



# Hydro acquires Sapa

## Creating a global aluminium champion

July 10, 2017

Svein Richard Brandtzæg, President and CEO

# Creating the leading force in the global aluminium industry

Global #1 in aluminium products, solutions, applications and innovations

<b>Transaction details</b>	<ul style="list-style-type: none"><li>• Binding agreement for Orkla's 50% interest in Sapa</li><li>• Sapa enterprise value BNOK 27</li><li>• Accretive to earnings and strong cash generation from Sapa from day 1</li><li>• Synergies of MNOK 200 per year</li><li>• Sapa to become new business area in Hydro</li></ul>
<b>Financing &amp; capital structure</b>	<ul style="list-style-type: none"><li>• To be financed through cash positions and bond issue</li><li>• Hydro committed to retain investment grade credit ratings and robust balance sheet</li><li>• Dividend policy to remain at 40% of net income over the cycle</li></ul>
<b>Timing &amp; closing conditions</b>	<ul style="list-style-type: none"><li>• Subject to customary regulatory approvals*</li><li>• Anticipated closing in second half 2017</li></ul>



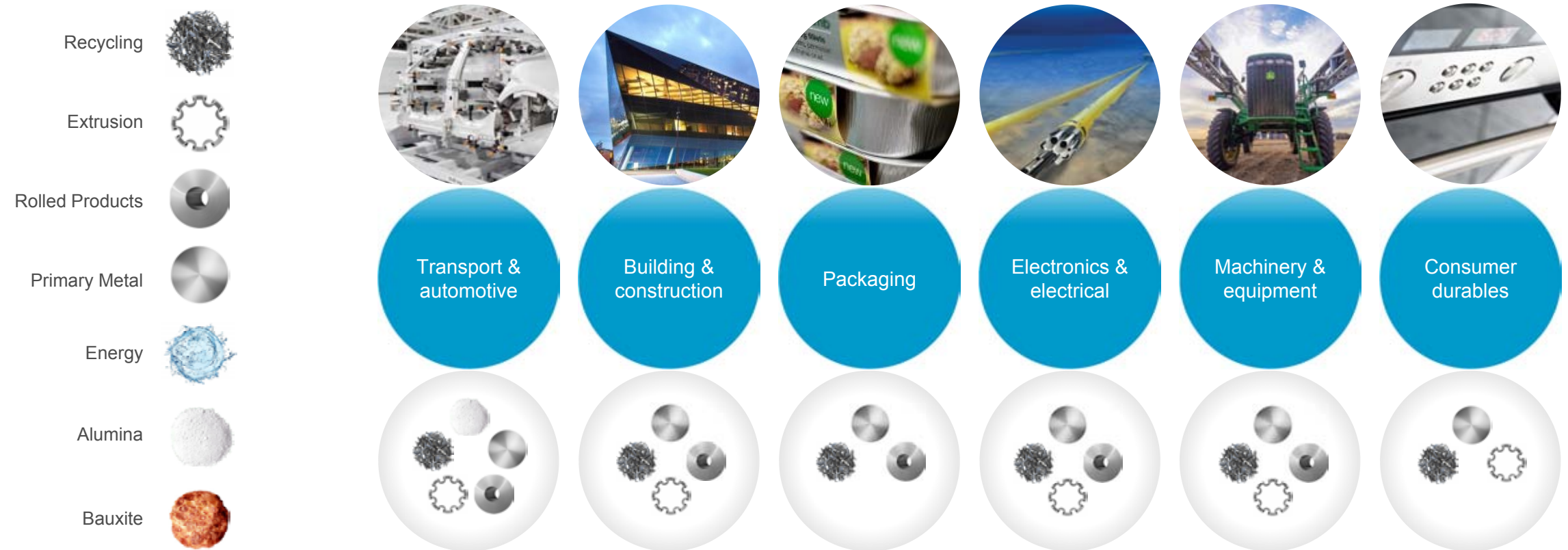
\* Regulatory approvals required in Brazil, Canada, China, EU, Turkey before closing

# Connecting the world of infinite aluminium



# Fully integrated across the aluminium value chain and markets

Broad products and solutions offering from bauxite to end-user products





A photograph of three workers in a factory setting. A woman in the foreground, wearing a white hard hat with the 'sapa:' logo, safety glasses, and a blue sleeveless shirt, is pointing towards the left. Behind her, two men, also wearing 'sapa:' hard hats and blue shirts, are looking in the same direction. The background shows industrial equipment and materials. A large white circle is overlaid on the left side of the image, containing the text.

Acquiring  
the global leader  
in innovative  
aluminium  
solutions

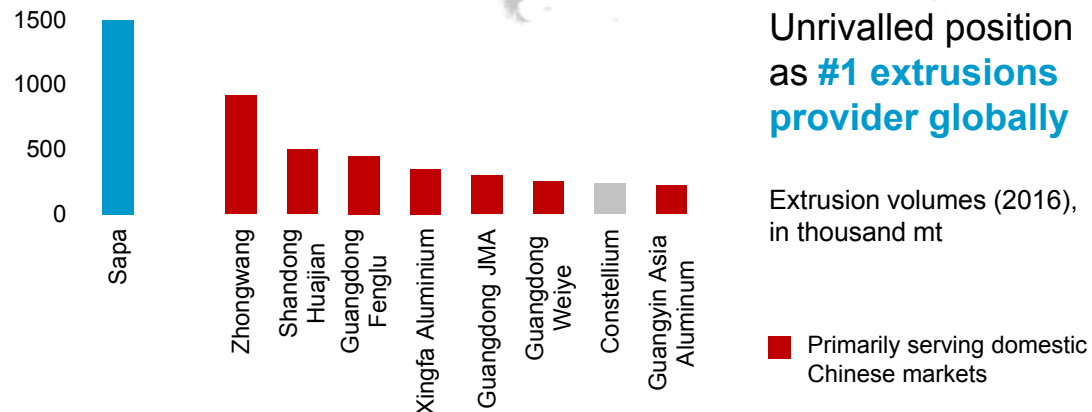
# The global extrusion champion – worldwide reach, local presence

Clear leader in a fragmented industry where closeness to customers and markets are key success factors

Strong global positions

22,400 people

Present in 40 countries

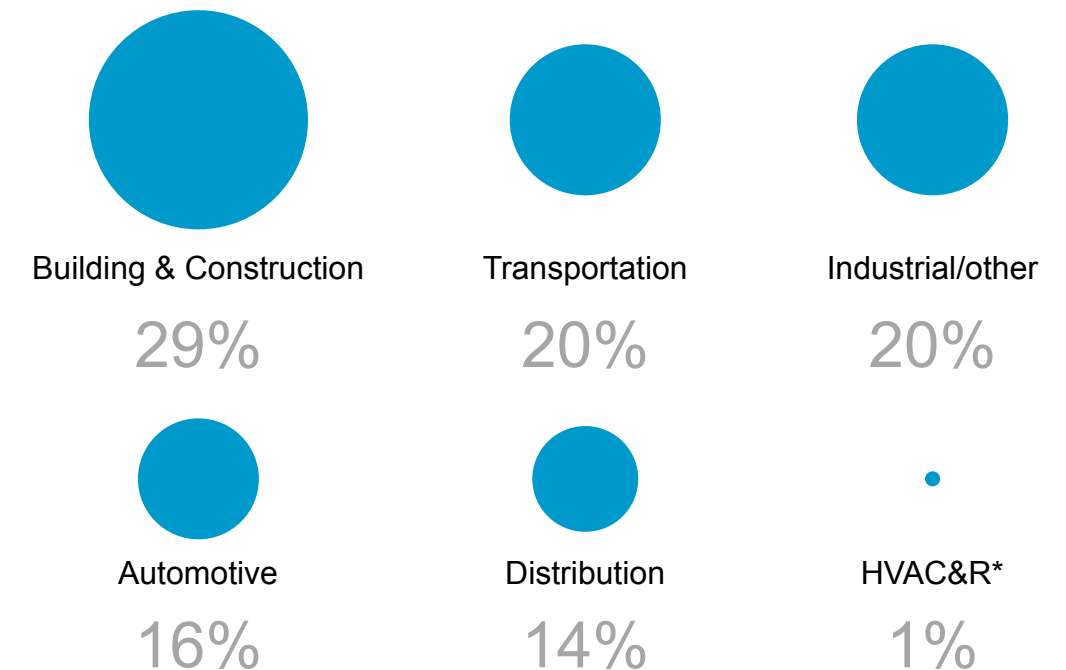


Unrivalled position as **#1 extrusions provider globally**

Extrusion volumes (2016), in thousand mt

Customers in diversified end-markets

(Share of Sapa's sales volumes)



Source: CRU, Sapa Annual Report and Investor Briefing 2016

\* Heating, ventilation, air conditioning and refrigeration

# Unique market positions, built on European and US strongholds

22,400 highly competent people across the world, with total turnover of BNOK 53

## Extrusion Europe



- Market leader focusing on value-added products
- 22% market share
- 40 locations, 9,400 people

Revenue (2016)	EBITDA (2016)
<b>BNOK 20.4</b>	<b>BNOK 1.3</b>

## Extrusion North America



- Uniquely positioned as the only coast-to-coast supplier
- 24% market share
- 23 locations, 6,300 people

Revenue (2016)	EBITDA (2016)
<b>BNOK 20.3</b>	<b>BNOK 1.3</b>

## Precision Tubing



- Technology leader in selected market niches
- 35% market share globally
- 17 locations, 3,100 people

Revenue (2016)	EBITDA (2016)
<b>BNOK 6.4</b>	<b>BNOK 0.6</b>

## Building Systems



- Leading European player with multi-brand portfolio
- 18% market share in Europe
- Presence in 29 countries, 2,800 people

Revenue (2016)	EBITDA (2016)
<b>BNOK 7.2</b>	<b>BNOK 0.5</b>

Source: Sapa Annual Report and Investor Briefing 2016



# Targeting the high-tech, high-competence segments of extrusion

Sapa with increased focus on value-add, specialized and advanced product niches

## Tailored solutions



- Custom high-quality extrusions
- Customers bring designs and requirements, cooperating with Sapa to find solutions
- Product development support and solutions

## Finished products



- Sapa offers a wide range of finished products, from light poles to pedestrian bridges and wheelchair ramps

## Service



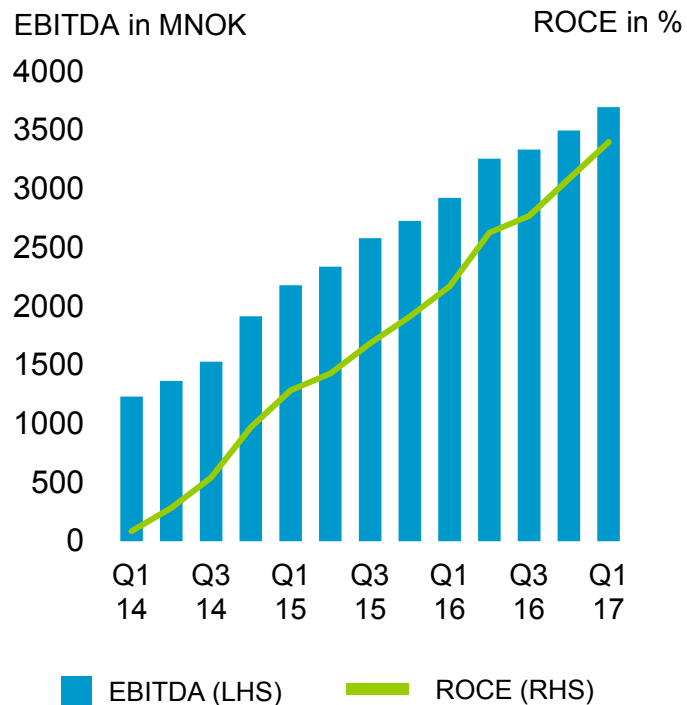
- Sapa provides packaging, assembly of complete products and logistics, after-service and support



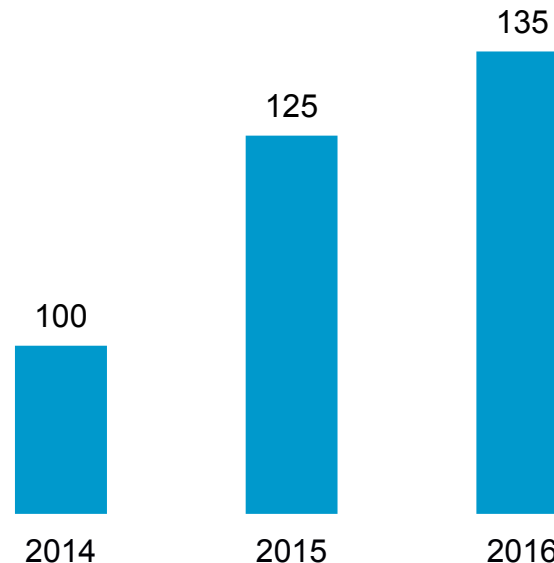
# Proven track-record of value creation with further potential

## Successful value-over-volume strategy

Last 12 months underlying EBITDA  
After-tax ROCE (100%)



Net added value\* per kg  
(NOK, indexed)



- BNOK 1 restructuring on annual basis delivered ahead of plan
- Further potential for value-creation
  - Increasing share of value-added sales
  - Simplification and collaboration drive for continued profitability improvement
  - Selective investments in capabilities and capacity to support value-over-volume strategy

Net Added Value: calculated as operating revenues less cost of material, including freight costs out  
Source: Sapa Annual Report and Investor Briefing 2016

A close-up photograph of a hand placing a silver puzzle piece into a globe constructed from many other puzzle pieces. The globe is partially visible, showing the interlocking edges of the pieces. The hand is positioned on the right side of the frame, with fingers carefully guiding the piece into place. The background is a plain, light color.

## Strategic fit and rationale

# Stronger together

Complementing each other, connecting the world of infinite aluminium

## Hydro's contribution

- Upstream performance leader
- Technology, R&D & process innovation
- Strong commercial positions mid and downstream
- High-quality asset and resource base

## Sapa's contribution

- Global leader in extruded aluminium solutions
- R&D & product innovation
- Close to customers and markets
- Flexibility and speed



1

Global  
leadership



2

Growth



3

Infinite  
solutions

# Product service offering and quality throughout the value chain

Built on market understanding, customer closeness and competence

1  
Global  
leadership



<sup>1</sup> Outside China; <sup>2</sup> Extrusion ingot, sheet ingot, primary foundry alloys and wire rod; <sup>3</sup> Packaging, automotive, litho, building & construction and general engineering; <sup>4</sup> Primary Foundry Alloys



# Unmatched in technology, innovation and product development

Superior capability and competence to enhance customer value-creation

1  
Global  
leadership



HYDRO

Leading in process  
technology and innovation



**sapa:**

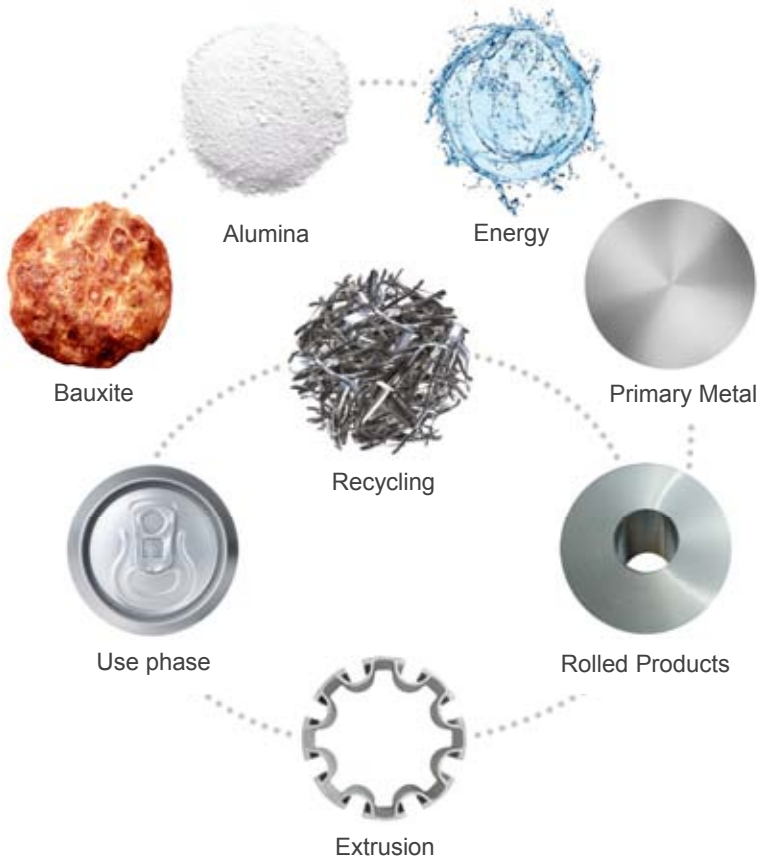
Leading in R&D and  
product development

Driving technology, R&D and  
innovation across the value chain

- Primary aluminium technology
- Alloy and casting competence
- Remelt and recycling capability
- Products and solutions development
- Service and customer cooperation

# Growth and optionality through full value chain exposure

2  
Growth



- High-quality assets from bauxite to products and market insight across global markets
- Increased differentiation and risk diversification in combination with lower relative LME exposure
- Higher growth potential and optionality to allocate capital throughout the value chain

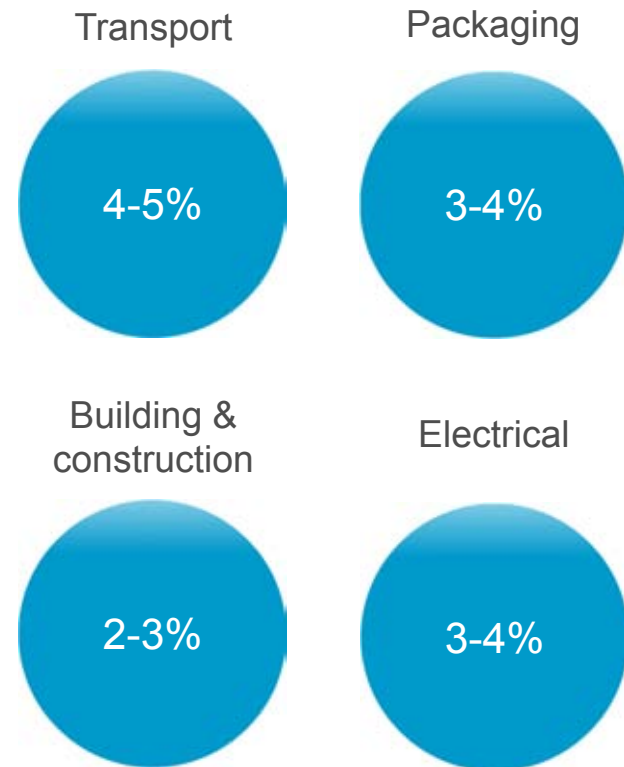
# Strengthening Hydro's ability to grow in most attractive markets

Competitive advantage based on product development and innovative edge

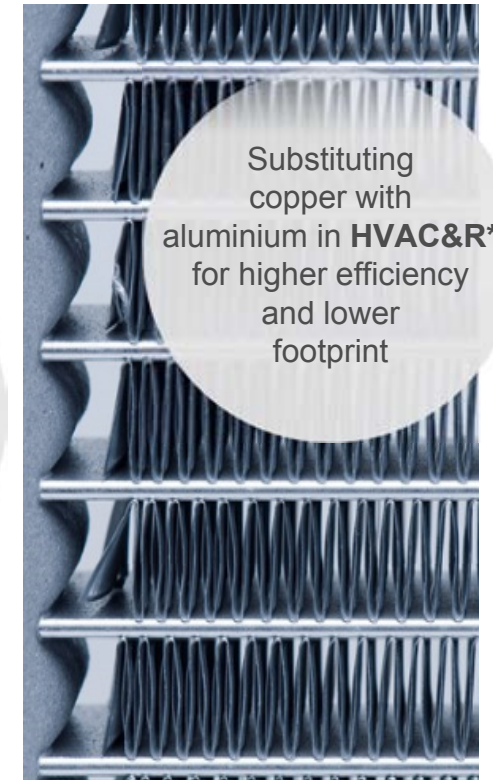
2

Growth

## Strong overall semis demand growth



## Positioned for growth in a range of high-margin segments



Global semis demand for segment, CAGR 2016-2025  
Source: CRU

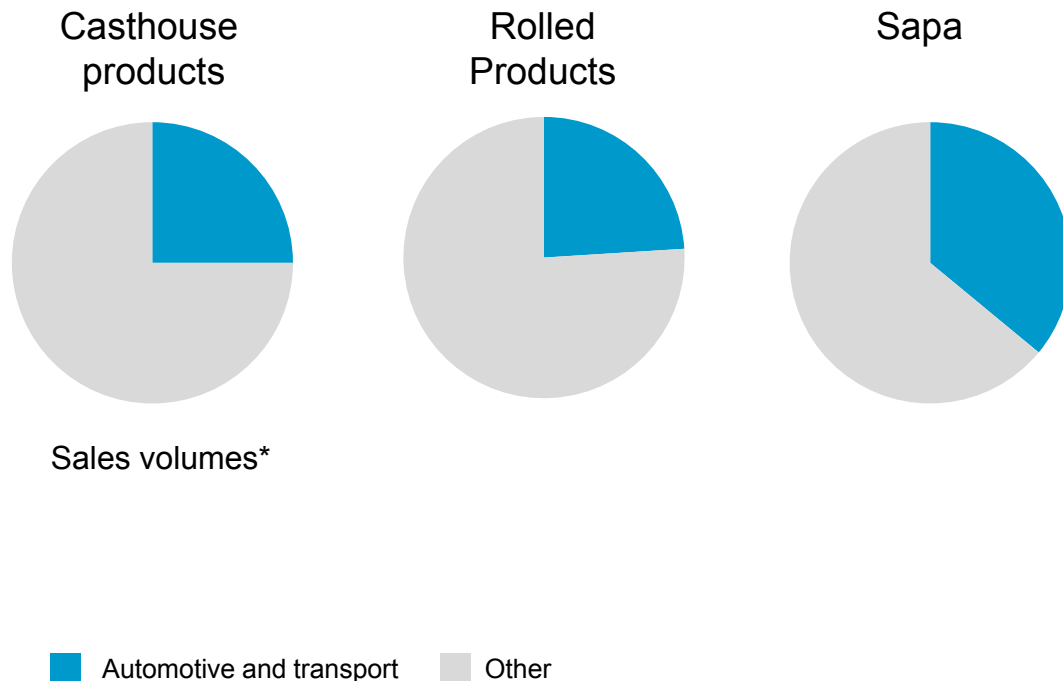
\* Heating, ventilation, air conditioning and refrigeration

# Global leader in offering full range of lightweighting solutions

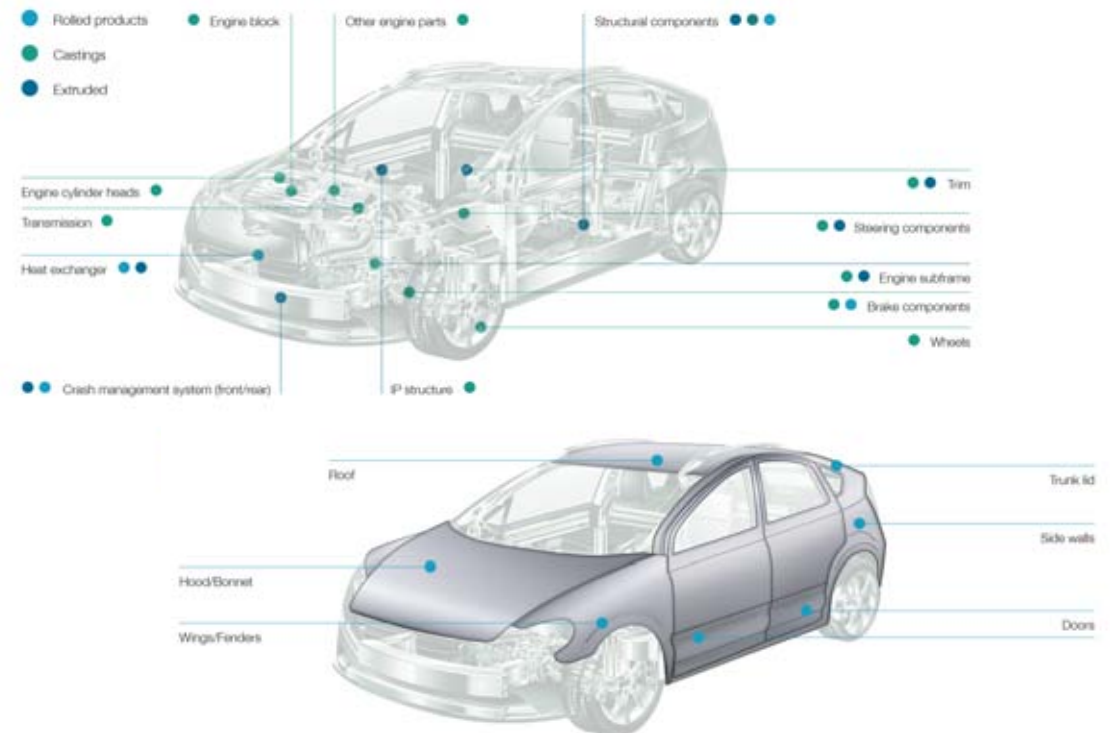
Car makers utilizing aluminium to reduce weight and increase fuel-efficiency

2  
Growth

Automotive and transport representing significant share of Hydro's total portfolio



High-growth automotive segment with substantial further potential due to aluminium's superior inherent properties



\* Sales volume 2016 for casthouse products and Sapa, estimate 2020 for Rolled Products



# Strengthening the industry's most ambitious climate strategy

Lightweighting the future, circular solutions for the circular economy

3

Infinite  
solutions



Promoting responsible aluminium  
as the metal of the future



Maintaining Hydro's lead also within  
sustainability and responsibility



Exceeding customer expectations  
– today and tomorrow

# Synergy and optimization possibilities in remelt and recycling


3

Infinite  
solutions



\* Including ~0.5 million mt remelt capacity at primary smelters



The background of the slide is a photograph of a server room. It features rows of server racks with numerous green indicator lights glowing. On the left side, there are blurred blue and purple light streaks, possibly from other equipment or reflections. A large, semi-transparent white circle is centered on the left half of the image, serving as a backdrop for the text.

# Transaction details

# Overview of the transaction

## Transaction Summary

### Transaction details

- Binding agreement for Orkla's 50% interest in Sapa
- Sapa enterprise value BNOK 27
- Accretive to earnings
- Strong cash-generation from Sapa from day 1
- Synergies of MNOK 200 million per year, mainly related to remelt and recycling
- Subject to customary post-closing adjustments
  - Working capital, net debt and capex

### Financing & capital structure

- Financed through cash and bond issue in Norwegian and international markets, temporarily funded by committed undrawn credit lines
- Hydro committed to retain investment grade credit ratings and robust balance sheet
- Dividend policy to remain at 40% of net income over cycle, NOK 1.25 per share as floor for 2017

### Timing & closing conditions

- Subject to customary regulatory approvals\*
- Anticipated closing in second half 2017

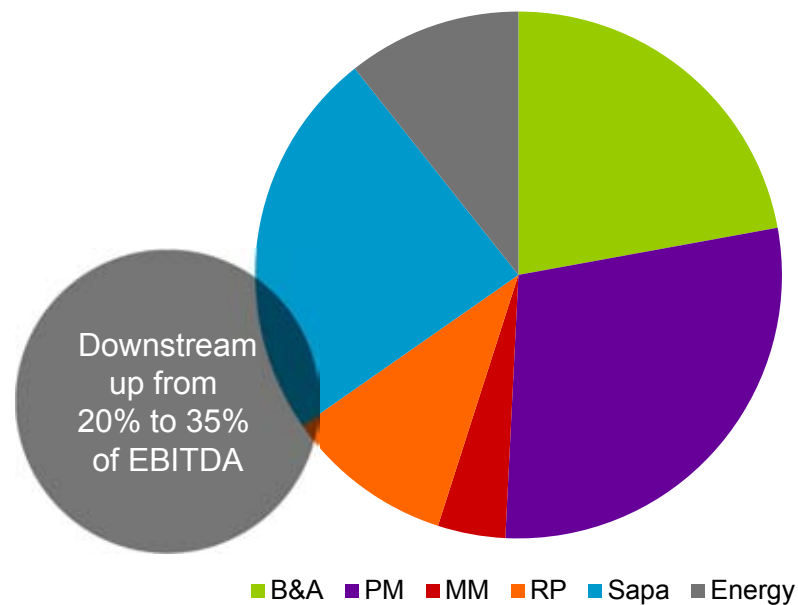
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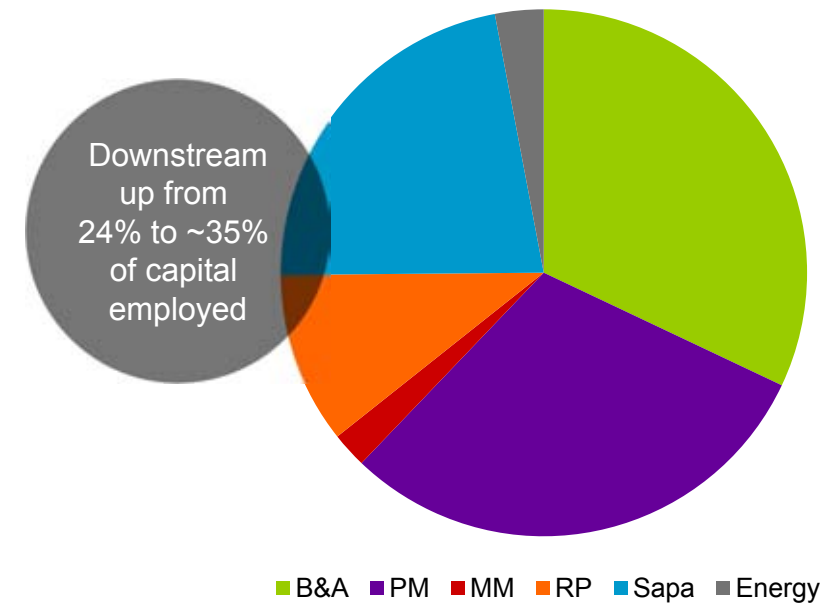
# Solid earnings across the entire aluminium value chain

Increasing relative share of capital employed downstream

Hydro after transaction, underlying EBITDA 2016  
BNOK 14.2



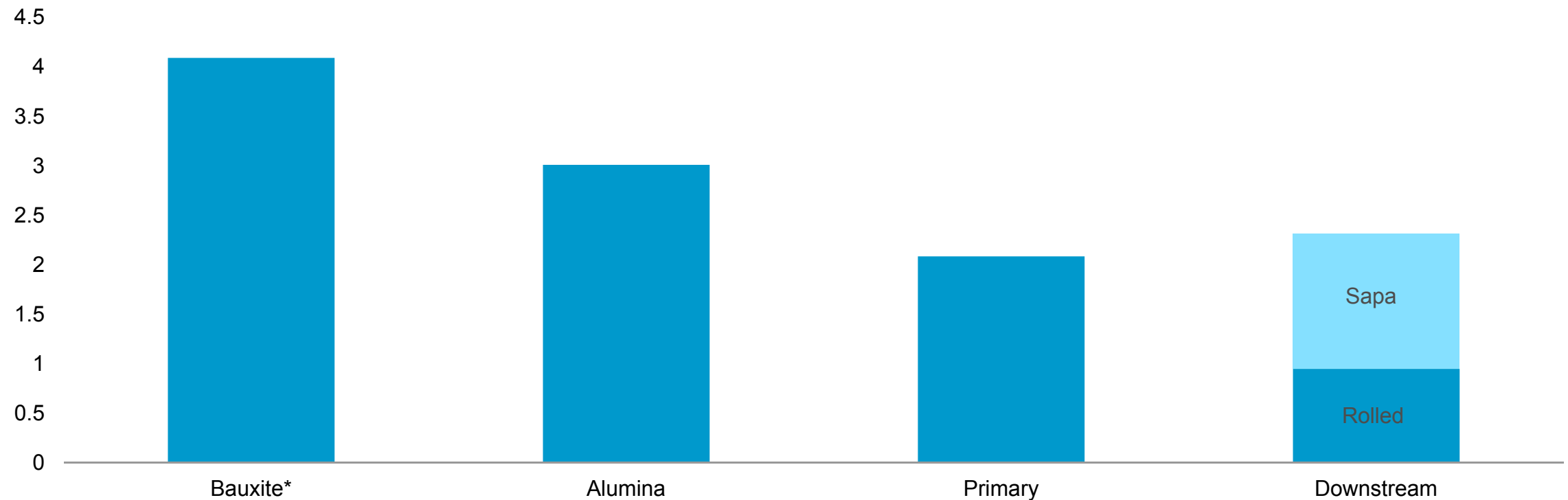
Hydro after transaction, capital employed end-2016  
BNOK ~97



Underlying EBITDA pie-chart excludes other & elimination of negative MNOK 359, capital employed pie-chart excludes other & elimination of negative 8.2 BNOK.  
Pro-forma figures for underlying EBITDA and capital employed are estimates, further information will be published in the Information Memorandum

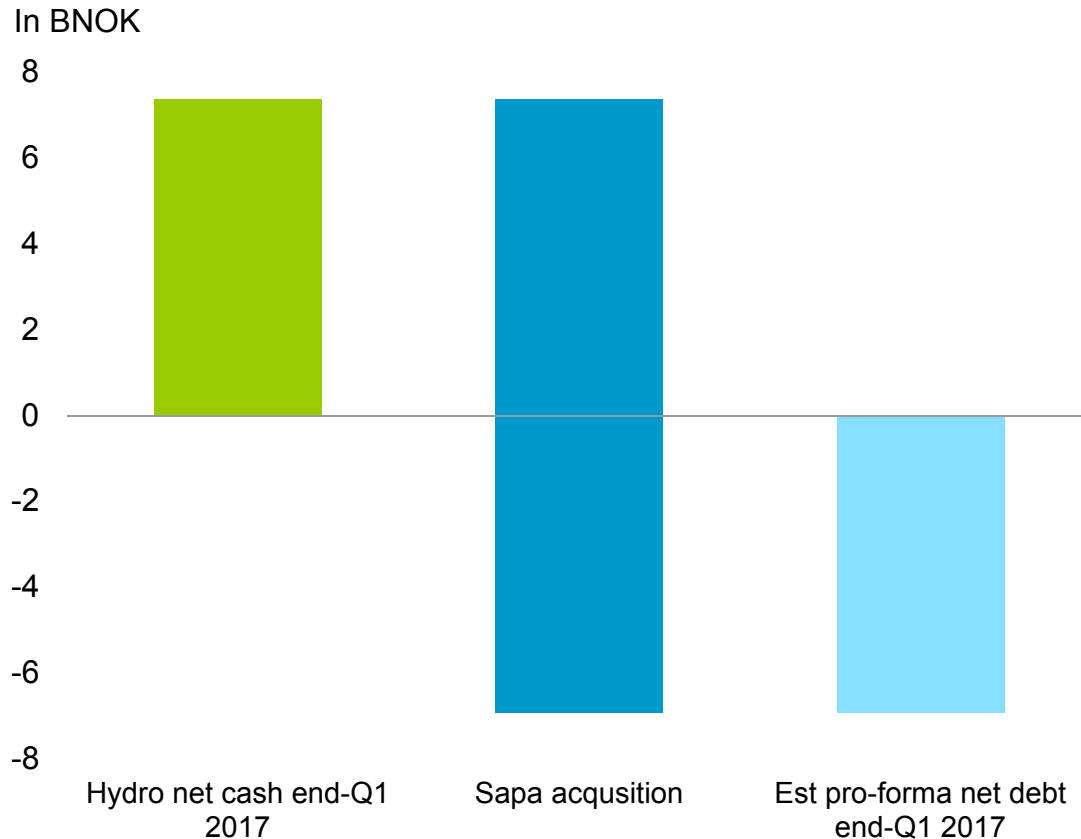
# Sapa contributes to more balanced value chain and reduced market price exposure

Estimated pro-forma production 2016, in million tonnes primary equivalents



\* Incl. evergreen contract Vale MRN

# Acquisition funded by debt and strong balance sheet



- Transaction financed through cash positions and bond issue in Norwegian and international markets
- Temporarily funded by committed undrawn credit lines
- Hydro reiterates commitment to retain investment grade credit ratings and robust balance sheet
- Dividend policy remains – 40% of net income over cycle, NOK 1.25 per share as floor for 2017
- Total long-term sustaining capex after acquisition of BNOK ~5.5 per year

Hydro net cash end-Q1 2017 adjusted for BNOK 1.5 dividend from Sapa  
Sapa net debt adjusted for payment of BNOK 3 dividend to owners  
Net debt excludes pensions and debt in equity accounted investments

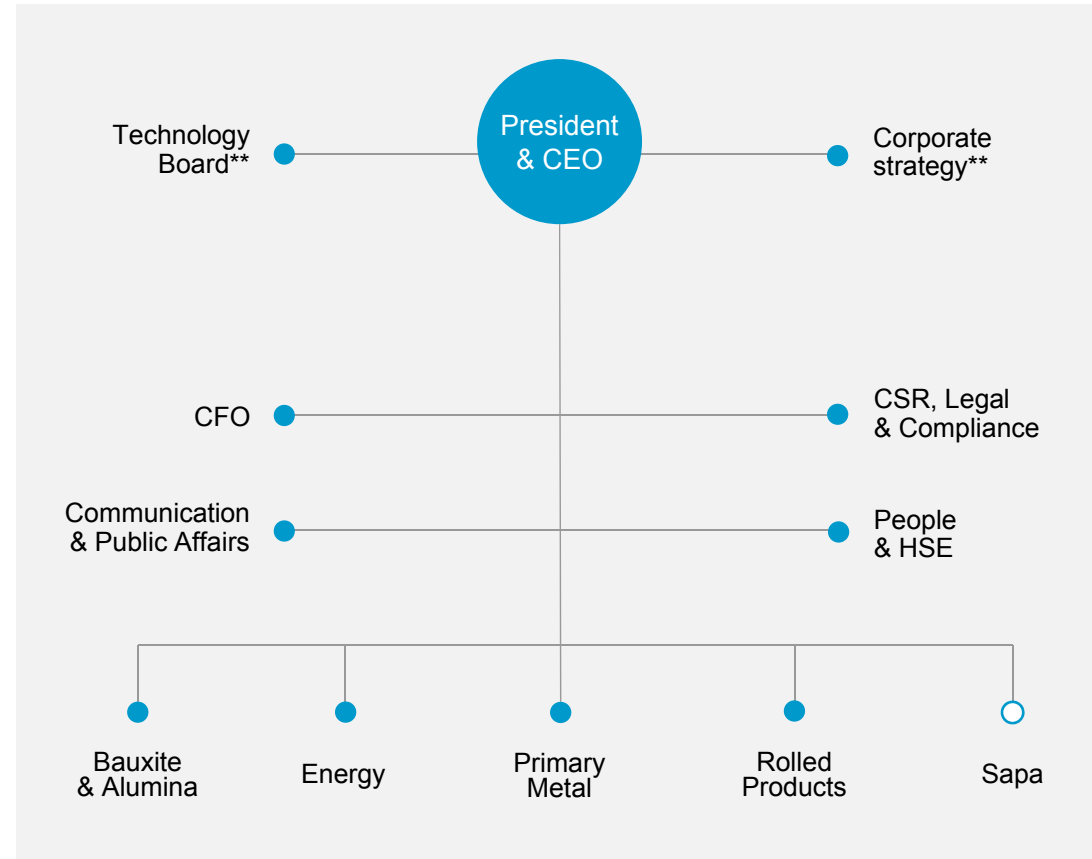


## Indicative timeline and summary



# Sapa to be included in existing structure of Hydro

Sapa to maintain operational and commercial freedom



## Indicative transaction timeline

July 10	Share purchase agreement signed
Within 30 working days from signing SPA	Publication of Information Memorandum
Before closing	Competition approvals*
During H2 2017	Transaction closing
During H2 2017 / 2018	Financing activities

\* Regulatory approvals required in Brazil, Canada, China, EU, Turkey before closing

\*\* Positions reporting directly to CEO, not part of CMB

# Positioning Hydro for the future

Customers seeking increasingly complex solutions



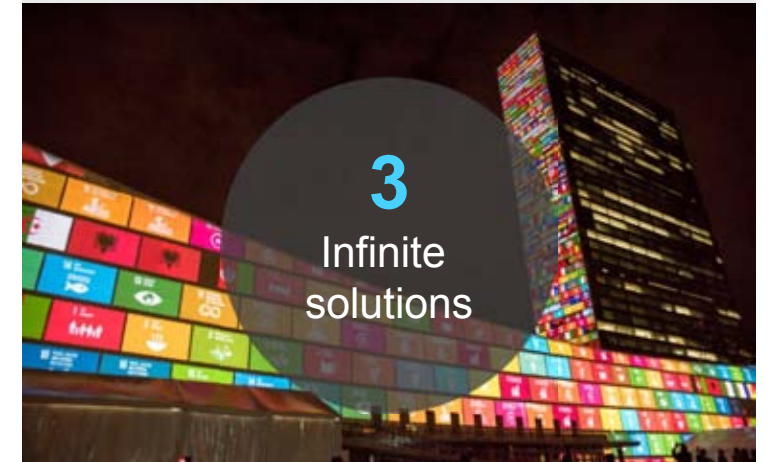
*Better*

Technology driving solutions for the future



*Bigger*

The future is running responsible and sustainable businesses



*Greener*



Additional  
information

# Sapa historical key figures

## Sapa JV (100 % basis), underlying (unaudited)

NOK million, except sales volumes	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Year 2015	Year 2016
Sales volume (1000 mt)	346	360	346	314	359	367	350	322	353	358	341	312	349	366	340	310	355	1 364	1 365
Total revenues*	10 367	10 974	10 798	10 130	11 346	11 544	11 603	11 884	14 133	14 496	13 907	12 861	13 919	14 116	13 147	12 248	14 337	55 397	53 430
Underlying EBITDA	304	508	328	(43)	440	641	492	343	705	799	734	491	901	1 132	812	653	1 100	2 729	3 498
Underlying EBIT	16	213	24	(339)	155	350	201	(55)	392	483	404	128	571	804	487	335	778	1 407	2 197
Underlying net income (loss)				(281)	69	263	110	(44)	238	291	240	139	365	540	315	334	562	907	1 553

## Sapa JV (100 % basis), reported (unaudited)

NOK million	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Year 2015	Year 2016
Reported EBIT	(148)	(1 096)	(1 985)	(787)	(3)	168	198	(679)	201	65	174	88	655	920	497	350	856	528	2 420
Reported net income (loss)				(620)	(103)	89	107	(719)	89	14	109	34	418	639	344	379	625	246	1 779

## Sapa JV (100 % basis), reconciliation between reported and underlying EBIT (unaudited)

NOK million, except sales volumes	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Year 2015	Year 2016
<b>Reported EBIT</b>	<b>(3)</b>	<b>168</b>	<b>198</b>	<b>(679)</b>	<b>201</b>	<b>65</b>	<b>174</b>	<b>88</b>	<b>655</b>	<b>920</b>	<b>497</b>	<b>350</b>	<b>856</b>	<b>528</b>	<b>2 420</b>
Items excluded from EBIT:															
Unrealized derivative effects	73	36	66	(79)	(145)	(158)	(95)	208	83	116	51	82	78	(189)	333
Restructuring cost and other items	(231)	(218)	(70)	(546)	(47)	(260)	(135)	(249)	-	-	(42)	(67)	-	(690)	(109)
Total items excluded from EBIT**	(159)	(182)	(4)	(624)	(191)	(418)	(230)	(41)	83	116	9	15	78	(879)	223
<b>Underlying EBIT</b>	<b>155</b>	<b>350</b>	<b>201</b>	<b>(55)</b>	<b>392</b>	<b>483</b>	<b>404</b>	<b>128</b>	<b>571</b>	<b>804</b>	<b>487</b>	<b>335</b>	<b>778</b>	<b>1 407</b>	<b>2 197</b>

Pro forma figures before Q4 2013

\* Historical revenues have been reclassified

\*\* Negative figures represent a net cost to be added to get from reported EBIT to Underlying EBIT



# Sapa historical key figures – per segment

Sapa JV (100 % basis), information by business area

Precision Tubing	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	2015	2016
Volume (kmt)	37	40	37	35	36	145	150
Total revenues (NOKm)	1 621	1 679	1 535	1 550	1 651	6 306	6 385
Underlying EBITDA (NOKm)	144	169	135	161	180	353	608
Underlying EBIT (NOKm)	86	112	76	103	123	124	376

Building Systems	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	2015	2016
Volume (kmt)	19	21	18	19	20	77	77
Total revenues (NOKm)	1 878	1 960	1 694	1 698	1 843	7 146	7 230
Underlying EBITDA (NOKm)	110	210	104	109	155	220	533
Underlying EBIT (NOKm)	75	166	67	74	119	71	381

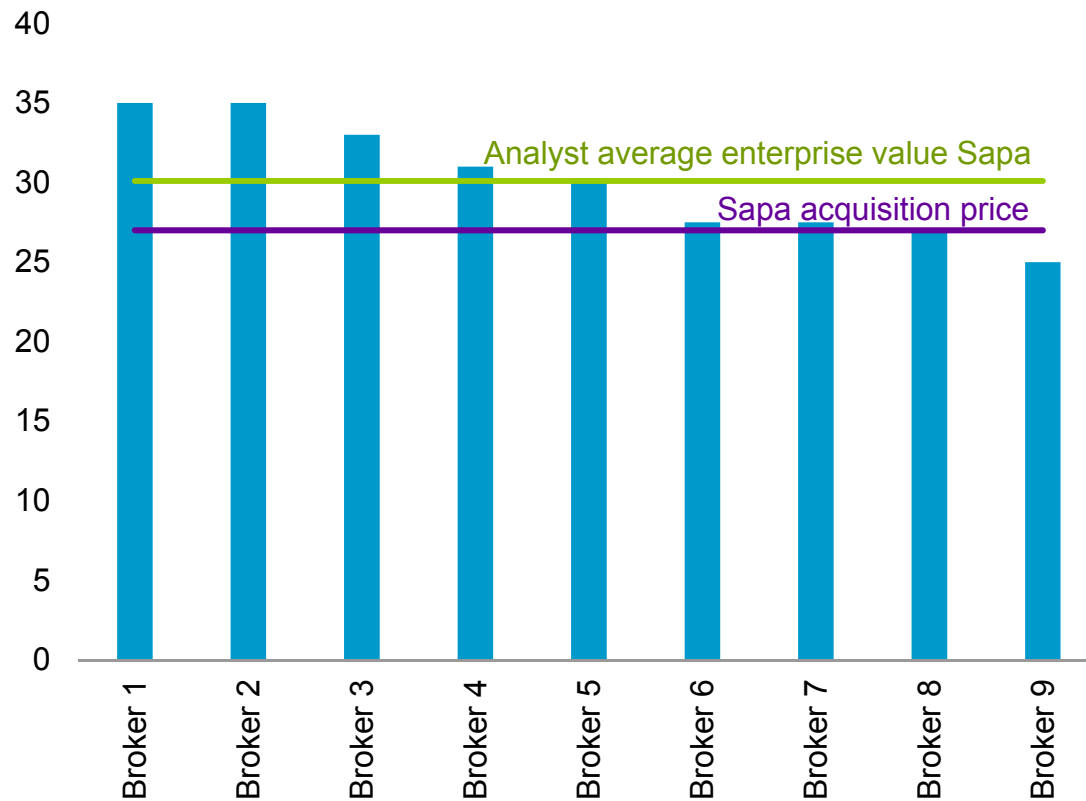
Other and eliminations	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	2015	2016
Underlying EBITDA (NOKm)	(116)	(33)	(64)	(37)	(63)	(155)	(249)
Underlying EBIT (NOKm)	(128)	(41)	(69)	(28)	(69)	(194)	(266)

Extrusion Europe	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	2015	2016
Volume (kmt)	148	157	142	130	154	563	577
Total revenues (NOKm)	5 367	5 474	4 937	4 573	5 553	20 956	20 351
Underlying EBITDA (NOKm)	349	425	276	221	390	1 016	1 271
Underlying EBIT (NOKm)	223	304	154	97	274	475	778

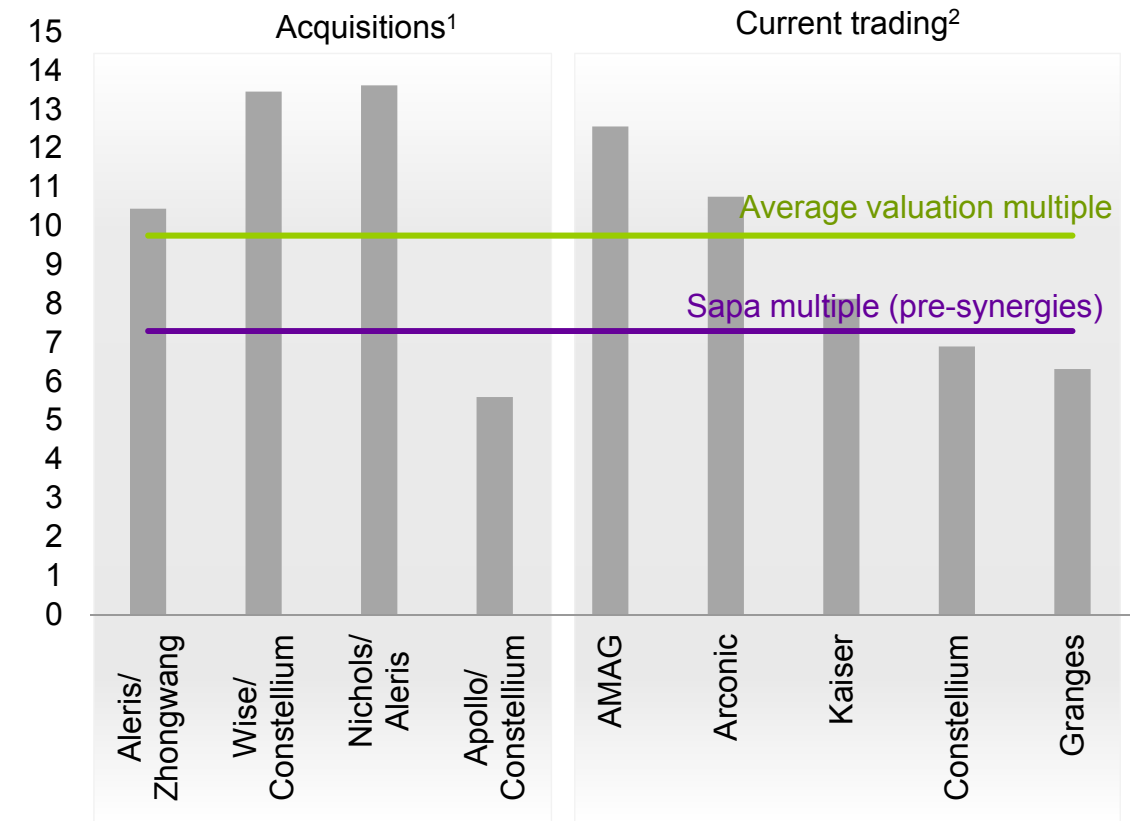
Extrusion North America	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	2015	2016
Volume (kmt)	150	155	149	131	150	598	585
Total revenues (NOKm)	5 265	5 234	5 184	4 623	5 514	21 691	20 306
Underlying EBITDA (NOKm)	414	362	361	199	437	1 295	1 335
Underlying EBIT (NOKm)	315	263	260	90	331	931	927

# Acquisition price below analyst estimates and at a favourable multiple

Sell-side analyst estimates of Sapa enterprise value, in BNOK



Enterprise value/EBITDA multiple last twelve months Q1 2017



\* Source: Bloomberg as of 7 July 2017, company filings, published analyst reports

1) EV / last 12 months EBITDA (Pre-synergies)

2) EV / last 12 month EBITDA (Bloomberg). Last 12 months defined as 2Q16-1Q17

