



Fourth quarter 2020  
Report



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Oslo, February 11, 2021

# Overview

## Summary underlying financial and operating results and liquidity

<b>Key financial information</b> NOK million, except per share data	<b>Fourth quarter 2020</b>	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	<b>Year 2020</b>	Year 2019
Revenue	<b>35,894</b>	35,490	1 %	33,169	8 %	<b>138,118</b>	149,766
Earnings before financial items and tax (EBIT)	<b>6,770</b>	(399)	>100 %	1,822	>100 %	<b>9,232</b>	499
Items excluded from underlying EBIT <sup>1)</sup>	<b>(5,322)</b>	959	>(100) %	(415)	>(100) %	<b>(3,181)</b>	2,860
Underlying EBIT <sup>1)</sup>	<b>1,449</b>	560	>100 %	1,407	3 %	<b>6,051</b>	3,359
<i>Underlying EBIT :</i>							
Hydro Bauxite & Alumina	<b>116</b>	(75)	>100 %	108	7 %	<b>1,806</b>	974
Hydro Aluminium Metal	<b>844</b>	155	>100 %	(156)	>100 %	<b>1,225</b>	(1,259)
Metal Markets	<b>248</b>	132	88 %	198	25 %	<b>728</b>	983
Hydro Rolling	<b>(188)</b>	34	>(100) %	17	>(100) %	<b>70</b>	413
Hydro Extrusions	<b>511</b>	85	>100 %	894	(43) %	<b>2,196</b>	2,009
Hydro Energy	<b>352</b>	296	19 %	132	>100 %	<b>974</b>	1,243
Other and eliminations	<b>(435)</b>	(67)	>(100) %	213	>(100) %	<b>(948)</b>	(1,003)
Underlying EBIT <sup>1)</sup>	<b>1,449</b>	560	>100 %	1,407	3 %	<b>6,051</b>	3,359
Earnings before financial items, tax, depreciation and amortization (EBITDA) <sup>2)</sup>	<b>8,850</b>	2,617	>100 %	3,879	>100 %	<b>19,465</b>	9,878
Underlying EBITDA <sup>1)</sup>	<b>3,476</b>	2,792	24 %	3,387	3 %	<b>14,316</b>	11,832
Net income (loss)	<b>7,277</b>	(665)	>100 %	(221)	>100 %	<b>3,560</b>	(2,370)
Underlying net income (loss) <sup>1)</sup>	<b>834</b>	(303)	>100 %	550	52 %	<b>2,718</b>	708
Earnings per share	<b>3.43</b>	(0.23)	>100 %	(0.11)	>100 %	<b>1.83</b>	(0.88)
Underlying earnings per share <sup>1)</sup>	<b>0.35</b>	(0.12)	>100 %	0.26	37 %	<b>1.25</b>	0.52
<i>Financial data:</i>							
Investments <sup>1) 2)</sup>	<b>9,551</b>	3,796	>100 %	1,617	>100 %	<b>14,174</b>	10,907
Net cash (debt) <sup>1)</sup>	<b>(7,830)</b>	(11,760)	33 %	(9,894)	21 %	<b>(7,830)</b>	(11,760)
Adjusted net cash (debt) <sup>1)</sup>	<b>(22,620)</b>	(25,447)	11 %	(26,089)	13 %	<b>(22,620)</b>	(25,447)
Underlying Return on average Capital Employed (RoCE) <sup>1)</sup>						<b>3.7 %</b>	1.3 %
<b>Key Operational information</b>							
Bauxite production (kmt) <sup>3)</sup>	<b>2,556</b>	2,222	15 %	1,167	>100 %	<b>8,640</b>	7,360
Alumina production (kmt)	<b>1,410</b>	1,430	(1) %	1,074	31 %	<b>5,457</b>	4,487
Realized alumina price (USD/mt) <sup>4)</sup>	<b>272</b>	281	(3) %	260	5 %	<b>268</b>	326
Primary aluminium production (kmt)	<b>532</b>	545	(2) %	522	2 %	<b>2,091</b>	2,038
Realized aluminium price LME (USD/mt)	<b>1,792</b>	1,754	2 %	1,596	12 %	<b>1,685</b>	1,827
Realized USD/NOK exchange rate	<b>9.13</b>	9.07	1 %	9.22	(1) %	<b>9.42</b>	8.74
Hydro Rolling sales volumes to external market (kmt)	<b>218</b>	219	-	212	3 %	<b>864</b>	952
Hydro Extrusions sales volumes to external market (kmt)	<b>291</b>	272	7 %	278	5 %	<b>1,099</b>	1,269
Power production (GWh)	<b>3,396</b>	2,332	46 %	3,161	7 %	<b>11,522</b>	9,150

1) Alternative performance measures (APMs) are described in the corresponding section in the back of the report.

2) EBITDA and investments per segment are specified in Note 2: Operating segment information.

3) Paragominas production on wet basis.

4) Weighted average of own production and third party contracts. The majority of the alumina is sold linked to the alumina index with a one month delay.

## Key developments fourth quarter 2020

Hydro's underlying EBIT for the fourth quarter of 2020 was NOK 1,449 million, compared with NOK 560 million for the same quarter last year. Improved margins and volumes downstream and lower raw material costs upstream contributed positively to the result in addition to positive currency effects as the BRL and NOK weakened against the USD. These positive elements were partly offset by additional maintenance related costs in Bauxite & Alumina.

During the fourth quarter 2020, global industrial production continued to recover from its contraction earlier in the year, while GDP remained largely flat. The aluminium market ended 2020 with a surplus of around 3 million tonnes, lower than estimates of around 5 million tonnes surplus earlier in 2020. Downstream, Hydro's volume growth outpaced the market development in both Rolling and Extrusions in the fourth quarter 2020, driven by recovery in key segments such as automotive. Within Aluminium Metal, Hydro's mix of value-added versus standard products recovered towards historic levels of around 70 percent value-added. The Covid-19 situation, however, continues to cause market uncertainty.

Our top priority is the health and safety of our people and the communities where we operate. Hydro is following recommendations from local and international health authorities, updating contingency plans to avoid disruptions and securing deliveries to customers. Hydro's operations have been operating largely as normal during the quarter.

During November 2020, Hydro restarted aluminium production at line B at the Husnes primary plant in Norway, after running the plant for more than a decade at half capacity. The NOK 1.5 billion upgrade project to restart line B will add 95,000 mt of electrolysis capacity and includes technology elements also implemented at the Karmøy technology pilot, lifting operational and environmental performance to world-class standards. The decision to restart Husnes is based on market improvements, combined with expectations that Norway will continue to utilize EU's emissions trading system (ETS) for 2021-2030.

On December 31, 2020, Hydro and Lyse merged part of their respective hydropower production assets to create a new hydropower company. The new company - Lyse Kraft DA - has a normal annual power production capacity of 9.5 TWh, of which Hydro will own 25.6 percent and Lyse 74.4 percent. Following the transaction, Hydro is Norway's third-largest operator of renewable power, with a combined renewables production of 13.6 TWh in a normal year. Based on equity shares, Hydro's annual power production is 9.4 TWh in a normal year. A gain resulting from the transaction of NOK 5.3 billion was recognized in fourth quarter, the gain was excluded from underlying EBIT.

Hydro exceeded its improvement target and achieved a saving of NOK 4.2 billion for 2020, compared to 2018, supporting the positive cash flow generation in the fourth quarter. During Capital Markets Day 2020, Hydro announced an extension and higher ambition to the original improvement program, now aiming to achieve improvements of NOK 8.5 billion by 2025. In addition, Hydro announced commercial ambitions within its current aluminium portfolio, of NOK 2 billion, through pursuing market and customer-driven opportunities.

Hydro also announced new ambitions within the key strategic growth areas: of recycling, renewables and batteries, representing larger shifts in Hydro's portfolio toward 2025. In recycling, Hydro has an ambition to more than double post-consumer scrap utilization, and to generate an EBITDA uplift of NOK 1 to NOK 1.5 billion, through NOK 3.5 to 5 billion in potential investments. In batteries, Hydro has an ambition to generate an EBITDA uplift of NOK 600 to 700 million, through potential investments of NOK 2.5 to 3 billion in battery projects. In renewables, Hydro aims to invest into more than 1 GW of renewable power projects in 2021.

Compared to the third quarter 2020, Hydro's underlying EBIT was stable, increased realized alumina and aluminium prices and increased upstream sales volumes were offset by higher raw material and fixed costs, including maintenance related costs in Bauxite & Alumina. In addition, results from the third quarter 2020 included insurance compensation of NOK 192 million related to the cyber-attack in 2019.

Underlying EBIT for the full year 2020 increased compared to 2019. The ramp-up of Alunorte's production, reduced raw material costs and positive currency effects were partly offset by reduced realized alumina and aluminium prices, and reduced downstream volumes.

Net income amounted to NOK 7,277 million in the fourth quarter mainly due to a NOK 5,308 million gain on the Lyse transaction. Net income also included a net foreign exchange gain of NOK 1,479 million which primarily reflects a stronger NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR.

Hydro's net debt<sup>1</sup> position decreased from NOK 9.9 billion to NOK 7.8 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 5.4 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.9 billion.

<sup>1</sup> Net cash (debt) includes Cash and cash equivalents and Short-term investments less Bank loans and other interest bearing Short-term debt and Long-term debt.

Hydro held NOK 17.6 billion in cash and cash equivalents and NOK 2.5 billion in short-term bank deposits, included in short-term investments, at the end of the fourth quarter. Short-term bank deposits are normally available at short notice. The revolving credit facility of USD 1.6 billion was fully available at the end of the quarter.

In February 2020, the Board proposed a dividend of NOK 1.25 per share for 2019, in accordance with the floor level stated in Hydro's dividend pay-out policy. Following the decision, the outbreak of the Covid-19 pandemic introduced significant uncertainty regarding the financial outlook for the company. The Board was therefore granted an authority at the Annual General Meeting held on 11 May 2020 to resolve distribution of dividends at a later stage at the Board's discretion. The dividend was distributed in November 2020 based on the improved financial situation and positive outlook for the company.

Hydro's Board of Directors proposes to pay a dividend of NOK 1.25 per share for 2020, for approval by the Annual General Meeting on May 6, 2021. The proposed payment demonstrates the company's commitment to provide a predictable dividend to shareholders. In 2020, Hydro had a dividend policy of 40 percent payout ratio of reported net income over the cycle with NOK 1.25 per share considered as floor. This policy has been revised, from 2021 onwards, reflecting Hydro's ambitions to lift performance and cash returns to shareholder over the cycle. The revised dividend policy is to pay out a minimum of 50 percent of underlying net income over the cycle with a NOK 1.25 per share dividend floor.

## Reported EBIT and net income

In addition to the factors discussed above, reported earnings before financial items and tax (EBIT) and net income include effects that are disclosed in the below table. Items excluded from underlying EBIT and underlying net income (loss) are defined and described as part of the APM section in the back of this report.

<b>Items excluded from underlying EBIT and net income<sup>1)</sup></b>	<b>Fourth quarter 2020</b>	Fourth quarter 2019	Third quarter 2020	<b>Year 2020</b>	Year 2019
NOK million					
Unrealized derivative effects on LME related contracts	<b>(149)</b>	1	(656)	<b>(340)</b>	91
Unrealized derivative effects on power and raw material contracts	<b>133</b>	8	160	<b>171</b>	(99)
Metal effect, Hydro Rolling	<b>(93)</b>	(23)	95	<b>298</b>	370
Significant rationalization charges and closure costs	<b>22</b>	78	41	<b>202</b>	1,484
Impairment charges	<b>52</b>	783	77	<b>1,968</b>	906
Alunorte agreements - provision	-	-	-	<b>129</b>	80
Transaction related effects	<b>(5,291)</b>	(14)	(65)	<b>(5,407)</b>	21
Pension	-	-	-	-	(62)
Other effects	<b>4</b>	125	(68)	<b>(203)</b>	68
Items excluded from underlying EBIT <sup>2)</sup>	<b>(5,322)</b>	959	(415)	<b>(3,181)</b>	2,860
Net foreign exchange (gain)/loss	<b>(1,479)</b>	(442)	1,523	<b>3,861</b>	1,204
Other finance (income) expense	<b>(128)</b>	-	-	<b>(128)</b>	-
Calculated income tax effect	<b>486</b>	(154)	(336)	<b>(1,393)</b>	(986)
Items excluded from underlying net income	<b>(6,443)</b>	362	771	<b>(841)</b>	3,078
Income (loss) tax rate	<b>10%</b>	>(100) %	>100 %	<b>21%</b>	(52)%
Underlying income (loss) tax rate	<b>30%</b>	>100 %	52%	<b>46%</b>	72%

1) Negative figures indicate reversal of a gain and positive figures indicate reversal of a loss.

2) The various effects are described in the APM section in the back of the report.

# Market developments and outlook

Market statistics <sup>1)</sup>	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
USD/NOK Average exchange rate	9.03	9.12	(1) %	9.13	(1) %	9.40	8.80
USD/NOK Period end exchange rate	8.53	8.78	(3) %	9.48	(10) %	8.53	8.78
BRL/NOK Average exchange rate	1.67	2.21	(25) %	1.70	(2) %	1.84	2.23
BRL/NOK Period end exchange rate	1.64	2.18	(25) %	1.67	(2) %	1.64	2.18
USD/BRL Average exchange rate	5.40	4.12	31 %	5.37	1 %	5.15	3.94
USD/BRL Period end exchange rate	5.19	4.02	29 %	5.66	(8) %	5.19	4.02
EUR/NOK Average exchange rate	10.76	10.09	7 %	10.67	1 %	10.72	9.85
EUR/NOK Period end exchange rate	10.47	9.86	6 %	11.10	(6) %	10.47	9.86
<i>Bauxite and alumina:</i>							
Average alumina price - Platts PAX FOB Australia (USD/t)	282	280	1 %	274	3 %	271	331
China bauxite import price (USD/mt CIF China) <sup>2)</sup>	44	48	(8) %	43	2 %	45	51
Global production of alumina (kmt)	32,637	31,155	5 %	31,748	3 %	126,316	123,849
Global production of alumina (ex. China) (kmt)	14,943	14,544	3 %	14,406	4 %	58,440	55,755
<i>Primary aluminium:</i>							
LME cash average (USD/mt)	1,920	1,757	9 %	1,706	13 %	1,705	1,794
LME three month average (USD/mt)	1,934	1,762	10 %	1,742	11 %	1,731	1,813
Standard ingot premium (EU DP Cash)	136	136	-	121	12 %	126	142
Extrusion ingot premium (EU DP)	287	268	7 %	230	25 %	247	342
Chinese production of primary aluminium (kmt)	9,675	8,790	10 %	9,348	3 %	36,796	35,240
Chinese consumption of primary aluminium (kmt)	9,687	9,049	7 %	10,073	(4) %	37,427	36,164
Global production of primary aluminium (ex. China) (kmt)	7,085	7,090	-	6,989	1 %	28,064	27,932
Global consumption of primary aluminium (ex. China) (kmt)	6,783	6,779	-	6,076	12 %	24,635	28,315
Global production of primary aluminium (kmt)	16,760	15,881	6 %	16,337	3 %	64,860	63,172
Global consumption of primary aluminium (kmt)	16,470	15,828	4 %	16,149	2 %	62,062	64,479
Reported primary aluminium inventories (ex. China) (kmt)	2,987	3,138	(5) %	3,170	(6) %	2,987	3,138
Reported primary aluminium inventories (China) (kmt)	1,420	1,419	-	1,454	(2) %	1,420	1,419
<i>Rolled products and extruded products:</i>							
Consumption rolled products - Europe (kmt)	1,159	1,184	(2) %	1,161	-	4,557	5,087
Consumption rolled products - USA & Canada (kmt)	1,270	1,357	(6) %	1,104	15 %	3,649	5,389
Consumption extruded products - Europe (kmt)	749	773	(3) %	768	(2) %	2,937	3,337
Consumption extruded products - USA & Canada (kmt)	547	547	-	566	(3) %	2,142	2,433
<i>Energy:</i>							
Average southern Norway spot price (NO2) (NOK/MWh)	137	392	(65) %	52	>100 %	98	387
Average mid Norway spot price (NO3) (NOK/MWh)	113	381	(70) %	67	69 %	100	380
Average nordic system spot price (NOK/MWh)	148	390	(62) %	95	56 %	116	384

1) Industry statistics have been derived from analyst reports, trade associations and other public sources unless otherwise indicated. These statistics do not have any direct relationship to the reported figures of Norsk Hydro. Amounts presented in prior reports may have been restated based on updated information.

2) The quarterly China bauxite import price is an estimate based on the average of the first 2 months of the quarter.

## Covid-19 pandemic and macroeconomic effects

Global economic growth declined around 4 percent for 2020. After the Covid-19 outbreak in the first quarter of 2020, the global economy experienced a sharp downturn. The downturn affected all regions, and key segments for aluminium such as transportation and infrastructure experienced severe reductions in activity on a global scale. Global economic growth increased toward the end of the second quarter, continuing into the third quarter before stabilising in the fourth quarter as the economic effects of new infection waves were felt. For the fourth quarter, industrial production operated at close to normal levels while the service sector operated at reduced levels.

The level of economic growth and speed of a continuing recovery remains uncertain. Further waves and mutations of Covid-19, vaccination effects, stimulus packages and severity of lockdowns will impact the timing and speed of a recovery. The speed of recovery has proven to vary by country to country, with China already back to pre-Covid-19 economic growth levels, while the UK and Italian recovery is weaker than expected. External sources estimate global economic growth in 2021 will be 4-5 percent.

## Bauxite and alumina

The average Platts alumina index rose in the fourth quarter of 2020 to USD 282 per mt, compared to USD 274 per mt in the third quarter 2020. The Platts alumina index started the quarter at USD 269 per mt and reached the quarter high of USD 305 per mt at the end of December. Compared to the fourth quarter of 2019, the average Platts alumina index was 1 percent higher.

In the fourth quarter of 2020, China's net alumina imports reached 815 kmt compared to 802 kmt in the same period in 2019. Australia accounted for 64 percent of Chinese alumina imports in the period with smaller contributions from Vietnam, Venezuela and Kazakhstan.

China imported 23.6 million mt of bauxite in the fourth quarter of 2020, 4 percent higher than the fourth quarter 2019, driven by significantly higher imports from Guinea offset by lower imports from Australia and Indonesia. Guinea, Australia and Indonesia accounted for 98 percent of China's bauxite imports in the period.

The average Chinese bauxite import price was USD 44 per mt CIF in the fourth quarter of 2020, down from USD 48 per mt CIF in the fourth quarter 2019, and up from USD 43 per mt in the third quarter of 2020.

## Primary aluminium

The three-month aluminium price increased during the fourth quarter of 2020, starting at a low end of the quarterly price range at USD 1740 per mt and ending the quarter at USD 1980 per mt, supported by improved market conditions. The average price for the quarter was USD 1933 per mt.

European duty paid standard ingot premiums ended the fourth quarter at USD 150 per mt, up from USD 138 per mt at the end of the third quarter 2020. The US Midwest premium was up USD 48 per mt during the quarter ending at USD 323 per mt, as a combination of lower import volumes and increasing demand led to market tightness.

Shanghai Futures Exchange (SHFE) prices increased by USD 80 per mt ex. VAT from start of the quarter to the end, ending at USD 2071 per mt ex VAT. Average for the quarter was up USD 225 per mt ex. VAT compared to third quarter this year. The average estimated export arbitrage decreased to negative USD 116 in the fourth quarter 2020.

Global primary aluminium consumption was up 4.1 percent compared to the fourth quarter of 2019, driven by an increase of 7.0 percent in China.

Overall global demand for primary aluminium declined in 2020 due to the Covid-19 situation, leading to a primary aluminium surplus. External sources are estimating a surplus of around 3 million mt, mainly due to weak demand during the second quarter in the world outside China.

After the decline of demand in the second and third quarters due to the negative impact of the Covid-19 virus on European economies and industries, the consumption of extrusion ingot and primary foundry alloys improved in the fourth quarter of 2020 compared to the same period 2019. The demand for sheet ingot also improved in the fourth quarter compared to the third quarter and was only slightly lower than in the fourth quarter of 2019.

Total global stocks at the end of the fourth quarter of 2020 were estimated to be 13.4 million mt, up 0.3 million mt compared to the third quarter of 2020 and up 2.8 million mt compared to end 2019.

## Rolled products

The European demand for flat rolled products decreased by around 2 percent compared to the fourth quarter of 2019 and was stable compared to the third quarter of 2020. Most segments showed positive signs of recovery and significantly improved year-on-year growth rates compared to recent quarters.

In the automotive segment, demand was positive compared to the same quarter last year. Car manufacturers resumed production to replenish stocks and to meet the increased car demand from China. In beverage can, the demand was solid compared to the fourth quarter 2019, the effect of renewed lockdowns across Europe was limited. Foil demand for packaging applications was relatively stable. General engineering recovered, particularly towards the end of the quarter due to improved industry demand and the positive effects of the anti-dumping case on Chinese imports.

European demand for flat rolled products declined by 10 percent in 2020 due to the Covid-19 situation. The pandemic led to a steep decline in demand, particularly in the transport and general engineering segments. Although the level of economic growth for 2021 remains uncertain, CRU forecasts a positive demand growth of 2 percent for the first quarter compared to the same quarter last year.

## Extruded products

European demand for extrusions is estimated to have decreased 3 percent during the fourth quarter of 2020 compared to the same quarter last year and 2 percent compared to the third quarter of 2020. The decrease from the third quarter was mainly driven by seasonality, as underlying demand has been improving across key segments compared to the second and third quarter in 2020. Transport demand is increasing supported by restocking and increasing sales of automobiles, particularly electric vehicles. Residential Building & Construction is experiencing strong demand supported by refurbishing, while commercial Building & Construction is experiencing a weaker development. Demand in the industrial segment, such as machinery & equipment, continues to improve in line with improving industrial production. Following the imposition of anti-dumping duties on imports of Chinese extrusions into Europe since the middle of October, the level of imports from China have moderated substantially into the fourth quarter during a period with improving demand.

For 2020, European demand is estimated to have decreased by 12 percent compared to 2019. While the continued impact of Covid-19 remains uncertain, CRU estimates that the European demand for extruded products will increase by around 2 percent for the first quarter of 2021 compared to the same quarter last year.

North American extrusion demand is estimated to be at the same level in the fourth quarter of 2020 compared to the same quarter in 2019, but decreasing 3 percent compared to the third quarter of 2020 driven by seasonality. Although the on-going spread of the Covid-19 virus is still impacting all market segments, demand has continued to develop better than expected in the fourth quarter in line with improving industrial activity. Automotive manufacturing continued to rise, at the same levels with the fourth quarter of 2019. Residential construction spending was up 20 percent in the fourth quarter compared to the same quarter last year, while non-residential spending was down 4 percent.

For 2020, North American demand is estimated to have decreased by 12 percent compared to 2019. While the continued market impact of the Covid-19 virus remains uncertain, CRU estimates that the North American market will increase by 7 percent for the first quarter of 2021 compared to the same quarter last year.

## Energy

Nordic power prices were significantly lower compared to the same quarter last year, but higher than the previous quarter. During the quarter prices were volatile with improved hydrology and high wind power production causing downward pressure on prices in November before prices increased towards the end of the year. The price recovery was due to a more normal weather development and absence of cable outages to the continent allowing export capacity to return to normal. Following this, spot prices in Southern Norway aligned with the Nordic system price.

The Nordic hydrological balance ended the quarter around 17 TWh above normal, compared to around 16 TWh above normal at the end of the previous quarter and 1.9 TWh below normal at the end of the fourth quarter last year. Water reservoirs in Norway were at 82 percent of full capacity at the end of the quarter, which is 14 percentage points above the normal level. Snow reservoirs were 1.9 TWh below normal at the end of the quarter.



# Additional factors impacting Hydro

During the fourth quarter Hydro hedged part of its LME exposure totaling 250 thousand tonnes per year for 2021 and 50 thousand tonnes per year for 2022 and 2023. This has been achieved using both commodity derivatives and currency derivatives. Parts of the raw material exposure was also hedged, using both fixed price physical contracts and financial derivatives.

Aluminium Metal has sold forward around 65 percent of its expected primary aluminium production for the first quarter of 2021 at a price level of around USD 1,980 per mt<sup>2</sup>.

In addition to executing on improvement initiatives within Rolling, Hydro has initiated a strategic review of the business area due to the low profitability and the inability to meet capital return targets in the past few years. The ongoing strategic review aims to evaluate the best ownership set-up for Rolling, within or outside Hydro. The result of the review will be announced in due time.

On October 9, 2020, the U.S. Department of Commerce (DOC) made a preliminary determination to apply antidumping duties of 352.71 percent on Common Alloy Aluminum Sheet (CAAS) from Hydro Aluminium Rolled Products GmbH in Germany. The duty took effect from October 15, 2020. Hydro Aluminium Rolled Products GmbH had contracted sales volumes of 2,200 mt for the fourth quarter and up to 3,000 mt for 2021, impacted by the above-mentioned duties. Hydro is reviewing its mitigation options including legal, strategic and commercial. The duty had a negative effect of NOK 259 million in Hydro Rolling for the fourth quarter.

During the fourth quarter, Hydro undertook extraordinary repair work on a crane which is used for unloading bauxite from ships. Additional operational costs related to this repair work is expected in 2021. The repair work is not expected to have a material impact on production or alumina shipments from the Alunorte refinery.

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<sup>2</sup> Prices are fixed mainly one month prior to production. As a result, and due to the hedging of product inventories, Hydro's realized aluminium prices lag LME spot prices by around 1.5 to 2 months.

# Underlying EBIT

Alternative performance measures (APMs) are described in the corresponding section in the back of the report

## Hydro Bauxite & Alumina

Operational and financial information	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	111	(221)	>100 %	108	2 %	1,672	749
Underlying EBIT (NOK million)	116	(75)	>100 %	108	7 %	1,806	974
Underlying EBITDA (NOK million)	587	504	17 %	578	2 %	3,817	3,337
Alumina production (kmt)	1,410	1,430	(1) %	1,074	31 %	5,457	4,487
Sourced alumina (kmt)	783	769	2 %	940	(17) %	3,053	2,845
Total alumina sales (kmt)	2,122	2,164	(2) %	1,990	7 %	8,495	7,379
Realized alumina price (USD/mt) <sup>1)</sup>	272	281	(3) %	260	5 %	268	326
Bauxite production (kmt) <sup>2)</sup>	2,556	2,222	15 %	1,167	>100 %	8,640	7,360
Sourced bauxite (kmt) <sup>3)</sup>	1,351	1,669	(19) %	2,051	(34) %	6,231	5,576

1) Weighted average of own production and third party contracts. The majority of the alumina is sold linked to the alumina index with a one month delay.

2) Paragominas on wet basis.

3) 40 percent MRN off take from Vale and 5 percent Hydro share on wet basis.

On October 8, 2020, production at Paragominas resumed after extended pipeline maintenance. Alumina production at Alunorte was subsequently ramped up, averaging around 90 percent of nameplate capacity during the fourth quarter.

During the fourth quarter, Hydro undertook extraordinary repair work on a crane, which is used for unloading bauxite from ships. The repair work caused additional operational costs, but did not have a material impact on production or alumina shipments from the Alunorte refinery.

Underlying EBIT for Bauxite & Alumina increased compared to the fourth quarter of last year. Positive effects from currency and lower raw material prices were partially offset by the lower prices, additional sourcing costs due to pipeline maintenance and costs associated with the crane repair work.

Compared to the third quarter of 2020 the underlying EBIT increased slightly. Positive effects from increased production and higher prices were mostly offset by higher raw material prices, additional sourcing costs due to pipeline maintenance and crane repair work.

Underlying EBIT for the full year 2020 increased compared to the same period in 2019. The results were driven by positive effects from increased production following the lifting of the production embargo on May 20, 2019, lower raw material prices and positive currency effects, partly offset by lower alumina sales prices.

## Hydro Aluminium Metal

	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
<b>Operational and financial information<sup>1)</sup></b>							
Earnings before financial items and tax (EBIT) (NOK million)	<b>880</b>	(394)	>100 %	(93)	>100 %	<b>794</b>	(1,838)
Underlying EBIT (NOK million)	<b>844</b>	155	>100 %	(156)	>100 %	<b>1,225</b>	(1,259)
Underlying EBITDA (NOK million)	<b>1,432</b>	812	76 %	404	>100 %	<b>3,593</b>	1,155
Realized aluminium price LME (USD/mt) <sup>2)</sup>	<b>1,792</b>	1,754	2 %	1,596	12 %	<b>1,685</b>	1,827
Realized aluminium price LME (NOK/mt) <sup>2)</sup>	<b>16,364</b>	15,913	3 %	14,712	11 %	<b>15,870</b>	15,975
Realized premium above LME (USD/mt) <sup>3)</sup>	<b>224</b>	257	(13) %	211	6 %	<b>220</b>	308
Realized premium above LME (NOK/mt) <sup>3)</sup>	<b>2,042</b>	2,333	(12) %	1,946	5 %	<b>2,077</b>	2,695
Realized USD/NOK exchange rate	<b>9.13</b>	9.07	1 %	9.22	(1) %	<b>9.42</b>	8.74
Primary aluminium production (kmt)	<b>532</b>	545	(2) %	522	2 %	<b>2,091</b>	2,038
Casthouse production (kmt)	<b>523</b>	523	-	508	3 %	<b>2,013</b>	1,982
Total sales (kmt)	<b>547</b>	529	3 %	548	-	<b>2,182</b>	2,127

1) Operating and financial information includes Hydro's proportionate share of underlying income (loss), production and sales volumes in equity accounted investments. Realized prices, premiums and exchange rates include equity accounted investments.

2) Realized aluminium prices lag the LME price developments by approximately 1.5 - 2 months.

3) Average realized premium above LME for casthouse sales from Aluminium Metal.

	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
<b>Operational and financial information Qatalum (50%)</b>							
Revenue (NOK million)	<b>1,480</b>	1,512	(2) %	1,228	21 %	<b>5,733</b>	6,059
Underlying EBIT (NOK million)	<b>258</b>	111	>100 %	61	>100 %	<b>551</b>	534
Underlying EBITDA (NOK million)	<b>545</b>	412	32 %	351	55 %	<b>1,748</b>	1,709
Net income (loss) (NOK million)	<b>183</b>	66	>100 %	6	>100 %	<b>254</b>	272
Underlying Net income (loss) (NOK million)	<b>183</b>	66	>100 %	6	>100 %	<b>254</b>	272
Primary aluminium production (kmt)	<b>79</b>	79	-	79	-	<b>316</b>	314
Casthouse sales (kmt)	<b>81</b>	83	(2) %	78	4 %	<b>326</b>	324

Underlying EBIT for Aluminium Metal increased in fourth quarter of 2020 compared to the fourth quarter of 2019 mainly due to lower raw material cost, lower fixed cost and depreciation.

Compared to the third quarter of 2020, underlying EBIT for Aluminium Metal increased mainly due to higher all-in metal prices<sup>3</sup>, partly offset by higher raw material cost, higher fixed cost and depreciation and negative currency effects.

Underlying EBIT for the full year of 2020 increased compared to the full year 2019. Lower raw material cost, positive currency effects, lower fixed cost and depreciation were partly offset by lower all-in metal prices.

<sup>3</sup> The all-in metal price refers to the LME cash price plus premiums.

## Hydro Metal Markets

	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
<b>Operational and financial information</b>							
Earnings before financial items and tax (EBIT) (NOK million)	216	38	>100 %	385	(44) %	766	748
Underlying EBIT (NOK million)	248	132	88 %	198	25 %	728	983
Currency effects	(1)	(51)	97 %	(50)	97 %	13	(119)
Inventory valuation effects	(8)	(1)	>(100) %	(15)	48 %	(23)	(1)
Underlying EBIT excl. currency and inventory valuation effects	257	184	39 %	262	(2) %	737	1,103
Underlying EBITDA (NOK million)	287	167	71 %	233	23 %	875	1,110
Remelt production (kmt)	140	121	16 %	124	12 %	488	516
Metal products sales excluding ingot trading (kmt) <sup>1)</sup>	672	648	4 %	668	1 %	2,621	2,700
Hereof external sales (kmt)	549	536	2 %	526	4 %	2,088	2,149

1) Includes external and internal sales from primary casthouse operations, recyclers and third party metal sources.

Underlying EBIT for Metal Markets increased in the fourth quarter compared to the same quarter last year due to higher results from the sourcing and trading activities and positive currency effects.

Compared to the third quarter of 2020, underlying EBIT for Metal Markets increased due to higher results from the recyclers and positive currency effects, partly offset by lower results from the sourcing and trading activities.

Compared to full year of 2019, underlying EBIT declined for the full year of 2020, mainly due to lower results from the recyclers and lower results from the sourcing and trading activities, partly offset by positive currency effects.

## Hydro Rolling

	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
<b>Operational and financial information</b>							
Earnings before financial items and tax (EBIT) (NOK million)	(12)	155	>(100) %	(42)	73 %	(65)	(865)
Underlying EBIT (NOK million)	(188)	34	>(100) %	17	>(100) %	70	413
Underlying EBITDA (NOK million)	114	308	(63) %	316	(64) %	1,267	1,448
Sales volumes to external market (kmt)	218	219	-	212	3 %	864	952

### Sales volumes to external markets (kmt) - Product areas

Can & foil	85	83	2 %	91	(6) %	354	347
Lithography & automotive	59	68	(13) %	53	11 %	221	301
GE and other <sup>1)</sup>	75	68	10 %	68	9 %	289	304
Hydro Rolling	218	219	-	212	3 %	864	952

1) Earlier named Special Products

Underlying EBIT for Hydro Rolling decreased compared to the fourth quarter 2019. The result from the rolling mills decreased mainly due to the newly imposed US anti-dumping duties and increased depreciation, partly offset by lower costs from the ongoing improvement program and positive currency effects. The Neuss smelter result increased driven by lower raw material costs.

Compared to the third quarter of 2020, underlying EBIT decreased. The result from the rolling mills decreased mainly due to the newly imposed US anti-dumping duties. The Neuss smelter result increased driven by higher all-in metal prices more than offsetting some smaller cost effects.

Underlying EBIT for the full year decreased compared to 2019. The result from the rolling mills decreased, mainly due to US anti-dumping duties, lower sales volumes, restructuring related costs and increased depreciation. These effects were partly offset by cost reductions from the ongoing improvement program. The Neuss smelter result was higher due to lower raw material costs partly offset by lower all-in metal prices.

## Hydro Extrusions

<b>Operational and financial information</b>	<b>Fourth quarter 2020</b>	<b>Fourth quarter 2019</b>	<b>Change prior year quarter</b>	<b>Third quarter 2020</b>	<b>Change prior quarter</b>	<b>Year 2020</b>	<b>Year 2019</b>
Earnings before financial items and tax (EBIT) (NOK million)	<b>331</b>	(223)	>100 %	1,038	(68) %	<b>449</b>	1,353
Underlying EBIT (NOK million)	<b>511</b>	85	>100 %	894	(43) %	<b>2,196</b>	2,009
Underlying EBITDA (NOK million)	<b>1,044</b>	655	60 %	1,412	(26) %	<b>4,348</b>	4,132
Sales volumes to external markets (kmt)	<b>291</b>	272	7 %	278	5 %	<b>1,099</b>	1,269

### Sales volumes to external markets (kmt) - Business units

Extrusion Europe	<b>118</b>	106	12 %	113	5 %	<b>451</b>	503
Extrusion North America	<b>121</b>	116	4 %	119	2 %	<b>465</b>	553
Building Systems	<b>20</b>	20	1 %	19	6 %	<b>74</b>	79
Precision Tubing	<b>33</b>	31	7 %	28	16 %	<b>108</b>	134
Hydro Extrusions	<b>291</b>	272	7 %	278	5 %	<b>1,099</b>	1,269

Underlying EBIT for Hydro Extrusions increased compared to the same quarter last year mainly due to higher volumes, reduced variable costs as well as somewhat better margins. In addition, results for the fourth quarter 2019 included insurance compensation of NOK 187 million related to the cyber-attack in March of 2019.

Compared to the third quarter 2020 the underlying EBIT decreased mainly due to seasonally higher maintenance costs and increased variable costs partly offset by higher volumes and margins. In addition, results from the third quarter 2020 included insurance compensation of NOK 192 million related to the cyber-attack in 2019.

Underlying EBIT for 2020 increased slightly compared to 2019 mainly due to fixed cost reductions following the improvement initiatives and temporary cost reductions, in addition to increased margins. Results were positively impacted by insurance compensation of NOK 496 million related to the cyber-attack in 2019. The positive effects were offset by reduced volumes and temporary plant shut-downs due to the Covid-19 situation.

## Hydro Energy

<b>Operational and financial information</b>	<b>Fourth quarter 2020</b>	<b>Fourth quarter 2019</b>	<b>Change prior year quarter</b>	<b>Third quarter 2020</b>	<b>Change prior quarter</b>	<b>Year 2020</b>	<b>Year 2019</b>
Earnings before financial items and tax (EBIT) (NOK million)	<b>5,665</b>	312	>100 %	118	>100 %	<b>6,258</b>	1,291
Underlying EBIT (NOK million)	<b>352</b>	296	19 %	132	>100 %	<b>974</b>	1,243
Underlying EBITDA (NOK million)	<b>419</b>	365	15 %	200	>100 %	<b>1,245</b>	1,509
Direct production costs (NOK million) <sup>1)</sup>	<b>157</b>	155	1 %	141	11 %	<b>602</b>	586
Power production (GWh)	<b>3,396</b>	2,332	46 %	3,161	7 %	<b>11,522</b>	9,150
External power sourcing (GWh)	<b>2,700</b>	2,575	5 %	2,463	10 %	<b>10,014</b>	9,660
Internal contract sales (GWh)	<b>4,262</b>	4,065	5 %	4,077	5 %	<b>16,135</b>	15,554
External contract sales (GWh)	<b>239</b>	321	(26) %	146	64 %	<b>792</b>	1,095
Net spot sales (GWh)	<b>1,595</b>	520	>100 %	1,401	14 %	<b>4,609</b>	2,161

1) Include operational costs except for depreciation, maintenance costs, property taxes, concession fees for Hydro as operator and transmission costs.

Underlying EBIT increased compared to the same quarter in the previous year. Higher production more than offset the impact from lower prices.

Compared to the previous quarter underlying EBIT increased, mainly due to higher prices and improved commercial results.

Compared to the previous year, underlying EBIT decreased. This was mainly due to lower prices, partly offset by higher production and improved commercial results.

## Other and eliminations

Financial information	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
NOK million							
Earnings before financial items and tax (EBIT)	(420)	(65)	>(100) %	309	>(100) %	(642)	(939)
Other	(300)	(223)	(34) %	(204)	(47) %	(833)	(943)
Eliminations	(135)	156	>(100) %	417	>(100) %	(116)	(61)
Underlying EBIT	(435)	(67)	>(100) %	213	>(100) %	(948)	(1,003)

Other is mainly comprised of head office costs, and costs related to holding companies as well as earnings from Hydro's industrial insurance company. Other also includes costs related to the cyber-attack in 2019.

Eliminations are comprised mainly of unrealized gains and losses on inventories purchased from group companies which fluctuate with product flows, volumes and margin developments throughout Hydro's value chain.

# Finance

Finance income (expense) NOK million	Fourth quarter 2020	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	Year 2020	Year 2019
Interest income	45	131	(66) %	45	0 %	208	295
Dividends received and net gain (loss) on securities	56	8	>100 %	22	>100 %	82	70
Finance income	101	140	(28) %	66	51 %	290	365
Interest expense	(273)	(261)	(5) %	(266)	(3) %	(1,013)	(893)
Capitalized interest	2	17	(90) %	2	6 %	14	44
Net foreign exchange gain (loss)	1,479	442	>100 %	(1,523)	>100 %	(3,861)	(1,204)
Net interest on pension liability	(36)	(47)	23 %	(28)	(29) %	(117)	(180)
Other	84	(60)	>100 %	(38)	>100 %	(35)	(188)
Finance expense	1,255	92	>100 %	(1,853)	>100 %	(5,013)	(2,420)
Finance income (expense), net	1,356	231	>100 %	(1,787)	>100 %	(4,723)	(2,055)

For the fourth quarter, the net foreign exchange gain, mainly unrealized, of NOK 1,479 million primarily reflects a stronger NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR.

For the year 2020, the net foreign exchange loss, a combination of realized and unrealized, of NOK 3,861 million primarily reflects a weaker NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR, and the currency loss on USD denominated debt in Brazil, due to a weaker BRL versus USD.

# Tax

Income tax expense amounted to NOK 849 million for the fourth quarter of 2020, or about 10 percent of income before tax. The relatively low tax rate was significantly positively impacted by the tax exempted gain of NOK 5.3 billion related to the Lyse transaction, partly offset by power surtax.

Income tax expense for the full year 2020 amounted to NOK 950 million, or about 21 percent of income before tax. In addition to the factors mentioned above the tax rate for the full year was impacted by non-tax deductible impairment of goodwill totalling NOK 1.1 billion recognized in the second quarter.

# Interim financial statements

## Condensed consolidated statements of income (unaudited)

NOK million, except per share data	Fourth quarter 2020	Fourth quarter 2019	Year 2020	Year 2019
Revenue	35,894	35,490	138,118	149,766
Share of the profit (loss) in equity accounted investments	155	68	223	241
Other income, net	5,689	409	7,519	1,000
<b>Total revenue and income</b>	<b>41,739</b>	35,967	<b>145,861</b>	151,007
Raw material and energy expense	21,681	22,328	84,592	97,474
Employee benefit expense	5,891	5,928	23,767	24,871
Depreciation and amortization expense	2,050	2,258	8,374	8,572
Impairment of non-current assets	63	786	1,979	912
Other expenses	5,284	5,065	17,917	18,678
<b>Total expenses</b>	<b>34,968</b>	36,366	<b>136,629</b>	150,508
Earnings before financial items and tax (EBIT)	6,770	(399)	9,232	499
Finance income	101	140	290	365
Finance expense	1,255	92	(5,013)	(2,420)
Finance income (expense), net	1,356	231	(4,723)	(2,055)
Income (loss) before tax	8,126	(168)	4,509	(1,556)
Income taxes	(849)	(497)	(950)	(813)
Net income (loss)	7,277	(665)	3,560	(2,370)
Net income (loss) attributable to non-controlling interests	252	(189)	(185)	(558)
Net income (loss) attributable to Hydro shareholders	7,025	(476)	3,745	(1,811)
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) <sup>1)</sup>	3.43	(0.23)	1.83	(0.88)
Weighted average number of outstanding shares (million)	2,049	2,048	2,049	2,047

1) Basic earnings per share are computed using the weighted average number of ordinary shares outstanding. There were no significant diluting elements.

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).



## Condensed consolidated statements of comprehensive income (unaudited)

NOK million	<b>Fourth quarter 2020</b>	Fourth quarter 2019	<b>Year 2020</b>	Year 2019
Net income (loss)	<b>7,277</b>	(665)	<b>3,560</b>	(2,370)
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to income statement:</b>				
Remeasurement postemployment benefits, net of tax	<b>752</b>	1,118	<b>(926)</b>	(443)
Unrealized gain (loss) on securities, net of tax	<b>(74)</b>	(277)	<b>(156)</b>	(664)
Total	<b>678</b>	840	<b>(1,081)</b>	(1,107)
<b>Items that will be reclassified to income statement:</b>				
Currency translation differences, net of tax	<b>(3,104)</b>	(719)	<b>(4,689)</b>	(576)
Cash flow hedges, net of tax	<b>219</b>	(22)	<b>120</b>	19
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	-	-	-	32
Total	<b>(2,885)</b>	(741)	<b>(4,568)</b>	(526)
Other comprehensive income	<b>(2,207)</b>	99	<b>(5,650)</b>	(1,633)
Total comprehensive income	<b>5,070</b>	(565)	<b>(2,090)</b>	(4,003)
Total comprehensive income attributable to non-controlling interests	<b>163</b>	(222)	<b>(867)</b>	(631)
Total comprehensive income attributable to Hydro shareholders	<b>4,907</b>	(343)	<b>(1,223)</b>	(3,372)

*The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).*

## Condensed balance sheets (unaudited)

NOK million, except number of shares	December 31 2020	December 31 2019
<b>Assets</b>		
Cash and cash equivalents	17,638	12,286
Short-term investments	4,091	969
Trade and other receivables	18,364	18,959
Inventories	19,492	20,816
Other current financial assets	470	635
<b>Total current assets</b>	<b>60,055</b>	<b>53,665</b>
Property, plant and equipment	66,145	74,243
Intangible assets	9,357	11,501
Investments accounted for using the equity method	17,288	11,501
Prepaid pension	7,064	6,676
Other non-current assets	6,398	6,815
<b>Total non-current assets</b>	<b>106,252</b>	<b>110,736</b>
<b>Total assets</b>	<b>166,308</b>	<b>164,401</b>
<b>Liabilities and equity</b>		
Bank loans and other interest-bearing short-term debt	4,748	6,157
Trade and other payables	18,948	18,692
Other current liabilities	5,352	4,842
<b>Total current liabilities</b>	<b>29,048</b>	<b>29,691</b>
Long-term debt	24,811	18,858
Provisions	5,605	6,515
Pension liabilities	19,167	17,099
Deferred tax liabilities	3,059	3,132
Other non-current liabilities	5,273	5,025
<b>Total non-current liabilities</b>	<b>57,916</b>	<b>50,629</b>
<b>Total liabilities</b>	<b>86,964</b>	<b>80,320</b>
Equity attributable to Hydro shareholders	76,179	79,932
Non-controlling interests	3,165	4,148
<b>Total equity</b>	<b>79,344</b>	<b>84,081</b>
<b>Total liabilities and equity</b>	<b>166,308</b>	<b>164,401</b>
Total number of outstanding shares (million)	2,049	2,048

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

## Condensed consolidated statements of cash flows (unaudited)

NOK million	Fourth quarter 2020	Fourth quarter 2019	Year 2020	Year 2019
<b>Operating activities</b>				
Net income (loss)	7,277	(665)	3,560	(2,370)
Depreciation, amortization and impairment	2,112	3,045	10,353	9,485
Other adjustments	(3,945)	3,300	(398)	5,435
Net cash provided by operating activities	5,444	5,680	13,515	12,550
<b>Investing activities</b>				
Purchases of property, plant and equipment	(2,091)	(2,893)	(6,287)	(8,726)
Purchases of other long-term investments	(55)	(160)	(231)	(698)
Purchases of short-term investments	(1,000)	(7)	(6,480)	(52)
Proceeds from long-term investing activities	254	133	688	285
Proceeds from sales of short-term investments	2,685	-	3,985	18
Net cash used in investing activities	(207)	(2,927)	(8,325)	(9,173)
<b>Financing activities</b>				
Loan proceeds	31	3,101	12,060	15,881
Loan repayments	(2,220)	(3,792)	(8,167)	(10,090)
Net increase (decrease) in other short-term debt	40	(194)	(221)	(257)
Proceeds from shares issued	5	6	25	26
Dividends paid	(2,628)	(91)	(2,628)	(2,649)
Net cash provided by (used in) financing activities	(4,772)	(970)	1,069	2,911
Foreign currency effects on cash	(322)	(78)	(907)	3
Net increase in cash and cash equivalents	143	1,705	5,352	6,291
Cash and cash equivalents at beginning of period	17,495	10,581	12,286	5,995
Cash and cash equivalents at end of period	17,638	12,286	17,638	12,286

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

## Condensed consolidated statements of changes in equity (unaudited)

NOK million	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro shareholders	Non-controlling interests	Total equity
January 1, 2019	2,272	29,126	(756)	57,114	(1,936)	85,820	4,936	90,756
<i>Changes in equity for 2019</i>								
Treasury shares issued to employees		(3)	45			42		42
Capital contribution in subsidiaries							2	2
Dividends				(2,558)		(2,558)	(159)	(2,717)
Total comprehensive income for the period				(1,811)	(1,560)	(3,372)	(631)	(4,003)
December 31, 2019	2,272	29,123	(711)	52,745	(3,496)	79,932	4,148	84,081
<i>Changes in equity for 2020</i>								
Treasury shares issued to employees		(18)	49			32		32
Non-controlling interest in subsidiaries sold							(54)	(54)
Capital contribution in subsidiaries							2	2
Dividends				(2,561)		(2,561)	(65)	(2,626)
Total comprehensive income for the period				3,745	(4,968)	(1,223)	(867)	(2,090)
December 31, 2020	2,272	29,106	(662)	53,928	(8,464)	76,179	3,165	79,344

The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).

# Notes to the condensed consolidated financial statements

## Note 1: Accounting policies

All reported figures in the financial statements are based on International Financial Reporting Standards (IFRS). Hydro's accounting principles are presented in Hydro's Financial Statements - 2019.

The interim accounts are presented in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial information should be read in conjunction with Hydro's Financial Statements - 2019 that are a part of Hydro's Annual Report - 2019.

As a result of rounding adjustments, the figures in one or more columns may not add up to the total of that column.

## Note 2: Operating segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. This standard requires Hydro to identify its segments according to the organization and reporting structure used by management. See Hydro's Financial statements - 2019 note 1.4 *Operating and geographic segment information* for a description of Hydro's management model and segments, including a description of Hydro's segment measures and accounting principles used for segment reporting. Segment names have been changed during the fourth quarter of 2020 with no changes to the segments as such.

The following tables include information about Hydro's operating segments, including a reconciliation of EBITDA to EBIT for Hydro's operating segments.

NOK million	Fourth quarter 2020	Fourth quarter 2019	Year 2020	Year 2019
<b>Total revenue</b>				
Hydro Bauxite & Alumina	5,503	5,983	23,039	22,805
Hydro Aluminium Metal	8,702	8,497	34,404	35,175
Hydro Metal Markets	12,178	11,866	46,865	50,452
Hydro Rolling	5,965	6,192	23,903	26,331
Hydro Extrusions	14,390	13,835	54,496	62,351
Hydro Energy	1,890	2,155	6,967	8,221
Other and eliminations	(12,735)	(13,039)	(51,555)	(55,569)
<b>Total</b>	<b>35,894</b>	<b>35,490</b>	<b>138,118</b>	<b>149,766</b>
<b>External revenue</b>				
Hydro Bauxite & Alumina	3,173	3,509	13,381	12,255
Hydro Aluminium Metal	2,046	1,651	7,039	6,141
Hydro Metal Markets	9,788	9,706	37,893	40,164
Hydro Rolling	6,041	6,109	23,989	26,179
Hydro Extrusions	14,401	13,801	54,542	62,211
Hydro Energy	443	712	1,261	2,808
Other and eliminations	2	2	13	8
<b>Total</b>	<b>35,894</b>	<b>35,490</b>	<b>138,118</b>	<b>149,766</b>

NOK million	Fourth quarter 2020	Fourth quarter 2019	Year 2020	Year 2019
<b>Internal revenue</b>				
Hydro Bauxite & Alumina	2,330	2,474	9,658	10,550
Hydro Aluminium Metal	6,656	6,846	27,365	29,035
Hydro Metal Markets	2,390	2,160	8,972	10,287
Hydro Rolling	(76)	83	(86)	152
Hydro Extrusions	(11)	34	(47)	140
Hydro Energy	1,447	1,444	5,706	5,414
Other and eliminations	(12,737)	(13,040)	(51,568)	(55,577)
Total	-	-	-	-
<b>Share of the profit (loss) in equity accounted investments</b>				
Hydro Bauxite & Alumina	-	-	-	-
Hydro Aluminium Metal	185	65	256	270
Hydro Metal Markets	-	-	-	-
Hydro Rolling	-	-	-	-
Hydro Extrusions	-	-	-	18
Hydro Energy	(6)	(7)	(39)	(29)
Other and eliminations	(24)	10	7	(18)
Total	155	68	223	241
<b>Depreciation, amortization and impairment</b>				
Hydro Bauxite & Alumina	472	725	2,011	2,509
Hydro Aluminium Metal	618	1,191	2,992	3,030
Hydro Metal Markets	40	37	149	129
Hydro Rolling	302	274	1,197	1,036
Hydro Extrusions	587	704	3,785	2,384
Hydro Energy	66	66	260	253
Other and eliminations	28	48	(41)	144
Total	2,112	3,045	10,353	9,485
<b>Earnings before financial items and tax (EBIT) <sup>1)</sup></b>				
Hydro Bauxite & Alumina	111	(221)	1,672	749
Hydro Aluminium Metal	880	(394)	794	(1,838)
Hydro Metal Markets	216	38	766	748
Hydro Rolling	(12)	155	(65)	(865)
Hydro Extrusions	331	(223)	449	1,353
Hydro Energy	5,665	312	6,258	1,291
Other and eliminations	(420)	(65)	(642)	(939)
Total	6,770	(399)	9,232	499

1) Total segment EBIT is the same as Hydro group's total EBIT. Financial income and expense are not allocated to the segments. There are no reconciling items between segment EBIT to Hydro EBIT. Therefore, a separate reconciliation table is not presented.

NOK million	Fourth quarter 2020	Fourth quarter 2019	Year 2020	Year 2019
<b>Earnings before financial items, tax, depreciation and amortization (EBITDA)</b>				
Hydro Bauxite & Alumina	582	504	3,683	3,258
Hydro Aluminium Metal	1,468	769	3,667	1,081
Hydro Metal Markets	254	73	913	875
Hydro Rolling	290	429	1,132	170
Hydro Extrusions	915	479	4,225	3,731
Hydro Energy	5,732	380	6,529	1,558
Other and eliminations	(392)	(17)	(683)	(795)
<b>Total</b>	<b>8,850</b>	<b>2,617</b>	<b>19,465</b>	<b>9,878</b>
<b>Investments <sup>1)</sup></b>				
Hydro Bauxite & Alumina	667	917	1,685	2,294
Hydro Aluminium Metal	970	1,257	2,887	4,235
Hydro Metal Markets	62	61	148	173
Hydro Rolling	398	401	851	876
Hydro Extrusions	562	1,042	1,549	2,914
Hydro Energy	6,869	80	6,961	313
Other and eliminations	23	38	92	102
<b>Total</b>	<b>9,551</b>	<b>3,796</b>	<b>14,174</b>	<b>10,907</b>

1) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments, including amounts recognized in business combinations. Investments in Energy in the fourth quarter of 2020 includes the non-cash contribution of businesses to the newly formed associate Lyse Kraft DA by NOK 6,805 million.

NOK million	EBIT	Depr., amor. and impairment	Other items <sup>1)</sup>	EBITDA
<b>EBIT - EBITDA Fourth quarter 2020</b>				
Hydro Bauxite & Alumina	111	472	-	582
Hydro Aluminium Metal	880	618	(30)	1,468
Hydro Metal Markets	216	40	(2)	254
Hydro Rolling	(12)	302	-	290
Hydro Extrusions	331	587	(2)	915
Hydro Energy	5,665	66	1	5,732
Other and eliminations	(420)	28	-	(392)
<b>Total</b>	<b>6,770</b>	<b>2,112</b>	<b>(33)</b>	<b>8,850</b>

NOK million	EBIT	Depr., amor. and impairment	Other items <sup>1)</sup>	EBITDA
<b>EBIT - EBITDA 2020</b>				
Hydro Bauxite & Alumina	1,672	2,011	-	3,683
Hydro Aluminium Metal	794	2,992	(120)	3,667
Hydro Metal Markets	766	149	(2)	913
Hydro Rolling	(65)	1,197	-	1,132
Hydro Extrusions	449	3,785	(9)	4,225
Hydro Energy	6,258	260	11	6,529
Other and eliminations	(642)	(41)	-	(683)
<b>Total</b>	<b>9,232</b>	<b>10,353</b>	<b>(120)</b>	<b>19,465</b>

1) Investment grants, and amortization of excess values in equity accounted investments and impairment loss of such investments.

### Note 3: Contingent liabilities

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. A discussion of contingent liabilities is included in note 4.1 *Uncertain assets and liabilities* in Hydro's Annual financial statements – 2019. There is no information indicating a significant change to Hydro's contingent liabilities since the issuance of Hydro's 2019 Annual financial statements.

### Note 4: Dividend

Hydro's Board of Directors proposed a dividend of NOK 1.25 per share for the fiscal year 2019 as disclosed in note 7.7 *Dividends* to Hydro's financial statements - 2019. In response to the significant uncertainty related to the Covid-19 situation and its impact on Hydro's operations, markets and financial position, the Board decided to change its proposal. The Board proposed to the General Meeting that it was granted a power of attorney to distribute a dividend based on the 2019 annual accounts and is to be used if the Board deems that the market conditions and Hydro's financial situation allow for it. The power of attorney was approved by the General Meeting. In November 2020 the Board decided to distribute the dividend of NOK 1.25 per share, in total NOK 2.6 billion based on the improved financial situation and outlook for the company.

### Note 5: Impairment of non-current assets

Uncertainty related to world economic development and its impact on demand and prices for Hydro's key products and input factors has been significant during the year, driven by the Covid-19 pandemic. During the autumn, the economic activity has increased, and markets have come back faster than more pessimistic estimates in the beginning of the year. This is perceived to have impacted the recovery in the Hydro share price, which has reached levels above carrying value of net assets towards the end of 2020. No new impairment indicators were identified at the end of the year for significant CGUs or groups of CGUs. All such units containing goodwill or indefinite life intangible assets were tested for impairment in the fourth quarter in accordance with the requirement for completing a test at least once every year. We did not identify impairment losses for any of these entities in the fourth quarter.

Long-lived assets, including property plant and equipment and goodwill, are tested for impairment using value-in-use (VIU) models. Such models rely on estimates for future volumes, prices and cost of production, all of which are more uncertain than previously. The full and partial closure of certain production facilities during the first and second quarter were considered temporary, and most facilities restarted after a few weeks of closure. Demand and prices vary, and for some of our production facilities, capacity utilization is still at reduced levels in response to reduced demand.

The uncertainty in the world economic development led us to conclude that impairment indicators existed for several of our Cash Generating Units (CGUs) as of the end of June 2020. As of July 2020, it was highly uncertain when and to what level economic activity would return. Further, the significant volatility in prices for commodities such as our main products aluminium, aluminium products and alumina, and input factors in production including energy, made determining assumptions more challenging. Further, the significant shift in currency rates whereby the US-dollar and Euro strengthened relative to the currencies of countries with significant commodity production including the countries where Hydro has important production facilities, shifted profitability between regions. The significant weakening of the NOK and the BRL relative to the USD gave upstream plants in Norway and Brazil a cost advantage that, if retained, translates into a better coverage for carrying value of the plants compared to our plants in the Euro zone and the Middle East. There has been limited development in these factors during the period from July to December 2020. Some factors, in particular the development in demand and prices has been more favorable than estimated in July, partly offset by strengthening of the BRL and NOK towards the USD. We see some increased coverage for large CGUs compared to the impairment tests performed in June. However, uncertainty is still significant. Should the current situation develop into a deeper or longer-lasting recession, the assumptions used for testing significant assets for impairment may deteriorate further, compared to the assumptions used for tests during 2020.

The following impairment losses were incurred during 2020 and 2019:



NOK million	Fourth quarter 2020	Fourth quarter 2019	Year 2020	Year 2019
<b>Classification by asset category</b>				
<i>Impairment losses</i>				
Property, plant and equipment	63	634	1,007	760
Goodwill	-	-	1,129	-
Other intangible assets	-	161	5	161
Total impairment of non-current assets	63	796	2,140	922
Reversal of impairment non-current assets	-	(10)	(161)	(10)
Total impairment of non-current assets, net	63	786	1,979	912

**Classification by segment**

<i>Impairment losses</i>				
Hydro Bauxite & Alumina	-	148	-	152
Hydro Aluminium Metal	8	506	513	506
Hydro Extrusions	54	132	1,627	255
Other activities	-	-	(161)	-
Total impairment of non-current assets, net	63	786	1,979	912

**Impairment write-downs recognized during the fourth quarter 2020**

Two CGUs in Hydro Extrusions were concluded to be impaired and written down with a combined amount of NOK 32 million. In addition, certain individual assets were written down by in total NOK 30 million as a result of physical damage or other loss in value.

**Impairment tests performed in June 2020**

Impairment tests as of the end of June 2020 were performed because indicators were identified. The tests were performed using the methods described in Note 2.5 *Impairment of non-current assets* to Hydro's financial statements for 2019. Assumptions were derived using largely the same sources and methods as described for 2019. The discount rates were derived as the weighted average cost of capital (WACC) for a similar business in the same business environment. We have observed that risk free rates are reduced compared to December 2019, while risk premiums have increased, resulting in discount rates that are largely unchanged. However, there were increases in Europe and some reductions in Brazil and the US. For Hydro's businesses, the pre-tax nominal discount rate is estimated at between 6.25 percent and 15.25 percent. The higher rates are applicable for assets in India and within the Hydro Bauxite & Alumina and Hydro Aluminium Metal activities in Brazil, while the lower rates are applicable for assets within Hydro Extrusions and Hydro Rolling in Europe. During the third and fourth quarter, market observations indicate reduction in risk premiums, resulting in somewhat lower discount rates.

In total, Hydro tested property, plant and equipment and intangible assets, including goodwill, in about 25 CGUs for impairment during the second quarter, representing a total carrying value on about NOK 65 billion, which represented about 81 percent of the carrying value of long-lived assets. In addition, the investment in our joint venture Qatalum was assessed.

**CGUs tested, key assumptions and sensitivities as of the second quarter 2020****Hydro Extrusions**

About 75 percent of the carrying values in the Hydro Extrusions segment were tested for impairment. A conclusion that a write-down was required was reached for Extrusion North America, where goodwill was partly impaired. The carrying value of the CGU was NOK 10.2 billion prior to the impairment test. The recoverable amount was determined to be NOK 9.1 billion, resulting in an impairment loss of NOK 1.1 billion, all related to goodwill. The recoverable amount was estimated as a value in use discounted with a pretax discount rate of 7.25 percent. The test is sensitive to volumes and margins, which are interdependent, and also to the cost level, which is adjusted in response to market conditions and thus fixed over limited periods, however, no restructuring measures beyond what were committed at the time of testing were included in the estimated cash flows.

In addition, two CGUs in Extrusions Europe, and one CGU in Precision Tubing was concluded to be impaired. Further, some assets related to one plant in India which was closed in June and some operations where closure or downsizing was ongoing was written down by a combined amount of about NOK 350 million.

In addition, CGUs in Hydro Extrusions with a total carrying amount of about NOK 9 billion were tested for impairment with the conclusion that the recoverable amount exceeded the carrying amount and thus no impairment was present. Although some of these CGUs were experiencing challenging profitability short-term, profitability longer term supported the carrying

value. In reaching this conclusion, we have assumed several years with negative impact on volumes and/or margins, and for most market segments that sales volumes will reach 2019 levels within a period of about five years. Further, margin pressure was assumed to continue for a significant period, resulting in a more limited coverage than for previous tests. However, we saw that restructuring measures reducing costs which have been implemented during 2019 and 2020 were improving coverage.

Discount rates used for Hydro Extrusions CGUs varies between 6.25 to 7.25 percent on a pre-tax basis in the Euro zone, 7.25 percent in the US, 12.5 percent in Brazil and 15.25 percent applied in India.

Key assumptions impacting the conclusion of tests includes the volume growth or decline in key market segments as well as margin development, all of which were estimated at less favorable levels compared to impairment tests as of the end of 2019. Local and regional competitive landscapes also impact the outcome for individual plants or groups of plants managed together to serve a market.

### **Hydro Aluminium Metal**

The primary aluminium plant Svalco, which was partly impaired at the end of 2019, was tested for possible additional impairment in the second quarter of 2020. The test was performed in the same way as in 2019, with updated assumptions for prices, production volumes, and cost. The cost position, including energy cost beyond the current contract which expires at the end of 2021, continues to be unfavorable in the current market. The estimated value in use amounted to NOK 292 million using a discount rate of 9.5 percent. The resulting impairment loss amounted to NOK 504 million.

All other aluminium plants were tested for impairment with the conclusion that the recoverable amount exceeded the carrying amount.

Key assumptions impacting the conclusion of tests included the margin on aluminium over key input factors expressed in the functional currency of the smelter. The main elements were the partially mutually dependent assumptions for demand and price for base metals including aluminium, prices on alumina and energy, and currency exchange rates. The main exchange rates impacting relative competitive position for our smelters are the NOK and BRL against USD, which is the currency in which aluminium prices are quoted. We have in our tests assumed that the NOK will remain weak, while the BRL is expected to strengthen somewhat compared to the very weak level observed at the time of testing. We assumed an aluminium price in US-dollars at levels below the nominal prices observed over the last three to five years, and correspondingly lower price levels for such raw materials as alumina and anodes, resulting in a production margin over time reflecting levels somewhat below averages observed over the last ten years. Power prices are set in local, national or regional markets, and may develop differently between regions. Power prices are usually set and denominated in local currencies. In the Nordic region which includes Norway, power prices are quoted in Euro. Where Hydro has contracts for energy supply, contract prices were assumed in the tests for the period covered by contract.

Discount rates used were 9.5 percent for Norway and 15.25 percent for Brazil.

Hydro's investment in the joint venture Qatalum was tested for impairment. The assumptions and method used were similar to what was used for Hydro's primary metal plants, as the underlying business risks are similar. Additional risks relevant for the joint venture includes the regulatory and business climate in Qatar and the Middle East, including trade relations to the rest of the world, and the uncertain tax situation for the company described in Note 3.1 *Investments in joint arrangements and associates* to Hydro's 2019 financial statements. The recoverable amount for Hydro's interest in the joint venture marginally exceeded the carrying amount of NOK 12.6 billion. A pre-tax discount rate of 10.75 percent was applied, reflecting business risk, country risk and the time value of money. The impairment test was sensitive to the same elements as Hydro's controlled smelters, primarily margin of aluminium price over production costs, which for Qatalum consists of alumina, energy generated from gas in Qatalum's on-site power plant, and other direct and indirect expenses. The production margin is impacted by such factors as the world's supply and demand balance for aluminium and alumina, and relative competitive position of Qatar. The test was also sensitive to the discount rate. An increase of 1 percentage-point would reduce the recoverable amount by about NOK 1.3 billion.

### **Hydro Bauxite & Alumina**

The CGU consisting of the Alunorte alumina refinery, the main bauxite source Paragominas and certain related activities, including goodwill, was tested for impairment. The test resulted in a marginal coverage over the carrying amount. The coverage was significantly reduced compared to the end of 2019 following mainly from the partially mutually dependent assumptions for demand and price for alumina, prices on raw materials and energy cost, resulting in a lower margin in particular in the near term. Further, the Brazilian currency was expected to strengthen somewhat towards the US-dollar and other currencies after a period of a few years at very weak levels as currently observed.

Key assumptions impacting the conclusion of the test included the alumina margin over key input factors expressed in BRL, impacted by the partially mutually dependent assumptions for demand for base metals including aluminium, prices on energy and caustic soda as well as the cost level in Brazil. As the coverage was limited, a small negative deviation in any of those assumptions will likely lead to an impairment unless there are positive deviations in other key assumptions, which are to some extent correlated.

### **Hydro Rolling**

The CGUs covering the rolling activities in Germany with a combined carrying value of about NOK 8.3 billion were tested for impairment. The test concluded with coverage above the carrying value for these units. Key assumptions impacting the conclusion of tests included the volume growth or decline in key market segments as well as margin development. The key drivers are GDP growth, development in specific market sectors such as automotive, packaging and building and construction, and substitution effects with other materials, which currently favors aluminium. The development in key market segments such as the automotive segment and building and construction are also important for the outcome of tests. The dedicated aluminium smelter in Neuss, Germany, which is managed as part of the Hydro Rolling segment, is impacted by the same factors as the Hydro Aluminium Metal plants. In addition, the synergies with the rolling mills are significant, partly offsetting some of the negative effects of the cost level in Germany.

### **Reversal of impairment**

A previous impairment write-down of NOK 161 million related to an industrial park in Germany was reversed in the second quarter. The property was sold in July 2020.

## Note 6: Measurement uncertainty

The significant volatility in financial and non-financial markets during 2020 has resulted in increased measurement uncertainty for assets and liabilities compared to the prior year, most significantly in the first half of the year. Hydro uses the measurement principles described in the Financial statements – 2019. Measurement uncertainty has increased for the following classes of assets and liabilities:

### *Accounts receivable*

Many of our customers continues to be impacted by the Covid-19 pandemic, immediate measures to limit spread of the disease cause significant uncertainty for customers operations and liquidity. Customers' ability to pay is more difficult to assess in the current circumstances. Use of credit insurance and similar measures reduces Hydro's risk to a certain extent. Observed credit losses are limited, however, the situation may change rapidly. To reflect the higher risk, provisions for losses on trade receivables have been carefully reviewed, however, have been retained at a level of between 2.5 percent and 3.0 percent of outstanding receivables through 2020, based on specific assessment of individual customers, market segments and region.

Of total trade receivables at December 31, 2020, about 8.9 percent were past due compared to about 6.5 percent as of the end of September and about 9.5 percent at the end of June 2020. As of the end of 2019 about 12 percent was past due, with the majority due within 30 days for both periods. The Hydro Extrusions segment has the majority of overdue receivables.

### *Long-lived assets*

Long-lived assets, including property plant and equipment and goodwill, are tested for impairment using value-in-use models, see Note 5 *Impairment of non-current assets*. Such models rely on estimates for future volumes, prices and cost of production, all of which are more uncertain than previously. Should the current situation develop into a deeper or longer-lasting recession, Hydro may need to write down additional assets as impaired. As of February 2021, it is highly uncertain when and to what level economic activity will return.

### *Liquidity risk*

Hydro has taken several measures to manage and reduce the liquidity risk during 2020 and for the coming months. Dividends were postponed as discussed in note 4 *Dividend*. Amounts allocated to investments during 2020 was reduced to secure that sufficient cash is available to cover operational needs. Further, in May Hydro raised additional funding in the bond market, issuing a total of NOK 7 billion in loans with maturities from three to ten years, and with no covenants. A limited share of the amount was used for repayment of loans falling due during the year. Hydro also has a fully undrawn revolving credit facility as described in note 7.1 *Capital management*. In total, the parent company Norsk Hydro ASA had cash and short-term investments of NOK 16.3 billion in addition to the undrawn credit facility, while repayment obligation on loans for the group over the next twelve months amounts to about NOK 5 billion.

Hydro has adjusted its response to price risks in the commodity markets during the last months of 2020. A part of the USD/BRL exposure related to USD denominated sale of alumina produced in Brazil has been hedged. In total USD 383 million has been sold forward for 2021 and 2022 during the third quarter at average exchange rates of 5.53 BRL/USD. Hedge accounting is applied to this program. In addition, derivative and non-derivative contracts have been used to reduce the exposure to production margins for aluminium and alumina. For this purpose, we have sold aluminium forward, purchased fuel oil, coal and caustic soda forward, as well as locked in the USD to NOK currency rate for certain amounts. To the extent such transactions are derivatives, those instruments are accounted for at fair value with changes in fair value recognized in the income statement as described in note 8.2 *Financial instruments* to Hydro's financial statements for 2019. The contracts entered into in 2020 mature during 2021. Hydro continue to enter into such contracts to the extent margins are considered favorable.

*Valuation of equity interest*

Hydro completed the sale of its power operation in Røldal Suldal Kraft in the southwest of Norway for a stake in the newly formed Lyse Kraft DA. The ownership interest in Lyse Kraft is valued using to a large degree unobservable market information (level 3 valuation), see note 1.2 *Measurement of fair value* for a discussion of valuation of equity securities. The valuation is highly judgmental as views among market participants of the value of production capacity for renewable power is influenced by such factors as macro view, view on frame conditions and return requirements, and varies significantly. Hydro has valued its ownership interest at NOK 7.8 billion, resulting in a gross gain of NOK 7.1 billion. After elimination of the unrealized share of the gain related to Hydro's retained ownership interest of 25.6 percent, a gain of NOK 5.3 billion was recognized from this transaction, and also forming basis for the carrying value of the associate Lyse Kraft DA at the transaction date.

## Alternative performance measures (APMs)

Alternative performance measures, i.e. financial performance measures not within the applicable financial reporting framework, are used by Hydro to provide supplemental information, by excluding items that, in Hydro's view, does not give an indication of the periodic operating results or cash flows of Hydro. Financial APMs are intended to enhance comparability of the results and cash flows from period to period, and it is Hydro's experience that these are frequently used by analysts, investors and other parties. Management also uses these measures internally to drive performance in terms of long-term target setting and as basis for performance related pay. These measures are adjusted IFRS measures defined, calculated and used in a consistent and transparent manner over the years and across the company where relevant. Operational measures such as, but not limited to, volumes, prices per mt, production costs and improvement programs are not defined as financial APMs. To provide a better understanding of the company's underlying financial performance for the relevant period, Hydro focuses on underlying EBIT in the discussions on periodic underlying financial and operating results and liquidity from the business areas and the group, while effects excluded from underlying EBIT and net income (loss) are discussed separately. Financial APMs should not be considered as a substitute for measures of performance in accordance with the IFRS. Disclosures of APMs are subject to established internal control procedures.

### Hydro's financial APMs

- *EBIT*: Income (loss) before tax, financial income and expense.
- *Underlying EBIT*: EBIT +/- identified items to be excluded from underlying EBIT as described below.
- *EBITDA*: EBIT + depreciation, amortization and impairments, net of investment grants.
- *Underlying EBITDA*: EBITDA +/- identified items to be excluded from underlying EBIT as described below + impairments.
- *Underlying net income (loss)*: Net income (loss) +/- items to be excluded from underlying income (loss) as described below.
- *Underlying earnings per share*: Underlying net income (loss) attributable to Hydro shareholders divided by a weighted average of outstanding shares (ref.: the interim financial statements).
- *Investments*: Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments, including amounts recognized in business combinations.
- *Adjusted net cash (debt)*: Short- and long-term interest-bearing debt adjusted for Hydro's liquidity positions, and for liquidity positions regarded unavailable for servicing debt, pension obligation and other obligations which are considered debt-like in nature.
- Metal Markets specific adjustments to underlying EBIT:
  - *Currency effects* include the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly US dollar and Euro for our European operations) and the effects of changes in currency rates on the fair valuation of derivative contracts (including LME futures) and inventories mainly translated into Norwegian kroner. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.
  - *Inventory valuation effects* comprise hedging gains and losses relating to inventories. Increasing LME prices result in unrealized hedging losses, while the offsetting gains on physical inventories are not recognized until realized. In period of declining prices, unrealized hedging gains are offset by write-downs of physical inventories.
- *(Underlying) RoaCE*: (Underlying) RoACE is defined as (underlying) "Earnings after tax" divided by average "Capital employed". (Underlying) "Earnings after tax" is defined as (underlying) "Earnings before financial items and tax" less "Adjusted income tax expense". As RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense excludes the tax effects of items reported as "Finance income (expense), net" and in addition, for underlying figures, the tax effect of items excluded. "Capital employed" is defined as "Shareholders' Equity", including non-controlling interest, plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments".

### Items excluded from underlying EBIT, EBITDA, net income (loss) and earnings per share

Hydro has defined two categories of items which are excluded from underlying results in all business areas, equity accounted investments and at group level. One category is the timing effects, which are unrealized changes to the market value of certain derivatives and the metal effect in Rolling. When realized, effects of changes in the market values since the inception are included in underlying EBIT. Changes in the market value of trading portfolios are included in underlying results. The other category includes material items which are not regarded as part of underlying business performance for the period, such as major rationalization charges and closure costs, major impairments of property, plant and equipment, effects of disposals of businesses and operating assets, as well as other major effects of a special nature. Materiality is defined as items with a value above NOK 20 million. All items excluded from underlying results are reflecting a reversal of transactions or other effects recognized in the financial statements for the current period, except for the metal effect. Part-owned entities have implemented similar adjustments.

- *Unrealized derivative effects on LME related contracts* include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, where hedge accounting is not applied. Also includes elimination of changes in fair value of certain internal physical aluminium contracts.
- *Unrealized derivative effects on power and raw material contracts* include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.
- *Metal effect in Rolling* is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting up to five months. As a result, margins are impacted by timing differences resulting from the FIFO inventory valuation method (first in, first out), mainly due to changing aluminium prices during the process. The Neuss smelter is included in the Rolling business. Gains and losses from metal flow between Neuss and other Rolling businesses are eliminated in Rolled Product's EBIT but excluded as part of the metal effect in Underlying EBIT. Decreasing aluminium prices in Euro result in a negative metal effect on EBIT, added back as a positive metal effect on Underlying EBIT, adjusted for inventory volume changes.
- *Significant rationalization charges and closure costs* include costs related to specifically defined major projects, and not considered to reflect periodic performance in the individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc. Costs related to regular and continuous improvement initiatives are included in underlying results.
- *Impairment charges (PP&E and equity accounted investments)* relate to significant write-downs of assets or groups of assets to estimated recoverable amounts in the event of an identified loss in value. Gains from reversal of impairment charges are simultaneously excluded from underlying results.
- *Alunorte agreements – provision* refers to the provision recognized in relation to the TAC and TC agreements with the Government of Pará and Ministério Público made on September 5, 2018, and certain similar agreements.
- *Other effects* include insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.
- *Pension* includes recognition of pension plan amendments and related curtailments and settlements.
- *Transaction related effects* reflect the net measurement (gains) losses relating to previously owned shares in acquired business and inventory valuation expense related to the transaction, as well as a net gain or loss on divested businesses and/or individual major assets.
- *Items excluded in equity accounted investments* reflects Hydro's share of items excluded from underlying net income Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- *Net foreign exchange (gain) loss*: Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.
- *Calculated income tax effect*: In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax.
- *Other adjustments to net income* include other major financial and tax related effects not regarded as part of the underlying business performance of the period.

Items excluded from underlying EBIT per operating segment and for Other and eliminations <sup>1)</sup> NOK million	Fourth quarter 2020	Fourth quarter 2019	Third quarter 2020	Year 2020	Year 2019
Alunorte agreements - provision <sup>2)</sup>	-	-	-	129	80
Unrealized derivative effects on raw material contracts	5	-	-	5	-
Impairment charges <sup>3)</sup>	-	145	-	-	145
<b>Hydro Bauxite &amp; Alumina</b>	<b>5</b>	<b>145</b>	<b>-</b>	<b>134</b>	<b>225</b>
Unrealized derivative effects on LME related contracts	(99)	10	(198)	(160)	90
Unrealized derivative effects on power contracts	153	33	165	218	(17)
Impairment charges <sup>4)</sup>	-	506	-	504	506
Other effects <sup>5)</sup>	(90)	-	(30)	(131)	-
<b>Hydro Aluminium Metal</b>	<b>(36)</b>	<b>549</b>	<b>(63)</b>	<b>430</b>	<b>579</b>
Unrealized derivative effects on LME related contracts	32	94	(187)	(38)	235
<b>Metal Markets</b>	<b>32</b>	<b>94</b>	<b>(187)</b>	<b>(38)</b>	<b>235</b>
Unrealized derivative effects on LME related contracts	(24)	(41)	(63)	(4)	(82)
Metal effect	(93)	(23)	95	298	370
Significant rationalization charges and closure costs <sup>6)</sup>	(48)	(57)	61	14	1,088
Other effects <sup>7)</sup>	(12)	-	(34)	(173)	(99)
<b>Hydro Rolling</b>	<b>(176)</b>	<b>(120)</b>	<b>59</b>	<b>135</b>	<b>1,277</b>
Unrealized derivative effects on LME related contracts	(57)	(70)	(201)	(129)	(163)
Impairment charges <sup>8)</sup>	52	132	77	1,625	255
Significant rationalization charges and closure costs <sup>9)</sup>	70	135	(20)	187	396
Pension <sup>10)</sup>	-	-	-	-	(62)
Transaction related effects <sup>11)</sup>	14	(14)	-	(37)	21
Other effects <sup>12)</sup>	101	125	-	101	209
<b>Hydro Extrusions</b>	<b>180</b>	<b>308</b>	<b>(143)</b>	<b>1,747</b>	<b>656</b>
Unrealized derivative effects on power contracts	(5)	(15)	14	25	(6)
(Gains)/losses on divestments <sup>13)</sup>	(5,308)	-	-	(5,308)	-
Other effects <sup>14)</sup>	-	-	-	-	(42)
<b>Hydro Energy</b>	<b>(5,313)</b>	<b>(15)</b>	<b>14</b>	<b>(5,283)</b>	<b>(48)</b>
Unrealized derivative effects on power contracts <sup>15)</sup>	(19)	(10)	(19)	(76)	(75)
Unrealized derivative effects on LME related contracts <sup>15)</sup>	(2)	7	(7)	(8)	11
Impairment charges <sup>16)</sup>	-	-	-	(161)	-
(Gains)/losses on divestments <sup>16)</sup>	3	-	(65)	(62)	-
Other effects	4	-	(4)	-	-
<b>Other and eliminations</b>	<b>(14)</b>	<b>(2)</b>	<b>(96)</b>	<b>(307)</b>	<b>(64)</b>
<b>Items excluded from underlying EBIT</b>	<b>(5,322)</b>	<b>959</b>	<b>(415)</b>	<b>(3,181)</b>	<b>2,860</b>

1) Negative figures indicate reversal of a gain and positive figures indicate reversal of a loss.

2) Alunorte agreements - provision relates to provisions for the TAC and TC agreements with the Government of Pará and Ministério Público made on September 5, 2018, including later adjustments for changes in cost estimates, and similar agreements.

3) Impairment charges for 2019 in Hydro Bauxite & Alumina include write downs of an undeveloped area in Brazil.

4) Impairment charges in Hydro Aluminium Metal reflect write downs related to the Slovalco smelter.

5) Other effects in Hydro Aluminium Metal relates to an insurance refunds related to property damage at Albras.

6) Significant rationalization and closure costs include provision for work force reductions, closures costs and environmental clean-up activities in Hydro Rolling initial provided for in the third quarter of 2019. Cost revisions are included in later periods as cost estimates, including pension curtailments, have been updated and scope adjusted.

7) Other effects include partly reversals of the provision recognized in 2017 related to the customs case in Germany with NOK 12 million in the fourth quarter, NOK 34 million in the third quarter, in total NOK 109 million in 2020 and NOK 99 million in 2019. There is no remaining provision for this case. Other effects also include insurance refunds of NOK 64 million related to property damage received in 2020.

8) Impairment charges include impairments of various assets, including goodwill, in Hydro Extrusions.

9) Significant rationalization and closure costs include provisions for costs related to reduction of overcapacity, closures and environmental clean-up activities in Hydro Extrusions.

10) Pension include a gain of NOK 62 million due to partially settled pension liabilities in the US in 2019.

11) Transaction related effects relate to divestments of Hydro Extrusions plants. In addition the year 2019 include a loss of NOK 35 million related to revaluation of Hydro's pre-transactional 50 percent share in Technal Middle East and to fair value allocated to inventory sold during second quarter.

12) Other effects in Hydro Extrusions in 2020 include an environmental provision related to a closed site of NOK 101 million. Other effects in 2019 include an environmental provision of NOK 170 million related to a closed site and charge of NOK 39 million for adjustments to the value of certain assets in relation to the Sapa acquisition.

13) Divestment gain in Hydro Energy represent the gain on contributing the Røldal Suldal power assets to Lyse Kraft DA, which is partly owned by Hydro. The gain is net of the unrealized share equal to Hydro's retained ownership interest of 25.6 percent, which is eliminated.

14) Other effects in Hydro Energy include a dilution gain of NOK 42 million as the effect of an equity issuance in our associate Corvus, reducing our ownership share from 24.8 percent to 21.1 percent in 2019.

15) Unrealized derivative effects on power contracts and LME related contracts result from elimination of changes in the valuation of embedded derivatives within certain internal power contracts and in the valuation of certain internal aluminium contracts.

16) Impairment charges relate to reversal of previously impaired industrial park in Germany in the second quarter, and the gain on selling the property in the third quarter 2020.

<b>Underlying EBITDA</b>	<b>Fourth quarter 2020</b>	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	<b>Year 2020</b>	Year 2019
NOK million							
EBITDA	<b>8,850</b>	2,617	>100 %	3,879	>100 %	<b>19,465</b>	9,878
Items excluded from underlying EBIT	<b>(5,322)</b>	959	>(100) %	(415)	>(100) %	<b>(3,181)</b>	2,860
Reversal of impairments	<b>(52)</b>	(783)	93 %	(77)	33 %	<b>(1,968)</b>	(906)
Underlying EBITDA	<b>3,476</b>	2,792	24 %	3,387	3 %	<b>14,316</b>	11,832

<b>Underlying earnings per share</b>	<b>Fourth quarter 2020</b>	Fourth quarter 2019	Change prior year quarter	Third quarter 2020	Change prior quarter	<b>Year 2020</b>	Year 2019
NOK million							
Net income (loss)	<b>7,277</b>	(665)	>100 %	(221)	>100 %	<b>3,560</b>	(2,370)
Items excluded from net income (loss) <sup>1)</sup>	<b>(6,443)</b>	362	>(100) %	771	>(100) %	<b>(841)</b>	3,078
Underlying net income (loss)	<b>834</b>	(303)	>100 %	550	52 %	<b>2,718</b>	708
Underlying net income attributable to non-controlling interests	<b>117</b>	(59)	>100 %	27	>100 %	<b>150</b>	(365)
Underlying net income attributable to Hydro shareholders	<b>718</b>	(243)	>100 %	523	37 %	<b>2,568</b>	1,073
Number of shares	<b>2,049</b>	2,048	-	2,049	-	<b>2,049</b>	2,047
Underlying earnings per share	<b>0.35</b>	(0.12)	>100 %	0.26	37 %	<b>1.25</b>	0.52

1) Items excluded from underlying net income (loss) consist of the Items excluded from underlying EBIT specified on the previous page and a compensation received of NOK 128 million related to a financial claim for which there has been a legal dispute over several years. These items are net of calculated tax effects, for most items based on a 30 percent standardized tax rate.

<b>Adjusted net cash (debt)</b>	<b>Dec 31 2020</b>	Sep 30 2020	Change prior quarter	Dec 31 2019	Sep 30 2019	Change prior year quarter
NOK million						
Cash and cash equivalents	<b>17,638</b>	17,495	143	12,286	10,581	1,705
Short-term investments <sup>1)</sup>	<b>4,091</b>	5,399	(1,309)	969	929	40
Short-term debt	<b>(4,748)</b>	(6,915)	2,167	(6,157)	(6,074)	(83)
Long-term debt	<b>(24,811)</b>	(25,873)	1,062	(18,858)	(19,985)	1,127
Net cash (debt)	<b>(7,830)</b>	(9,894)	2,064	(11,760)	(14,549)	2,789
Cash and cash equiv. and short-term investm. in captive insurance company <sup>2)</sup>	<b>(956)</b>	(915)	(40)	(876)	(899)	24
Net pension obligation at fair value, net of expected income tax benefit <sup>3)</sup>	<b>(9,868)</b>	(11,569)	1,701	(8,601)	(10,282)	1,680
Short- and long-term provisions net of exp. income tax benefit, and other liab. <sup>4)</sup>	<b>(3,966)</b>	(3,711)	(255)	(4,209)	(3,876)	(334)
Adjusted net cash (debt)	<b>(22,620)</b>	(26,089)	3,470	(25,447)	(29,606)	4,159
Net debt in EAI <sup>5)</sup>	<b>(5,286)</b>	(5,542)	126	(5,537)	(5,376)	(161)
Adjusted net cash (debt) incl. EAI	<b>(27,905)</b>	(31,631)	3,596	(30,983)	(34,982)	3,998

- Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet.
- Cash and cash equivalents and short-term investments in Hydro's captive insurance company Industriforsikring AS are assumed to not be available to service or repay future Hydro debt, and are therefore excluded from the measure Adjusted net debt.
- The expected income tax benefit related to the pension liability is NOK 2236 million and NOK 2152 million for December 2020 and September 2020, respectively.
- Consists of Hydro's short and long-term provisions related to asset retirement obligations, net of an expected tax benefit estimated at 30 percent, and other non-current financial liabilities.
- Net debt in equity accounted investments is defined as the total of Hydro's relative ownership percentage of each equity accounted investment's short and long-term interest bearing debt less their cash position, reduced by total outstanding loans from Hydro to the equity accounted investment. Net debt per individual equity accounted investment is limited to a floor of zero.



### Underlying RoaCE

Hydro uses underlying RoaCE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time in each of its capital intensive businesses and in the operating results of its business segments. RoaCE is calculated as (U)EBIT after tax divided by average Capital employed for the respective period.

RoaCE NOK million	Reported		Underlying	
	2020	2019	2020	2019
EBIT	9,232	499	6,051	3,359
Adjusted Income tax expense <sup>1)</sup>	(2,366)	(1,430)	(2,640)	(2,055)
EBIT after tax	6,866	(931)	3,411	1,304

NOK million	Dec 31 2020	Sep 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019
Current assets <sup>2)</sup>	38,326	40,109	39,984	48,122	40,410	45,387	46,375	48,895
Property, plant and equipment	66,145	68,657	70,478	77,909	74,243	74,025	73,193	72,882
Other non-current assets	40,108	34,204	35,188	39,400	36,494	36,103	35,729	35,493
Current liabilities <sup>3)</sup>	(24,300)	(21,524)	(20,414)	(26,329)	(23,534)	(23,811)	(24,702)	(26,819)
Non-current liabilities <sup>3)</sup>	(33,104)	(34,658)	(33,179)	(36,712)	(31,771)	(32,509)	(29,882)	(28,958)
Capital Employed	87,174	86,789	92,057	102,389	95,841	99,195	100,713	101,494

Return on average Capital Employed (RoaCE) <sup>4)</sup>	Reported		Underlying	
	2020	2019	2020	2019
Hydro	7.5 %	(0.9) %	3.7 %	1.3 %

1) Adjusted Income tax expense is based on reported and underlying tax expense adjusted for tax on financial items.

2) Excluding cash and cash equivalents and short-term investments.

3) Excluding interest-bearing debt.

4) Average Capital Employed measured over the last 4 quarters to reflect the return for the full year.

# Additional Information

## Financial calendar 2021

March 12	Annual report
April 27	First quarter results
May 6	Annual General Meeting
July 23	Second quarter results
October 26	Third quarter results

Hydro reserves the right to revise these dates.

## Cautionary note

Certain statements included in this announcement contain forward-looking information, including, without limitation, information relating to (a) forecasts, projections and estimates, (b) statements of Hydro management concerning plans, objectives and strategies, such as planned expansions, investments, divestments, curtailments or other projects, (c) targeted production volumes and costs, capacities or rates, start-up costs, cost reductions and profit objectives, (d) various expectations about future developments in Hydro's markets, particularly prices, supply and demand and competition, (e) results of operations, (f) margins, (g) growth rates, (h) risk management, and (i) qualified statements such as "expected", "scheduled", "targeted", "planned", "proposed", "intended" or similar.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, these forward-looking statements are based on a number of assumptions and forecasts that, by their nature, involve risk and uncertainty. Various factors could cause our actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. Factors that could cause these differences include, but are not limited to: our continued ability to reposition and restructure our upstream and downstream businesses; changes in availability and cost of energy and raw materials; global supply and demand for aluminium and aluminium products; world economic growth, including rates of inflation and industrial production; changes in the relative value of currencies and the value of commodity contracts; trends in Hydro's key markets and competition; and legislative, regulatory and political factors.

No assurance can be given that such expectations will prove to have been correct. Hydro disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



*Industries that matter*

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Hydro is a leading industrial company committed to a sustainable future. Our purpose is to create more viable societies by developing natural resources into products and solutions in innovative and efficient ways.