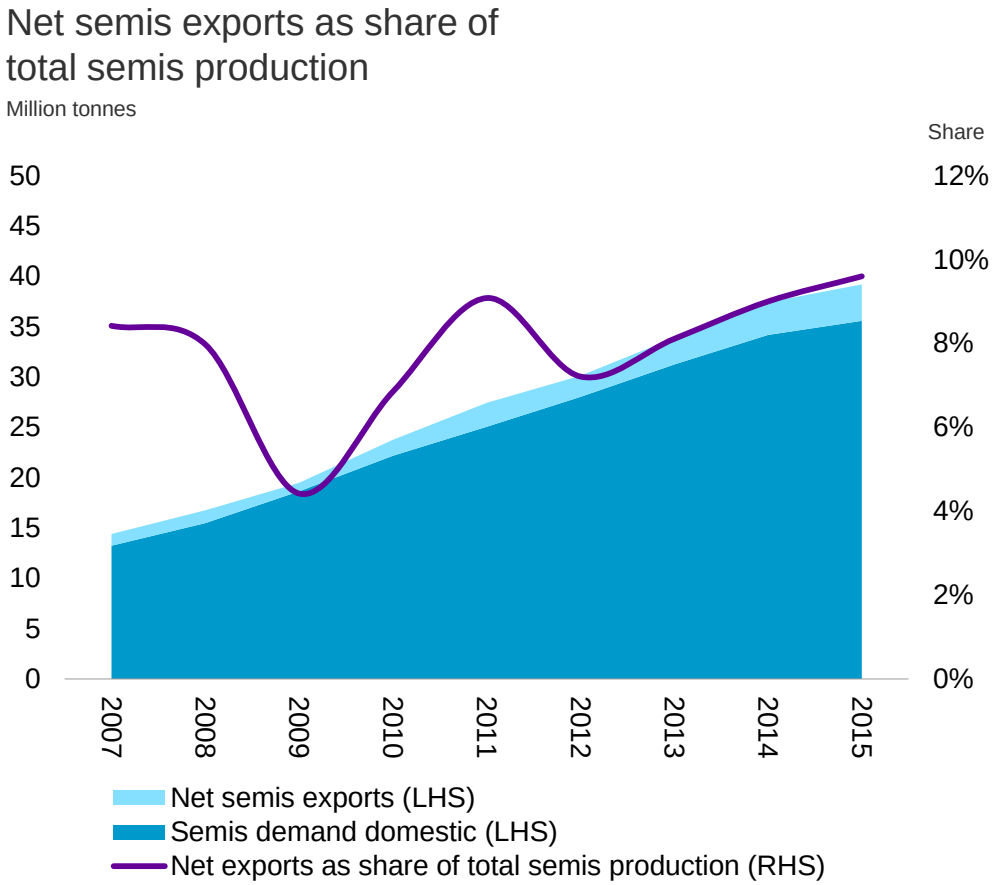


Source: Metal Bulletin, MW/MJP: Platts, Reuters Ecowin, Hydro analysis
* Shanghai Futures Exchange

Semis exports moderating slightly amid decreased arbitrage

Semis exports largely stable as share of Chinese semis production





Source: CRU/Ecowin
Est. metal cost China versus Europe:
LME cash + European duty-paid standard ingot premium
China: SHFE cash + avg. local premium + freight – export rebates (~13 %)

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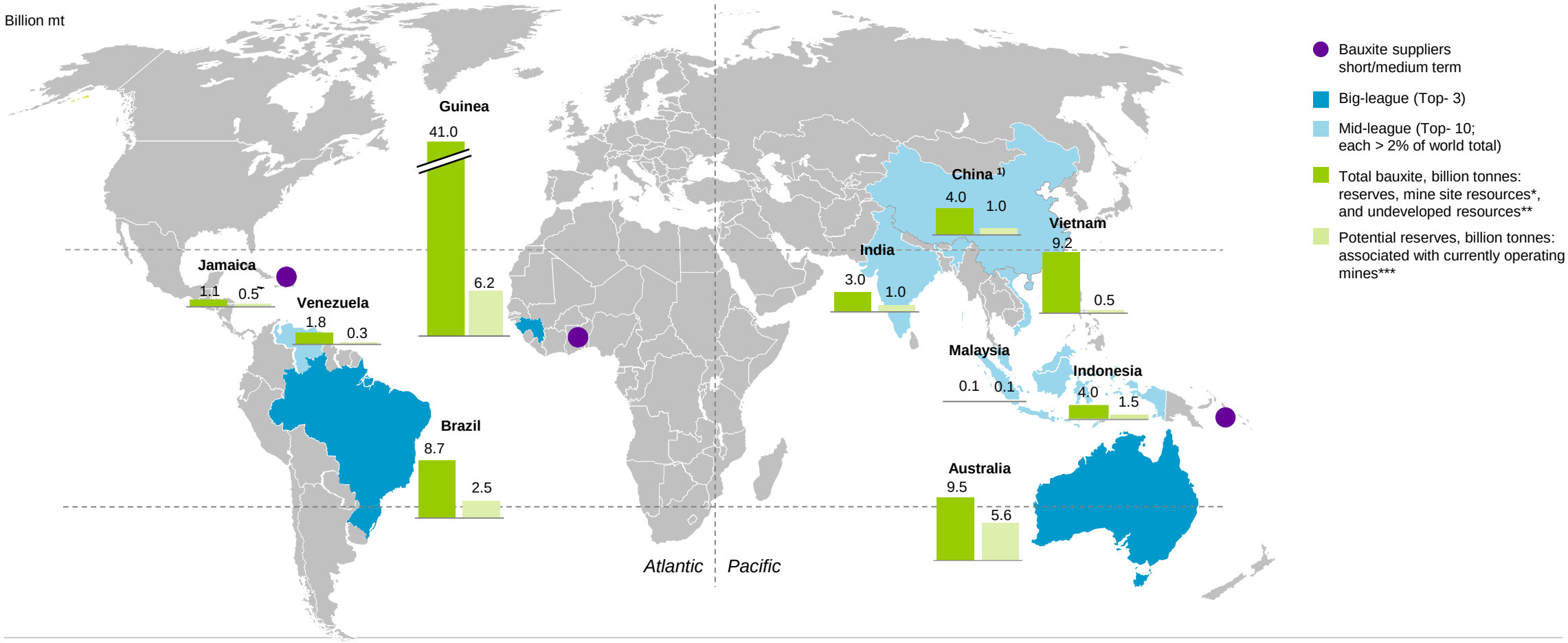
03

B&A

Bauxite market

Large and concentrated bauxite resources

But many challenges for future developments



1) Official reported resources in China (Not CM estimates)
*) Mine site resources are known bauxite resources that do not currently qualify as reserves for various reasons
**) Undeveloped resources might or might not became feasible for new mines (quality, size, access, etc.)
***) Potential reserves = current reserves (economically extractible) + 70% of mine site resources. Undeveloped resources are excluded.
Source: Roskill and Hydro analysis

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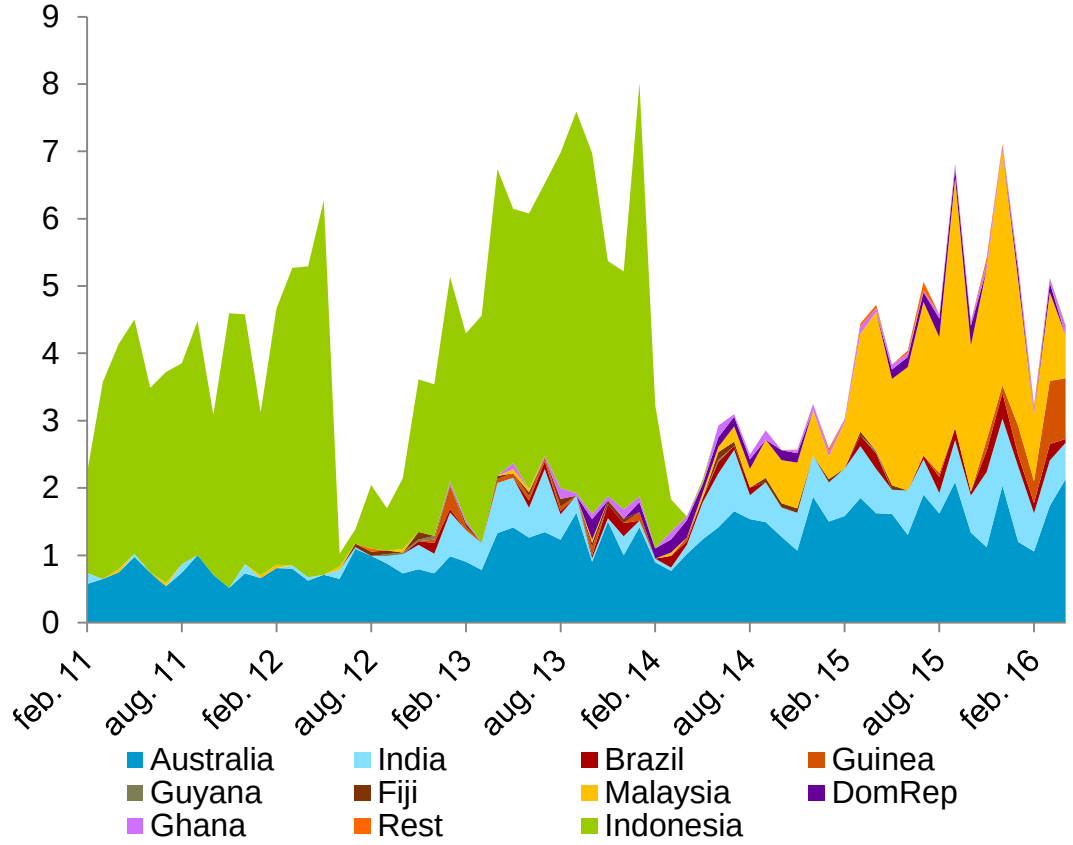
Monthly Chinese Bauxite imports decrease in the first quarter

Driven by lower shipments from Malaysia offset by higher shipments from Guinea

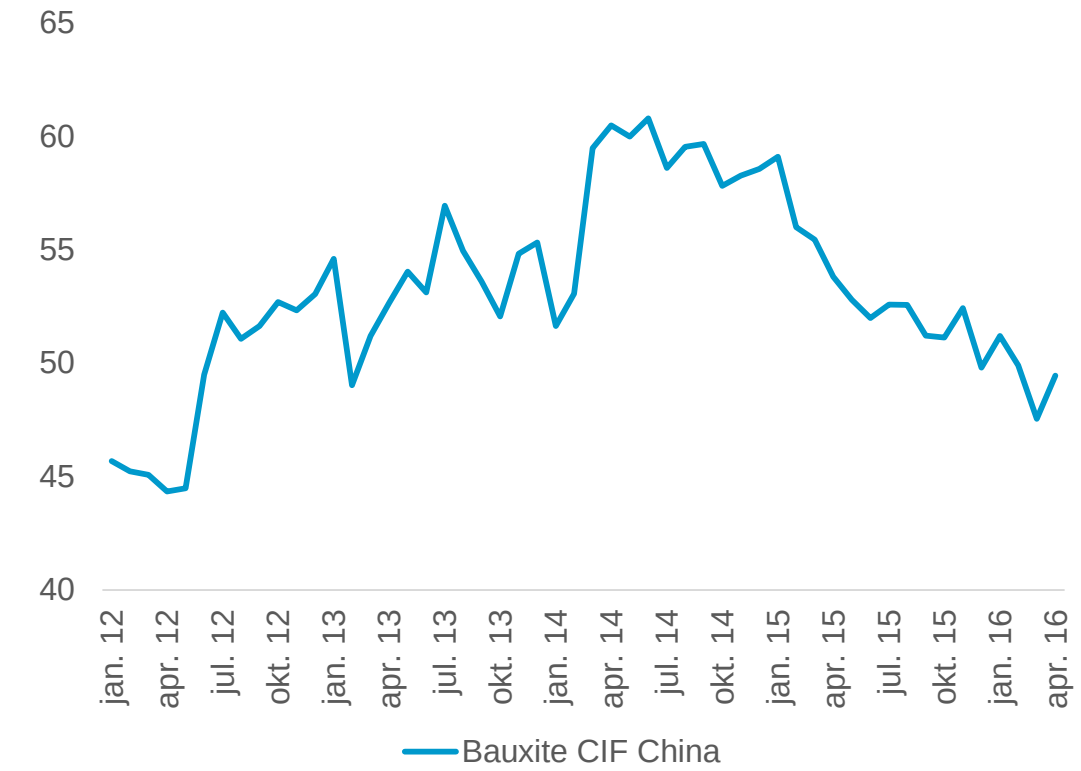
Monthly Chinese bauxite imports

Million mt



Bauxite prices

USD/mt



Source: China Customs

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Alumina prices weaken on looser Chinese market balance

Driven by ~5 million tonnes of Chinese alumina capacity re-starts

Platts alumina index (PAX)

- Year to date average 236.5 USD/t, 15.3% of LME
- Average May price of 259.1 USD/mt
  - Currently trading at 246 USD/mt FOB (June 14 2016)
- Current price $20/t down from YTD peak, driven by lower prices in China.
  - Chinese alumina refining capacity re-starts have exceeded smelter re-starts.
- Narrowed Atlantic discount throughout the year
  - Tighter Atlantic alumina market balance after Alcoa curtailed refining capacity in the US and Suriname

Source: Platts, Ecowin, China Customs, CRU

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04

An inside look on China

General take aways from latest China visits

- Demand growth led by rebound in construction market, supported by stimulus measures
- Restarts of primary smelters are so far limited and slow
- Somewhat increasing hurdles for aluminum entrants in general: mainly financing, captive power opportunities and environmental regulations
- “China will focus on China”
- Global primary cost curve flattening on lower Chinese power prices, while slope of alumina curve is more attractive as new refineries in Shandong area are added in the 3rd and 4th quartile
- More imports expected from Guinea, and Guinea recognized as a necessary resource

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Hydro’s response

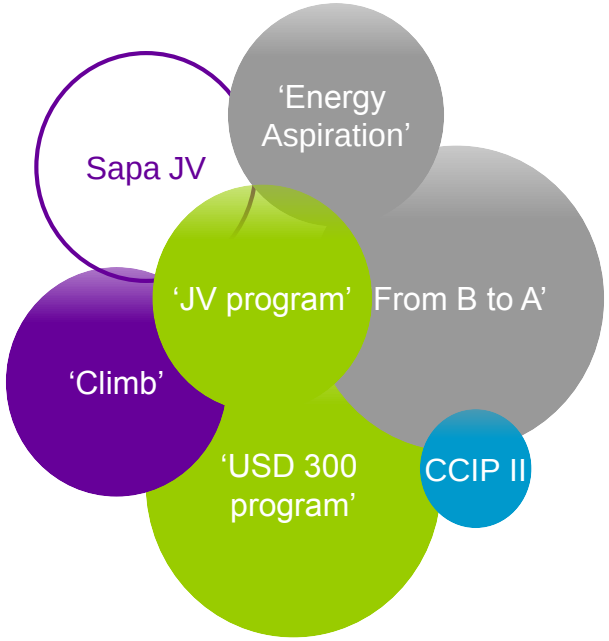
Aspiration = inspiration

Better Bigger Greener

Better: proven track-record of productivity gains continues

Hydro's improvement drive until 2015

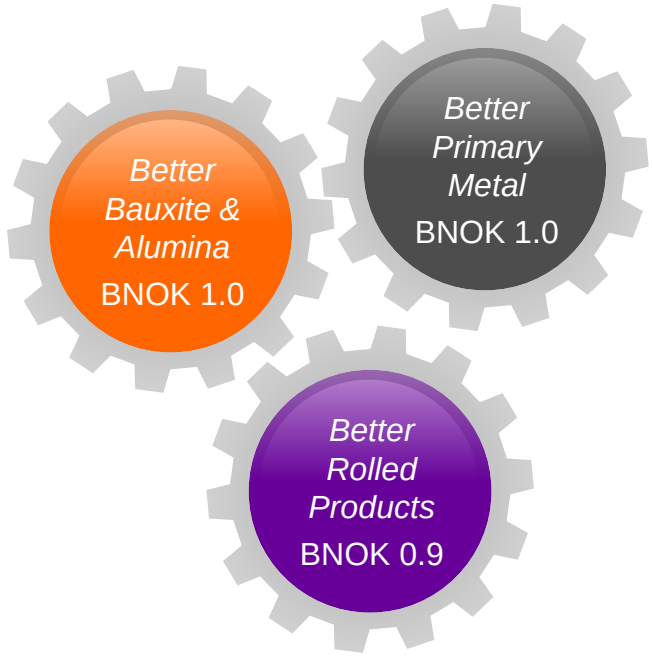
Total improvements 2011-2015:
BNOK 4.5[1]



Hydro's new improvement ambition

Total improvements of
BNOK 2.9 from 2016-2019[2]

Tailor-made ambitions across the value chain



1) Includes USD 300 from 2009
2) Includes some larger investments of 3.2 billion NOK in 2015-2019: AL3 and UBC in Rolled Products, 100+100kt capacity creep in Primary Metal, Alunorte debottlenecking in B&A.
3) Real 2015 terms

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Bigger: a solid platform for building an even stronger Hydro

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Greener: Carbon-neutral from a life-cycle perspective by 2020

Hydro carbon neutral in 2020

From a life-cycle perspective

Integrated into business strategy in all business areas

- Increasing energy-efficiency and reducing emissions in production processes in aluminium plants, rolling mills, and alumina refinery
- Increasing production of renewable hydropower, evaluating potential of switching to renewable energy sources or natural gas in production processes

- Developing products and solutions, establishing partnerships with advanced customers, and identifying new applications for metal and downstream products
- Supporting global energy-efficiency goals by helping customers reduce energy consumption and emissions and by promoting sustainable frameworks

- Reducing waste and saving ~95% of energy by recycling of post-consumed scrap in Primary Metal and Rolled Products
- Utilizing advanced sorting technology and developing recycle-friendy alloys

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Aspiration = inspiration

Better Bigger Greener

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