

Time to lean forward again

We entered last year in a state of deep pessimism – but left it with a sense of sober optimism. The bottom is probably behind us. And while the crisis is temporary, the measures we have implemented to meet the crisis are providing lasting improvements. Last year our focus was on defensive measures. Now we are on the offensive. Improving profits is our primary challenge – in addition to making the most of the infinite opportunities of aluminium.

Aluminium is a material that enables, and benefits from, growth and development. We are strongly and positively correlated with world progress – but also vulnerable to global setbacks. Just as we experienced in 2009.

But over time there is more growth than stagnation. Global use of aluminium grows at a greater rate than global GDP – and increases with rising purchasing power. Meeting the challenges of climate change will demand more aluminium and smart, light, energy-efficient solutions.

The versatility of aluminium makes technology and innovation competitive advantages. To continue the analogy, the strong competition and the dependency on economic cycles make cost-efficiency, productivity and operational excellence our defensive strongholds. Every single day we must develop and improve both our offensive and defensive skills.

Firm action to meet the crisis

2009 became as dramatic and demanding as we could fear. The weakest result in the history of Hydro illustrates the range and gravity of the market collapse in the 2009 downturn. But we acted immediately and firmly. A fourth of our aluminium production was halted, we slimmed down, and a campaign to reduce working capital resulted in the release of an impressive 6 billion Norwegian kroner.

Our results improved in the second half of 2009 – due to higher prices and reduced costs.

Even though the overall result was poor, our cash position is reassuring: our cash situation is positive and our external “investment grade” rating is maintained. Our corrective measures have strengthened our ability to deal with continued weak markets – and enable us to benefit more quickly when our markets rebound.

We have handled the immediate crisis. I would like to acknowledge the tremendous efforts made by a flexible and adaptable organization in an extraordinary year.

Positioning ourselves for the future

Even as our priority was to cut losses, we promised to stay focused on what we are able to control. In a tough year I am

proud that we were able to start production at the Qatalum mega-smelter – on time and on budget – in what will become one of the most efficient aluminium plants in the world in terms of energy, climate and costs. By the end of 2010, all 704 cells will be up and running, and the ownership stake in half of the 585,000 tonnes of aluminium production will significantly improve our cost position.

I am also happy that we managed to increase our market shares, especially in extruded products – confirming that we are recognized as a solid long-term player in a situation where many suppliers struggle. Our determination to shield our research and development budgets, while expenses were cut everywhere else – means that even a weak year is not a lost year. Our technology development will be important – for Hydro, and to the world.

Focusing on climate change – because somebody must get the job done

As markets improve or ambitions to halt climate change turn from words to action, Hydro will be well positioned. Aluminium is part of the solution to climate change. It is also good business to “make the world lighter.” To curb climate gas emissions, the world needs the contribution from aluminium.

Increasing the use of aluminium in transportation is important to reduce weight and thus emissions.

Developing smart aluminium solutions in building façades may improve the energy efficiency of buildings, which today represent 40 percent of the world’s energy consumption.

At our research center in Årdal, Norway, we are now running six test cells on the world’s highest amperage and the world’s lowest specific energy use per kilo of produced aluminium. We have managed to concentrate the CO₂ level in off-gases to an amount that can be cleaned by conventional technology. There are still obstacles to overcome before we can implement a brand-new cell technology producing zero-emission aluminium, but every day we are making progress in our determined efforts to save energy, emissions – and costs.

In order to utilize one of the finest properties of aluminium – that it can be recycled and reused in new applications over

and over again using only a fraction of the initial energy needed to produce the primary metal – we aim to seek attractive opportunities to expand our remelting and recycling activities.

How we do what we do

Ever since Hydro was established 105 years ago, we have transformed scientific knowledge and natural resources into products that help create viable societies. Viability is not only the purpose of what we are doing, it also our guidance for how to do it. Hydro is affiliated with the United Nations Global Compact, takes part in the World Business Council for Sustainable Development and is regularly assessed for inclusion in the Dow Jones Sustainability Indexes and FTSE4Good.

Even though we managed to reach our target of reducing the rate of work-related injuries by 20 percent, three individuals employed by contractors lost their lives on Hydro sites in 2009. We can never rest as long as people are injured while working for Hydro, and we will continue to work with determination to put safety first.

Sober optimism

The proposal to resume dividend payments illustrates that Hydro’s financial situation is safer and that market visibility has improved. We are cautiously optimistic, experiencing the effects of growth impulses in the market, but also preparing for continued uncertainty.

For example, Hydro’s building systems business experienced its best-ever quarterly results in the last quarter of 2009,

yet we see a demanding market situation going forward due to slowing construction activity in Europe. Huge public stimulus packages have worked – but what will happen when the programs are phased out? Global aluminium stocks at record levels give reason to be cautious – will LME prices fall back or will increased market demand absorb the inventories?

We expect markets to improve. It may take time, but we will persevere – and we will be ready when the upturn comes.

Continuous improvements

In the meantime, we will do what we can to improve the things we can control. Right now, our most important challenge is to improve the underlying profits, especially within primary metal. The entire company depends on our ability to increase profits and reduce our use of capital.

Over time we shall move our total production capacity down on the global cost curve, just as we see occurring with Qatalum coming on stream. The future belongs to those who can produce aluminium with less energy, less emissions and less cost. More of our metal products will be customized to accommodate the needs of demanding customers. More of our processed aluminium products will be on the advanced, value-added side. And throughout the value chain, we will look for opportunities to minimize the carbon footprint of aluminium – and of Hydro. In our own primary production as well as in products that help our customers reduce their emissions and their energy consumption. Because in Hydro we are convinced that it is good for business to help create more viable societies in today’s carbon-intensive world.

“It is a sign of solidity and continuity that my successor, Svein Richard Brandtzæg, with his 23 years of experience in Hydro, has the same amount of time in the company as I do.”

Svein R. Brandtzæg
Svein Richard Brandtzæg
President and CEO

