



Second quarter 2020
Report



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Oslo, July 21, 2020

Overview

Summary underlying financial and operating results and liquidity

Key financial information NOK million, except per share data	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Revenue	30,931	39,176	(21) %	38,124	(19) %	69,055	76,759	149,766
Earnings before financial items and tax (EBIT)	(1,661)	656	>(100) %	2,301	>(100) %	640	676	499
Items excluded from underlying EBIT ¹⁾	2,610	219	>100 %	(54)	>100 %	2,556	758	2,860
Underlying EBIT ¹⁾	949	875	8 %	2,247	(58) %	3,196	1,434	3,359
<i>Underlying EBIT :</i>								
Bauxite & Alumina	1,047	415	>100 %	535	96 %	1,582	568	974
Primary Metal	(37)	(604)	94 %	573	>(100) %	536	(1,375)	(1,259)
Metal Markets	21	299	(93) %	261	(92) %	282	489	983
Rolled Products	(57)	75	>(100) %	299	>(100) %	242	213	413
Extruded Solutions	89	772	(88) %	702	(87) %	791	1,365	2,009
Energy	53	176	(70) %	437	(88) %	490	693	1,243
Other and eliminations	(166)	(258)	36 %	(560)	70 %	(727)	(519)	(1,003)
Underlying EBIT ¹⁾	949	875	8 %	2,247	(58) %	3,196	1,434	3,359
Earnings before financial items, tax, depreciation and amortization (EBITDA) ²⁾	2,267	2,737	(17) %	4,470	(49) %	6,736	4,831	9,878
Underlying EBITDA ¹⁾	3,050	2,928	4 %	4,403	(31) %	7,453	5,561	11,832
Net income (loss)	(1,471)	(190)	>(100) %	(2,025)	27 %	(3,496)	(315)	(2,370)
Underlying net income (loss) ¹⁾	183	281	(35) %	1,151	(84) %	1,334	405	708
Earnings per share	(0.61)	(0.04)	>(100) %	(0.88)	31 %	(1.49)	(0.04)	(0.88)
Underlying earnings per share ¹⁾	0.10	0.19	(46) %	0.55	(81) %	0.65	0.31	0.52
<i>Financial data:</i>								
Investments ^{1) 2)}	1,417	3,173	(55) %	1,590	(11) %	3,007	4,926	10,907
Net cash (debt) ¹⁾	(13,194)	(15,117)	13 %	(15,217)	13 %	(13,194)	(15,117)	(11,760)
Adjusted net cash (debt) ¹⁾	(29,084)	(27,905)	(4) %	(32,827)	11 %	(29,084)	(27,905)	(25,447)
Key Operational information								
	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Bauxite production (kmt) ³⁾	2,332	1,624	44 %	2,585	(10) %	4,917	2,986	7,360
Alumina production (kmt)	1,442	932	55 %	1,531	(6) %	2,973	1,737	4,487
Realized alumina price (USD/mt) ⁴⁾	261	365	(29) %	278	(6) %	270	369	326
Primary aluminium production (kmt)	509	486	5 %	528	(4) %	1,037	971	2,038
Realized aluminium price LME (USD/mt)	1,579	1,858	(15) %	1,758	(10) %	1,676	1,886	1,827
Realized USD/NOK exchange rate	9.93	8.59	16 %	9.47	5 %	9.67	8.55	8.74
Rolled Products sales volumes to external market (kmt)	198	242	(18) %	236	(16) %	434	488	952
Extruded Solutions sales volumes to external market (kmt)	224	348	(36) %	305	(27) %	529	681	1,269
Power production (GWh)	2,097	1,993	5 %	2,868	(27) %	4,965	4,546	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 second quarter 2020

Hydro's underlying EBIT for the second quarter of 2020 was NOK 949 million, compared with NOK 875 million for the same quarter last year. The ramp-up of Alunorte's production and reduced costs, including record low production cost at Alunorte, contributed positively to the second quarter results. These positive elements were partly offset by reduced realized alumina and aluminium prices in addition to reduced downstream volumes.

The Covid-19 situation continues to cause significant market uncertainty, with global GDP and industrial production falling during the quarter, leading to a reduction in aluminium demand. Although uncertainty remains high, several countries, and especially China, are showing signs of recovery towards the end of the second quarter.

The global fall in demand and government-imposed restrictions have directly affected certain operations in Hydro. Extruded Solutions, Rolled Products and our Recycling facilities were impacted the most, with the capacity utilization starting to improve towards the end of the quarter. Extruded Solutions and Rolled Products are operating at reduced capacity utilization. Metal Markets recycling facilities were operating under a combination of full curtailments or reduced capacity utilization during the quarter but were largely back to normal operations by the end of the quarter. Bauxite & Alumina, Primary Metal and Energy have been operating largely as normal during the quarter.

Hydro has taken forceful actions in response to the uncertain situation, including strict precautionary actions to ensure health and safety, extensive social and community support, financial measures to protect liquidity and operational measures to adjust capacity, curtail production, and cut costs.

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. As we have observed the "epicenter" of Covid-19 move from Europe to the Americas, sustaining our operations in Brazil is a top priority and we have taken several precautionary measures. Operations at Paragominas, Alunorte, and Albras are largely running as normal, and risks are being assessed and managed on an ongoing basis.

We will continuously evaluate further measures as the situation develops.

Hydro's improvement efforts, targeting NOK 4.1 billion by 2020 and NOK 7.3 billion by 2023, are moving forward with full speed, focusing on the cost levers we can control in these uncertain times. Although results are being negatively impacted by the Covid-19 induced market effects, we are seeing positive contributions from our cost improvement initiatives across the portfolio, as well as the ramp-up of the Brazilian operations. Alunorte remains on target to reach name-plate capacity by the end of 2020. These efforts have supported the positive cash flow generation in the quarter, a key priority in light of the current uncertain market environment.

In uncertain times, it is important to position the company for the future. We aim to strengthen Hydro's position as a leading sustainable industrial company, through our low carbon aluminium, represented by Hydro CIRCAL and Hydro REDUXA, as well as growing and diversifying our portfolio where Hydro's capabilities match megatrends, such as recycling, renewable energy and batteries.

Compared to the first quarter 2020, Hydro's underlying EBIT decreased, reflecting lower realized alumina and aluminium prices in addition to reduced downstream sales volumes. These negative elements were partly offset by positive currency effects, lower raw material prices and lower fixed costs.

Underlying EBIT for the first half year of 2020 increased compared to the same period last year. The successful 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.

Extruded Solutions recognized an impairment of NOK 1.5 billion in the second quarter, reflecting weaker growth expectations in key market segments driven by the negative macroeconomic effects of Covid-19. Primary Metal's majority owned primary aluminium plant, Svalco recognized an impairment of NOK 0.5 billion in the second quarter, reflecting the continued weak market environment combined with Svalco's high relative cost position. The impairments described above are excluded from underlying EBIT. See *Note 5: Impairment of non-current assets* and the APM section for further information.

Hydro incurred a Net loss of NOK 1.5 billion in the second quarter including net foreign exchange gain, mainly unrealized, of NOK 735 million, primarily reflects a stronger NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR in Norway. These positive effects were partly offset by the currency loss on USD denominated debt in Brazil, due to a weaker BRL versus USD and, the currency loss on USD assets in Norway due to a stronger NOK versus USD.

Hydro's net debt¹ position decreased from NOK 15.2 billion to NOK 13.2 billion at the end of the quarter. Net cash provided by

¹ 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.

operating activities amounted to NOK 2.2 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.2 billion.

Hydro held NOK 15.4 billion in cash and cash equivalents, including NOK 7 billion raised in the bond market, and NOK 4.2 billion short-term deposits, included in short-term investments, at the end of the second quarter. The revolving credit facility of USD 1.6 billion was fully available at the end of the quarter.

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.

Items excluded from underlying EBIT and net income ¹⁾	Second quarter 2020	Second quarter 2019	First quarter 2020	First half 2020	First half 2019	Year 2019
NOK million						
Unrealized derivative effects on LME related contracts	478	11	(13)	465	211	91
Unrealized derivative effects on power and raw material contracts	62	(72)	(183)	(121)	(60)	(99)
Metal effect, Rolled Products	165	3	130	295	270	370
Significant rationalization charges and closure costs	135	200	4	138	200	1,484
Impairment charges	1,826	28	12	1,839	28	906
Alunorte agreements - provision	-	14	129	129	49	80
Transaction related effects	6	35	(57)	(51)	35	21
Pension	-	-	-	-	-	(62)
Other effects	(62)	-	(76)	(139)	26	68
Items excluded from underlying EBIT ²⁾	2,610	219	(54)	2,556	758	2,860
Net foreign exchange (gain)/loss	(735)	451	4,553	3,817	243	1,204
Calculated income tax effect	(221)	(198)	(1,322)	(1,543)	(281)	(986)
Items excluded from underlying net income	1,654	472	3,176	4,830	719	3,078
Income (loss) tax rate	(30)%	>(100) %	20%	4%	>100 %	(52)%
Underlying income (loss) tax rate	75%	58%	42%	51%	60%	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 statistics¹⁾	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
USD/NOK Average exchange rate	10.00	8.65	16 %	9.49	5 %	9.74	8.61	8.80
USD/NOK Period end exchange rate	9.74	8.52	14 %	10.51	(7) %	9.74	8.52	8.78
BRL/NOK Average exchange rate	1.86	2.21	(16) %	2.13	(13) %	2.00	2.24	2.23
BRL/NOK Period end exchange rate	1.79	2.23	(20) %	2.02	(11) %	1.79	2.23	2.18
USD/BRL Average exchange rate	5.38	3.92	37 %	4.46	21 %	4.92	3.84	3.94
USD/BRL Period end exchange rate	5.46	3.82	43 %	5.20	5 %	5.46	3.82	4.02
EUR/NOK Average exchange rate	11.01	9.72	13 %	10.47	5 %	10.73	9.73	9.85
EUR/NOK Period end exchange rate	10.91	9.69	13 %	11.51	(5) %	10.91	9.69	9.86
<i>Bauxite and alumina:</i>								
Average alumina price - Platts PAX FOB Australia (USD/t)	244	363	(33) %	285	(14) %	264	375	331
China bauxite import price (USD/mt CIF China) ²⁾	47	52	(10) %	48	(2) %	48	53	51
Global production of alumina (kmt)	31,250	30,954	1 %	30,918	1 %	62,169	61,443	123,534
Global production of alumina (ex. China) (kmt)	14,548	13,595	7 %	14,587	-	29,135	26,820	55,549
<i>Primary aluminium:</i>								
LME cash average (USD/mt)	1,493	1,792	(17) %	1,690	(12) %	1,591	1,826	1,791
LME three month average (USD/mt)	1,524	1,818	(16) %	1,713	(11) %	1,618	1,850	1,811
Standard ingot premium (EU DP Cash)	102	146	(30) %	147	(31) %	124	139	142
Extrusion ingot premium (EU DP)	212	352	(40) %	257	(18) %	234	394	343
Chinese production of primary aluminium (kmt)	9,015	8,816	2 %	8,926	1 %	17,941	17,527	35,088
Chinese consumption of primary aluminium (kmt)	10,192	9,666	5 %	7,165	42 %	17,358	17,704	35,753
Global production of primary aluminium (ex. China) (kmt)	6,912	6,968	(1) %	6,968	(1) %	13,880	13,793	27,696
Global consumption of primary aluminium (ex. China) (kmt)	5,290	7,344	(28) %	6,555	(19) %	11,845	14,532	28,366
Global production of primary aluminium (kmt)	15,927	15,784	1 %	15,894	-	31,821	31,320	62,784
Global consumption of primary aluminium (kmt)	15,482	17,010	(9) %	13,720	13 %	29,203	32,237	64,119
Reported primary aluminium inventories (ex. China) (kmt)	3,330	2,614	27 %	2,807	19 %	3,330	2,605	3,138
Reported primary aluminium inventories (China) (kmt)	1,512	1,934	(22) %	2,515	(40) %	1,512	1,927	1,419
<i>Rolled products and extruded products:</i>								
Consumption rolled products - Europe (kmt)	951	1,284	(26) %	1,189	(20) %	2,140	2,602	5,071
Consumption rolled products - USA & Canada (kmt)	1,008	1,416	(29) %	1,275	(21) %	2,283	2,806	5,389
Consumption extruded products - Europe (kmt)	617	909	(32) %	735	(16) %	1,352	1,772	3,316
Consumption extruded products - USA & Canada (kmt)	442	632	(30) %	578	(24) %	1,020	1,266	2,433
<i>Energy:</i>								
Average southern Norway spot price (NO2) (NOK/MWh)	50	360	(86) %	154	(67) %	102	414	387
Average mid Norway spot price (NO3) (NOK/MWh)	61	343	(82) %	158	(61) %	110	397	380
Average nordic system spot price (NOK/MWh)	62	346	(82) %	158	(61) %	110	401	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

The Covid-19 outbreak had a major effect on the Chinese economy in the first quarter, with substantial fall in activity within key segments such as transportation and infrastructure. Following a rapid spread of the virus, lockdown measures were introduced by several countries forcing manufacturing facilities and construction sites to shut down, creating a severe global demand shock. No regions were left unaffected and activity within key end-user segments for aluminium, such as transportation and construction, were severely affected.

Throughout the second quarter, the imposed restrictions around the world have slowed economic growth and a significant decline in the global economy is expected for 2020. The economic development and speed of recovery in the global economy going forward is still uncertain. In order to maintain and support economic activity, governments and central banks across the world have introduced significant fiscal and monetary support. As restrictions on movement and social distancing are gradually being lifted by more and more countries, activity has restarted during the latter part of the second quarter. Although uncertainty remains high, and the risk of second infection waves is persistent, several countries, and especially China, are showing signs of a recovery, while other regions like the Americas are still experiencing the economic effects of growing infection rates.

Bauxite and alumina

The average Platts alumina index weakened in the second quarter of 2020 (USD 244 per mt) compared to the first quarter 2020 (USD 285 per mt). The Platts Alumina Index started the quarter at USD 242 per mt before reaching its lowest point since February 2016, at USD 225 per mt. It then recovered gradually reaching its quarterly high at the end of June (USD 263 per mt). Compared to the second quarter of 2019 (USD 363 per mt), the average Platts alumina index was substantially lower.

Chinese alumina production curtailments in the first quarter of 2020 combined with robust smelter demand in the second quarter, driven by increasing aluminium prices, rebalanced the Chinese alumina market. As a result, Chinese alumina prices increased during the second quarter of 2020, driving the Platts alumina index higher.

During April and May of 2020, China's net alumina imports reached 438 kmt compared to 86 kmt in the corresponding period last year. Australia accounted for 65 percent of Chinese alumina imports in the period with smaller contribution from Indonesia, Vietnam and Kazakhstan.

China imported 19.5 million mt of bauxite in April and May 2020 at an annualized rate 3 percent higher than the same period a year ago. Guinea, Indonesia and Australia accounted for 97 percent of China's bauxite imports in the period.

The average Chinese bauxite import price was USD 47.3 per mt CIF in April and May 2020, down from USD 52.0 per mt CIF in the second quarter 2019, and down from USD 48.2 per mt in the first quarter of 2020.

Primary aluminium

The three-month aluminium price increased during the second quarter of 2020, starting at a low end of the quarterly price range at USD 1500 per mt and ending the quarter towards the quarter high at USD 1620 per mt. The average price for the quarter was USD 1524 per mt. The price was stable at low levels during first half of the quarter until demand recovery in China and general positive market sentiment helped lift prices from mid-May.

European duty paid standard ingot premiums ended the second quarter at USD 105 per mt, down from USD 122 per mt at the end of the first quarter 2020. The US Midwest premium was down USD 60 per mt from USD 260 mt at the beginning of the quarter to USD 200 per mt.

Shanghai Futures Exchange (SHFE) prices increased by USD 280 per mt ex. VAT from start of the quarter to the end, ending at USD 1707 per mt ex VAT. Average for the quarter was down USD 110 per mt ex. VAT compared to first quarter this year. The average estimated export arbitrage shifted to negative USD 70 in the second quarter 2020 due to the strong price development on SHFE compared to LME.

Global primary aluminium consumption was down 9 percent compared to the second quarter of 2019, driven by a combination of around 28 percent decline in world outside China and an increase of 5 percent in China.

Global demand for primary aluminium is expected to be weak in 2020, leading to a significant primary aluminium surplus. External sources are estimating a surplus of between 3-4.7 million mt, with both China and the rest of the world in surplus.

Due to the negative impact of the Covid-19 virus on European economies and industries, especially on automotive, the demand for sheet ingot, extrusion ingot and primary foundry alloys declined significantly in the second quarter of 2020 compared to the same period last year.

Total global stocks at the end of the second quarter of 2020 were estimated to be 13.7 million mt, up 0.5 million mt compared to the first quarter of 2020 and up 2.6 million mt compared to end 2019.

Rolled products

The European demand for flat rolled products decreased by around 26 percent compared to the second quarter of 2019 and 20 percent compared to the first quarter of 2020. Most markets improved gradually towards the end of the quarter.

The automotive segment experienced a severe decline in demand due to a 65 percent reduction in European car production compared to the same quarter last year. The demand for beverage can declined due to reduced travel activities and sporting events. Foil demand for packaging applications was relatively stable whereas general engineering was strongly affected by the weakening industrial activity across Europe.

For the third quarter, Covid-19 will continue to put pressure on demand in most markets and CRU forecasts demand to decline by around 11 percent compared to the same quarter last year.

Extruded products

European demand for extrusions is estimated to have decreased 32 percent during the second quarter of 2020 compared to same quarter last year, and 16 percent compared to the first quarter of 2020. Demand has been especially weak in the transport segment, as the spread of Covid-19 has seen several major automotive companies announce partial or full suspensions of automotive plants across Europe. Demand in the building and construction segment has been impacted by disruptions in construction activity in several European countries, but the segment has been more resilient compared to transport. Moreover, some niche markets such as solar have started to recover. Overall demand has been most affected in Southern Europe, particularly in Italy. While the continued impact of Covid-19 remains uncertain, CRU estimates that the European demand for extruded products will decrease by around 22 percent for the third quarter 2020 compared to the same quarter last year.

North American extrusion demand is estimated to have decreased 30 percent during the second quarter of 2020 compared to the same quarter in 2019 and 24 percent compared to the first quarter of 2020. The on-going spread of the Covid-19 virus has severely impacted all market segments, most notably transport. The trailer market build rates decreased by an estimated 53 percent in April and May compared to the same period last year, while automotive build rates were also down 87 percent over the same period, due to automotive supply chain disruptions and shutdowns. At the same time, transport demand has improved in June as automotive OEMs have resumed production and there is increased optimism and quoting activity in the trailer market. After decreasing in April, demand in the building and construction market improved slightly in May, evident in increasing new housing starts and overall construction spending. While the further market impact of the Covid-19 virus remains uncertain, CRU estimates that the North American market will be down approximately 14 percent for the third quarter 2020 compared to the same quarter last year.

Energy

Nordic power prices were at record-low levels in the quarter and significantly lower compared to the same quarter last year as well as the previous quarter. The low prices were driven mainly by strong hydrology somewhat enhanced by lower consumption due to the Covid-19 shutdown. There was also downward pressure on prices from export capacity restrictions out of Southern Norway due to cable outages.

The Nordic hydrological balance ended the quarter around 21 TWh above normal² compared to around 1 TWh below normal at the end of the second quarter last year and 30 TWh above normal at the end of the previous quarter. Water reservoirs in Norway were at 77.7 percent of full capacity at the end of the quarter, which is 7.5 percentage points above the normal level. Snow reservoirs were significantly above normal at the end of the quarter.

² Normal based on long term historical averages.

Additional factors impacting Hydro

Hydro decided to postpone the restart of 95,000 mt of electrolysis capacity at the Husnes aluminium plant in Norway. The ramp-up was originally planned to start in the first half of 2020 but is postponed to the end of the third quarter of 2020 at the earliest, pending market developments and outlook into the second half of the year.

On March 6, 2020, one of the four production lines at Hydro's part-owned aluminium plant Albras, in Brazil, was shut down due to a fire in an electrical transformer. As a result, the production at Albras was reduced to 75 percent. During the second quarter, Albras started to resume operations and expects to return to full production by the end of 2020.

Primary Metal has sold forward around 60 percent of its expected primary aluminium production for the third quarter of 2020 at a price level of around USD 1,530 per mt³.

To further safeguard liquidity, on April 2, 2020, Hydro decided to freeze around 25 percent of remaining capital expenditure in 2020 by NOK 2 billion until we have more visibility, resulting in the updated capex estimate for 2020 being NOK 7.5-8 billion.

On May 7, 2020, Hydro raised NOK 7 billion in the bond market. The proceeds will be used to refinance maturing debt and for general corporate purposes.

On May 11, 2020, in the Annual General Meeting, a power of attorney was granted to the Board of Norsk Hydro ASA to distribute a dividend based on the 2019 annual accounts, restricted to a maximum payment of NOK 2.6 billion. The power of attorney is to be used if the Board, at its discretion, deems that market conditions and Hydro's financial situation allow for it.

In addition to executing on improvement initiatives within Rolled Products, Hydro has initiated a strategic review of the business area due to the declining 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 Rolled Products, within or outside Hydro. The result of the review will be announced in due time.

³ 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.

Risks and uncertainties

Hydro is subject to a range of risks and uncertainties which may affect its business operations, financial condition and results of operations. An evaluation of Hydro's major risks has been performed as part of Hydro's semi-annual overall enterprise risk assessment. The description of principal risks and uncertainties in the Financial statements and Board of Directors' Report 2019 gives a fair description of principal risks and uncertainties that may affect Hydro in the second half of 2020, and the company is not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties, except for those described in this report.

After the outbreak of Covid-19, authorities in a number of countries have taken strong measures to reduce the spread of the virus. This has led to reduced global economic activity, including the demand for aluminium, of which the duration still remains uncertain. Further, due to disruptions in the supply chain, there is a risk that Hydro, our suppliers or our customers may be inhibited from receiving raw materials, which again may disrupt Hydro's production or sale of products. The macro-economic situation has also had an impact on Hydro's operations and financial results. If the situation continues for an extended period of time, or escalates through new waves of infections, it will have further negative effects on Hydro's financial results.

Hydro's top priority is the health and safety of our people and the communities where we operate, and we are continuously working to find mitigating solutions if the situation continues or escalates. We are following recommendations from local and international health authorities, updating contingency plans to avoid disruptions and securing deliveries to customers. Hydro is closely following the local situation in areas where the health care system may be challenged, and we are identifying ways in which Hydro can assist. Our current social and community support includes donations of funds for the construction and maintenance of field hospitals, property, mineral water, food and test kits.

Related parties

Note section 9 – Related parties and remuneration - to the Financial statements and Board of Director's report 2019 provides details of related parties. During the first half of 2020 there have not been any changes or transactions with related parties that significantly impact the group's financial position or result for the period.

Underlying EBIT

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

Bauxite & Alumina

Operational and financial information	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	1,047	401	>100 %	406	>100 %	1,453	519	749
Underlying EBIT (NOK million)	1,047	415	>100 %	535	96 %	1,582	568	974
Underlying EBITDA (NOK million)	1,550	1,004	54 %	1,102	41 %	2,652	1,762	3,337
Alumina production (kmt)	1,442	932	55 %	1,531	(6) %	2,973	1,737	4,487
Sourced alumina (kmt)	667	704	(5) %	664	-	1,330	1,416	2,845
Total alumina sales (kmt)	2,243	1,668	34 %	2,140	5 %	4,383	3,091	7,379
Realized alumina price (USD/mt) ¹⁾	261	365	(29) %	278	(6) %	270	369	326
Bauxite production (kmt) ²⁾	2,332	1,624	44 %	2,585	(10) %	4,917	2,986	7,360
Sourced bauxite (kmt) ³⁾	1,315	1,315	-	1,514	(13) %	2,829	2,344	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.

Underlying EBIT for Bauxite & Alumina increased compared to the second quarter of last year. The results were driven by positive effects from increased production following the lifting of the production embargo on May 20 2019, a key contributor in our ongoing improvement efforts. 2019. Lower raw material prices and positive currency effects, partly offset by lower alumina sales prices.

Compared to the first quarter of 2020 the underlying EBIT increased. Lower raw material prices and positive currency effects were partly offset by lower alumina sales prices.

Underlying EBIT for the first half year of 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.

On June 20, three power transmission towers overturned, cutting the power supply to Hydro's Paragominas bauxite mine and temporarily halting production. The transmission towers have been repaired, and the power has been restored, allowing production to restart. Production is consequently being ramped up at Hydro's Alunorte alumina refinery.

Primary Metal

	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Operational and financial information¹⁾								
Earnings before financial items and tax (EBIT) (NOK million)	(777)	(554)	(40) %	784	>(100) %	7	(1,474)	(1,838)
Underlying EBIT (NOK million)	(37)	(604)	94 %	573	>(100) %	536	(1,375)	(1,259)
Underlying EBITDA (NOK million)	560	(27)	>100 %	1,197	(53) %	1,757	(207)	1,155
Realized aluminium price LME (USD/mt) ²⁾	1,579	1,858	(15) %	1,758	(10) %	1,676	1,886	1,827
Realized aluminium price LME (NOK/mt) ²⁾	15,689	15,959	(2) %	16,658	(6) %	16,213	16,130	15,975
Realized premium above LME (USD/mt) ³⁾	212	326	(35) %	234	(9) %	224	336	308
Realized premium above LME (NOK/mt) ³⁾	2,106	2,802	(25) %	2,212	(5) %	2,162	2,870	2,695
Realized USD/NOK exchange rate	9.93	8.59	16 %	9.47	5 %	9.67	8.55	8.74
Primary aluminium production (kmt)	509	486	5 %	528	(4) %	1,037	971	2,038
Casthouse production (kmt)	478	477	-	504	(5) %	982	950	1,982
Total sales (kmt)	510	527	(3) %	577	(12) %	1,087	1,061	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 Primary Metal.

	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Operational and financial information Qatalum (50%)								
Revenue (NOK million)	1,541	1,382	12 %	1,485	4 %	3,026	2,979	6,059
Underlying EBIT (NOK million)	83	103	(20) %	150	(45) %	233	207	534
Underlying EBITDA (NOK million)	410	398	3 %	442	(7) %	852	849	1,709
Net income (loss) (NOK million)	26	24	8 %	40	(36) %	65	56	272
Underlying Net income (loss) (NOK million)	26	24	8 %	40	(36) %	65	56	272
Primary aluminium production (kmt)	79	78	0 %	79	(0) %	157	155	314
Casthouse sales (kmt)	86	75	16 %	81	7 %	167	156	324

Underlying EBIT for Primary Metal improved in second quarter of 2020 compared to the second quarter of 2019 mainly due to lower raw material cost and positive currency effects, partly offset by lower all-in metal⁴ prices.

Compared to the first quarter of 2020, underlying EBIT for Primary Metal declined due to lower all-in metal prices and lower sales volumes, partly offset by lower raw material cost, lower fixed cost and positive currency effects.

Underlying EBIT for the first half of 2020 increased compared to the same period in 2019, mainly due to lower raw material cost and positive currency effects, partly offset by lower all-in metal prices

⁴ The all-in metal price refers to the LME cash price plus premiums.

Metal Markets

Operational and financial information	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	(319)	361	>(100) %	485	>(100) %	166	329	748
Underlying EBIT (NOK million)	21	299	(93) %	261	(92) %	282	489	983
Currency effects	(112)	(53)	>(100) %	176	>(100) %	64	(92)	(119)
Inventory valuation effects	(2)	1	>(100) %	1	>(100) %	(1)	-	(1)
Underlying EBIT excl. currency and inventory valuation effects	135	352	(62) %	84	60 %	219	581	1,103
Underlying EBITDA (NOK million)	58	328	(82) %	296	(80) %	355	547	1,110
Remelt production (kmt)	88	139	(37) %	137	(36) %	224	270	516
Metal products sales excluding ingot trading (kmt) ¹⁾	606	707	(14) %	675	(10) %	1,281	1,389	2,700
Hereof external sales (kmt)	459	556	(18) %	554	(17) %	1,013	1,096	2,149

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

Underlying EBIT for Metal Markets declined in the second quarter compared to the same quarter last year due to lower results from the remelters and the sourcing and trading activities in addition to negative currency effects.

Compared to the first quarter of 2020, underlying EBIT for Metal Markets declined due to lower results from the remelters and negative currency effects, partly offset by improved results from the sourcing and trading activities.

Underlying EBIT for the first half year of 2020 declined compared to the same period last year due to lower results from the remelters and the sourcing and trading activities, partly offset by positive currency effects.

Rolled Products

Operational and financial information	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	(79)	12	>(100) %	68	>(100) %	(11)	(41)	(865)
Underlying EBIT (NOK million)	(57)	75	>(100) %	299	>(100) %	242	213	413
Underlying EBITDA (NOK million)	249	326	(23) %	588	(58) %	838	710	1,448
Sales volumes to external market (kmt)	198	242	(18) %	236	(16) %	434	488	952

Sales volumes to external markets (kmt) - Product areas

Can & foil	93	86	8 %	85	9 %	178	172	347
Lithography & automotive	36	76	(52) %	74	(51) %	110	157	301
GE and other ¹⁾	69	79	(13) %	77	(10) %	146	159	304
Rolled Products	198	242	(18) %	236	(16) %	434	488	952

1) Earlier named Special Products.

Underlying EBIT decreased compared to the second quarter of 2019. The result from the rolling mills decreased mainly due to reduced sales volumes. Somewhat lower margins were offset by cost improvements, resulting from our ongoing improvement efforts, and positive currency effects. The Neuss smelter result increased due to lower raw material costs and insurance compensation partly offset by lower all-in metal prices.

Compared to the first quarter of 2020, underlying EBIT decreased. The result from the rolling mills decreased, mainly due to reduced sales volumes, partly offset by cost improvement measures and positive currency effects. The Neuss smelter result decrease was driven by lower all-in metal prices, partly offset by insurance compensation and lower raw material costs.

Underlying EBIT for the first half year decreased compared to the first half year of 2019. The result from the rolling mills decreased, mainly due to lower sales volumes, partly offset by cost improvement measures and currency effects. The Neuss smelter result was higher due to lower raw material costs partly offset by lower all-in metal prices.

Extruded Solutions

Operational and financial information	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	(1,548)	483	>(100) %	628	>(100) %	(920)	1,127	1,353
Underlying EBIT (NOK million)	89	772	(88) %	702	(87) %	791	1,365	2,009
Underlying EBITDA (NOK million)	649	1,279	(49) %	1,242	(48) %	1,891	2,378	4,132
Sales volumes to external markets (kmt)	224	348	(36) %	305	(27) %	529	681	1,269

Sales volumes to external markets (kmt) - Business units

Extrusion Europe	94	142	(34) %	127	(26) %	220	277	503
Extrusion North America	96	148	(35) %	130	(26) %	226	295	553
Building Systems	17	22	(24) %	19	(13) %	36	40	79
Precision Tubing	17	36	(52) %	29	(41) %	47	69	134
Extruded Solutions	224	348	(36) %	305	(27) %	529	681	1,269

Underlying EBIT for Extruded Solutions decreased compared to the same quarter last year due to significantly reduced sales volumes and temporary plant shut-downs during the quarter. The negative effects were partly offset by reduced costs, resulting from our ongoing improvement efforts, and positive currency effects. Results were positively impacted by insurance compensation of NOK 190 million related to the cyber-attack in 2019.

Compared to the first quarter 2020 the underlying EBIT decreased due to significantly reduced sales volumes and temporary plant shut-downs during the quarter.

Underlying EBIT for the first half of 2020 decreased compared the same period last year due to significantly reduced sales volumes and temporary plant shut-downs during the quarter. The negative effects were partly offset by reduced costs and positive currency effects. Results were positively impacted by insurance compensation of NOK 300 million related to the cyber-attack in 2019.

Energy

Operational and financial information	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	20	174	(89) %	454	(96) %	474	685	1,291
Underlying EBIT (NOK million)	53	176	(70) %	437	(88) %	490	693	1,243
Underlying EBITDA (NOK million)	122	242	(50) %	505	(76) %	627	825	1,509
Direct production costs (NOK million) ¹⁾	125	116	8 %	179	(30) %	304	305	586
Power production (GWh)	2,097	1,993	5 %	2,868	(27) %	4,965	4,546	9,150
External power sourcing (GWh)	2,430	2,305	5 %	2,421	-	4,851	4,603	9,660
Internal contract sales (GWh)	3,923	3,778	4 %	3,873	1 %	7,796	7,514	15,554
External contract sales (GWh)	160	231	(31) %	247	(35) %	407	575	1,095
Net spot sales (GWh)	444	289	54 %	1,169	(62) %	1,613	1,059	2,161

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

Underlying EBIT decreased compared to the same quarter in the previous year. The decrease was mainly due to significantly lower prices, partly offset by higher production.

Compared to the previous quarter Underlying EBIT decreased, mainly due to lower commercial results, lower production and lower prices, partly offset by lower production cost.

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

Other and eliminations

Financial information	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
NOK million								
Earnings before financial items and tax (EBIT)	(5)	(220)	98 %	(525)	99 %	(530)	(469)	(939)
Other	(109)	(253)	57 %	(219)	50 %	(328)	(560)	(943)
Eliminations	(58)	(5)	>(100) %	(341)	83 %	(399)	41	(61)
Underlying EBIT	(166)	(258)	36 %	(560)	70 %	(727)	(519)	(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	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
Interest income	49	72	(32) %	69	(30) %	118	106	295
Dividends received and net gain (loss) on securities	40	18	>100 %	(35)	>100 %	5	47	70
Finance income	89	90	(1) %	34	>100 %	123	153	365
Interest expense	(236)	(231)	(2) %	(237)	0 %	(473)	(411)	(893)
Capitalized interest	2	15	(88) %	9	(79) %	11	17	44
Net foreign exchange gain (loss)	735	(451)	>100 %	(4,553)	>100 %	(3,817)	(243)	(1,204)
Net interest on pension liability	(30)	(47)	35 %	(23)	(29) %	(53)	(88)	(180)
Other	(27)	(41)	32 %	(54)	50 %	(82)	(85)	(188)
Finance expense	444	(754)	>100 %	(4,859)	>100 %	(4,415)	(811)	(2,420)
Finance income (expense), net	532	(664)	>100 %	(4,824)	>100 %	(4,292)	(658)	(2,055)

For the second quarter, the net foreign exchange gain, mainly unrealized, of NOK 735 million primarily reflects a stronger NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR in Norway. These positive effects were partly offset by the currency loss on USD denominated debt in Brazil, due to a weaker BRL versus USD and, the currency loss on USD assets in Norway due to a stronger NOK versus USD.

For the first half year, the net foreign exchange loss, mainly unrealized, of NOK 3,817 million primarily reflects a weak NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liability denominated in EUR in Norway, and the currency loss on USD denominated debt in Brazil, due to a weak BRL versus USD.

Tax

Income tax expense amounted to NOK 342 million for the second quarter of 2020. The tax expense reflects a positive result in countries with higher than average tax rates, a relatively high share of reported income before tax subject to power surtax and impairment of deferred tax assets. In addition, an impairment of goodwill totalling NOK 1.1 billion included in net income was not tax deductible.

Income tax income for the first half 2020 amounted to NOK 156 million. The tax income is impacted by a relatively high share of reported income before tax subject to power surtax and impairment of deferred tax assets. In addition, an impairment of goodwill totalling NOK 1.1 billion included in net income was not tax deductible.

Interim financial statements

Condensed consolidated statements of income (unaudited)

NOK million, except per share data	Second quarter 2020	Second quarter 2019	First half 2020	First half 2019	Year 2019
Revenue	30,931	39,176	69,055	76,759	149,766
Share of the profit (loss) in equity accounted investments	48	47	45	50	241
Other income, net	695	139	1,168	322	1,000
Total revenue and income	31,675	39,362	70,268	77,132	151,007
Raw material and energy expense	19,527	25,920	42,675	51,056	97,474
Employee benefit expense	5,906	6,192	12,267	12,215	24,871
Depreciation and amortization expense	2,127	2,078	4,314	4,173	8,572
Impairment of non-current assets	1,829	28	1,841	31	912
Other expenses	3,946	4,488	8,531	8,981	18,678
Total expenses	33,336	38,706	69,628	76,455	150,508
Earnings before financial items and tax (EBIT)	(1,661)	656	640	676	499
Finance income	89	90	123	153	365
Finance expense	444	(754)	(4,415)	(811)	(2,420)
Finance income (expense), net	532	(664)	(4,292)	(658)	(2,055)
Income (loss) before tax	(1,129)	(8)	(3,652)	18	(1,556)
Income taxes	(342)	(183)	156	(333)	(813)
Net income (loss)	(1,471)	(190)	(3,496)	(315)	(2,370)
Net income (loss) attributable to non-controlling interests	(223)	(105)	(438)	(239)	(558)
Net income (loss) attributable to Hydro shareholders	(1,248)	(85)	(3,059)	(76)	(1,811)
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) ¹⁾	(0.61)	(0.04)	(1.49)	(0.04)	(0.88)
Weighted average number of outstanding shares (million)	2,049	2,047	2,048	2,046	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	Second Quarter		First half		2019
	2020	2019	2020	2019	
Net income (loss)	(1,471)	(190)	(3,496)	(315)	(2,370)
Other comprehensive income					
Items that will not be reclassified to income statement:					
Remeasurement postemployment benefits, net of tax	364	(347)	(1,325)	(279)	(443)
Unrealized gain (loss) on securities, net of tax	(59)	(285)	(162)	(418)	(664)
Total	304	(633)	(1,487)	(696)	(1,107)
Items that will be reclassified to income statement:					
Currency translation differences, net of tax	(7,160)	(392)	(264)	(1,569)	(576)
Cash flow hedges, net of tax	2	69	55	63	19
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	-	21	-	30	32
Total	(7,158)	(302)	(209)	(1,476)	(526)
Other comprehensive income	(6,854)	(935)	(1,696)	(2,172)	(1,633)
Total comprehensive income	(8,325)	(1,125)	(5,192)	(2,487)	(4,003)
Total comprehensive income attributable to non-controlling interests	(714)	(93)	(861)	(326)	(631)
Total comprehensive income attributable to Hydro shareholders	(7,611)	(1,032)	(4,331)	(2,160)	(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	June 30 2020	June 30 2019	December 31 2019
Assets			
Cash and cash equivalents	15,385	10,590	12,286
Short-term investments	5,110	1,090	969
Trade and other receivables	18,916	23,186	18,959
Inventories	20,382	22,718	20,816
Other current financial assets	687	471	635
Total current assets	60,480	58,055	53,665
Property, plant and equipment	70,478	73,193	74,243
Intangible assets	10,262	11,485	11,501
Investments accounted for using the equity method	12,619	10,936	11,501
Prepaid pension	5,603	5,986	6,676
Other non-current assets	6,704	7,322	6,815
Total non-current assets	105,665	108,922	110,736
Total assets	166,145	166,978	164,401
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	7,094	8,177	6,157
Trade and other payables	16,693	21,014	18,692
Other current liabilities	3,721	3,688	4,842
Total current liabilities	27,508	32,879	29,691
Long-term debt	26,595	18,620	18,858
Provisions	6,283	5,577	6,515
Pension liabilities	18,933	16,646	17,099
Deferred tax liabilities	2,562	3,123	3,132
Other non-current liabilities	5,401	4,536	5,025
Total non-current liabilities	59,774	48,502	50,629
Total liabilities	87,282	81,382	80,320
Equity attributable to Hydro shareholders	75,633	81,143	79,932
Non-controlling interests	3,230	4,452	4,148
Total equity	78,863	85,596	84,081
Total liabilities and equity	166,145	166,978	164,401
Total number of outstanding shares (million)	2,049	2,048	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	Second quarter 2020	Second quarter 2019	First half 2020	First half 2019	Year 2019
Operating activities					
Net income (loss)	(1,471)	(190)	(3,496)	(315)	(2,370)
Depreciation, amortization and impairment	3,956	2,105	6,155	4,204	9,485
Other adjustments	(295)	685	893	(510)	5,435
Net cash provided by operating activities	2,190	2,600	3,552	3,379	12,550
Investing activities					
Purchases of property, plant and equipment	(1,253)	(2,231)	(2,758)	(3,862)	(8,726)
Purchases of other long-term investments	(52)	(459)	(116)	(478)	(698)
Purchases of short-term investments	(4,180)	(18)	(4,980)	(42)	(52)
Proceeds from long-term investing activities	69	21	387	80	285
Proceeds from sales of short-term investments	800	-	800	-	18
Net cash used in investing activities	(4,616)	(2,687)	(6,667)	(4,302)	(9,173)
Financing activities					
Loan proceeds	8,733	8,444	10,830	10,931	15,881
Loan repayments	(1,869)	(1,540)	(4,031)	(2,961)	(10,090)
Net increase (decrease) in other short-term debt	(279)	244	(233)	186	(257)
Proceeds from shares issued	8	4	13	14	26
Dividends paid	-	(2,558)	-	(2,558)	(2,649)
Net cash provided by financing activities	6,593	4,594	6,579	5,612	2,911
Foreign currency effects on cash	(942)	(16)	(365)	(94)	3
Net increase in cash and cash equivalents	3,225	4,491	3,099	4,595	6,291
Cash and cash equivalents at beginning of period	12,160	6,099	12,286	5,995	5,995
Cash and cash equivalents at end of period	15,385	10,590	15,385	10,590	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				(76)	(2,084)	(2,160)	(326)	(2,487)
June 30, 2019	2,272	29,123	(711)	54,480	(4,020)	81,143	4,452	85,596
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							(42)	(42)
Capital contribution in subsidiaries							1	1
Dividends						-	(16)	(16)
Total comprehensive income for the period				(3,058)	(1,273)	(4,331)	(861)	(5,192)
June 30, 2020	2,272	29,106	(662)	49,687	(4,770)	75,633	3,230	78,863

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.

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

NOK million	Second quarter 2020	Second quarter 2019	First half 2020	First half 2019	Year 2019
Total revenue					
Bauxite & Alumina	6,173	5,745	12,201	10,611	22,805
Primary Metal	7,720	8,937	17,473	17,960	35,175
Metal Markets	10,485	13,301	23,397	26,260	50,452
Rolled Products	5,674	6,623	12,270	13,467	26,331
Extruded Solutions	11,593	17,270	26,733	33,283	62,351
Energy	1,423	1,815	3,538	4,076	8,221
Other and eliminations	(12,136)	(14,515)	(26,557)	(28,897)	(55,569)
Total	30,931	39,176	69,055	76,759	149,766
External revenue					
Bauxite & Alumina	3,792	2,692	7,041	5,062	12,255
Primary Metal	1,393	1,457	3,361	2,847	6,141
Metal Markets	8,510	10,577	18,863	20,716	40,164
Rolled Products	5,604	6,654	12,305	13,432	26,179
Extruded Solutions	11,581	17,271	26,797	33,195	62,211
Energy	47	519	681	1,502	2,808
Other and eliminations	3	5	8	5	8
Total	30,931	39,176	69,055	76,759	149,766

NOK million	Second quarter 2020	Second quarter 2019	First half 2020	First half 2019	Year 2019
Internal revenue					
Bauxite & Alumina	2,380	3,052	5,160	5,549	10,550
Primary Metal	6,328	7,480	14,112	15,113	29,035
Metal Markets	1,975	2,724	4,534	5,543	10,287
Rolled Products	69	(31)	(35)	35	152
Extruded Solutions	12	(1)	(64)	88	140
Energy	1,376	1,296	2,857	2,574	5,414
Other and eliminations	(12,139)	(14,520)	(26,565)	(28,902)	(55,577)
Total	-	-	-	-	-
Share of the profit (loss) in equity accounted investments					
Bauxite & Alumina	-	-	-	-	-
Primary Metal	26	24	66	56	270
Metal Markets	-	-	-	-	-
Rolled Products	-	-	-	-	-
Extruded Solutions	-	5	-	18	18
Energy	(5)	(9)	(17)	(18)	(29)
Other and eliminations	28	27	(3)	(5)	(18)
Total	48	47	45	50	241
Depreciation, amortization and impairment					
Bauxite & Alumina	503	589	1,069	1,194	2,509
Primary Metal	1,130	605	1,785	1,223	3,030
Metal Markets	37	29	73	59	129
Rolled Products	307	251	596	498	1,036
Extruded Solutions	2,046	535	2,601	1,041	2,384
Energy	65	62	130	125	253
Other and eliminations	(132)	34	(100)	64	144
Total	3,956	2,105	6,155	4,204	9,485
Earnings before financial items and tax (EBIT) ¹⁾					
Bauxite & Alumina	1,047	401	1,453	519	749
Primary Metal	(777)	(554)	7	(1,474)	(1,838)
Metal Markets	(319)	361	166	329	748
Rolled Products	(79)	12	(11)	(41)	(865)
Extruded Solutions	(1,548)	483	(920)	1,127	1,353
Energy	20	174	474	685	1,291
Other and eliminations	(5)	(220)	(530)	(469)	(939)
Total	(1,661)	656	640	676	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	Second quarter 2020	Second quarter 2019	First half 2020	First half 2019	Year 2019
Earnings before financial items, tax, depreciation and amortization (EBITDA)					
Bauxite & Alumina	1,550	989	2,523	1,713	3,258
Primary Metal	324	23	1,732	(306)	1,081
Metal Markets	(282)	390	239	388	875
Rolled Products	228	263	586	457	170
Extruded Solutions	496	1,017	1,676	2,167	3,731
Energy	88	240	611	817	1,558
Other and eliminations	(137)	(186)	(629)	(405)	(795)
Total	2,267	2,737	6,736	4,831	9,878
Investments ¹⁾					
Bauxite & Alumina	289	624	533	1,038	2,294
Primary Metal	651	1,173	1,402	1,976	4,235
Metal Markets	19	34	62	67	173
Rolled Products	105	145	232	284	876
Extruded Solutions	301	1,030	667	1,327	2,914
Energy	34	139	70	186	313
Other and eliminations	18	28	41	50	102
Total	1,417	3,173	3,007	4,926	10,907

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.

NOK million	EBIT	Depr., amor. and impairment	Other items ¹⁾	EBITDA
EBIT - EBITDA Second quarter 2020				
Bauxite & Alumina	1,047	503	-	1,550
Primary Metal	(777)	1,130	(29)	324
Metal Markets	(319)	37	-	(282)
Rolled Products	(79)	307	-	228
Extruded Solutions	(1,548)	2,046	(3)	496
Energy	20	65	3	88
Other and eliminations	(5)	(132)	-	(137)
Total	(1,661)	3,956	(29)	2,267

NOK million	EBIT	Depr., amor. and impairment	Other items ¹⁾	EBITDA
EBIT - EBITDA First half 2020				
Bauxite & Alumina	1,453	1,069	-	2,523
Primary Metal	7	1,785	(60)	1,732
Metal Markets	166	73	-	239
Rolled Products	(11)	596	-	586
Extruded Solutions	(920)	2,601	(5)	1,676
Energy	474	130	7	611
Other and eliminations	(530)	(100)	-	(629)
Total	640	6,155	(59)	6,736

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 is 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. The maximum dividend payment would be NOK 2.6 billion, corresponding to NOK 1.25 per share, and the power of attorney will expire at the date of the annual General Meeting in 2021.

Note 5: Impairment of non-current assets

The current significant uncertainty related to world economic development and its impact on demand and prices for Hydro's key products and input factors have led us to conclude that impairment indicators exists for several of our Cash Generating Units (CGUs) as of the end of June 2020. Hydro's share price has been below the carrying value of net assets for a period of more than one year, which contributes to the assessment of impairment indicators for CGUs.

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 are considered temporary, and most facilities have 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 particular for some of our facilities in the Extruded Solutions and Rolled Products segments. Further, production volumes are reduced in some remelt and recycling facilities in the Metal Market segment, and some primary smelters in the Primary Metal segment, as a response to reduced demand. 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 as of the end of the second quarter 2020.

As of July 2020, it is highly uncertain when and to what level economic activity will 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, has made determining assumptions more challenging. Further, the significant shift in currency rates whereby the US-dollar and Euro has strengthened relative to the currencies of countries with significant commodity production including the countries where Hydro has important production facilities, has shifted profitability between regions. The significant weakening of the NOK and the BRL relative to the USD has given 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. The effect is limited for downstream plants serving local markets, such as many of our Extruded Solutions plants, and depends on the cost structure as well as the market. The relative competition between China and the Western world is also an important factor of uncertainty, and include such factors as regulatory and trade regimes, currency exchange rates, and general cost position.

The following impairment losses were incurred during 2020 and 2019:

NOK million	Second quarter 2020	Second quarter 2019	First half 2020	First half 2019	Year 2019
Classification by asset category					
<i>Impairment losses</i>					
Property, plant and equipment	854	28	867	31	760
Goodwill	1,129	-	1,129	-	-
Other intangible assets	7	-	7	-	161
Total impairment of non-current assets	1,990	28	2,002	31	922
Reversal of impairment non-current assets	(161)	-	(161)	-	(10)
Total impairment of non-current assets, net	1,829	28	1,841	31	912

Classification by segment

<i>Impairment losses</i>					
Bauxite & Alumina	-	-	-	3	152
Primary Metal	504	-	504	-	506
Extruded Solutions	1,483	28	1,496	28	255
Energy	2	-	2	-	-
Other activities	(161)	-	(161)	-	-
Total impairment of non-current assets, net	1,829	28	1,841	31	912

Impairment tests as of the end of June 2020 have been performed using the methods described in Note 2.5 *Impairment of non-current assets* to Hydro's financial statements for 2019. Assumptions are derived using largely the same sources and methods as described for 2019. The discount rates are 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 are 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 Bauxite & Alumina and Primary Metal activities in Brazil, while the lower rates are applicable for assets within Extruded Solutions and Rolled Products in Europe.

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

CGUs tested, key assumptions and sensitivities

Extruded Solutions

About 75 percent of the carrying values in the Extruded Solutions 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 is 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 are currently committed are included in the estimated cash flows.

In addition, two CGUs in Extrusion 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 is ongoing was written down by a combined amount of about NOK 350 million.

In addition, CGUs in Extruded Solutions with a total carrying amount of about NOK 9 billion were tested for impairment with the conclusion that the recoverable amount exceeds the carrying amount and thus no impairment was present. Although some of these CGUs are experiencing challenging profitability short-term, profitability longer term supports the carrying value. In reaching this conclusion, we have assumed several years with 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 is assumed to

continue for a significant period, resulting in a more limited coverage than for previous tests. However, we see that restructuring measures reducing costs which have been implemented during 2019 and 2020 are improving coverage.

Discount rates used for Extruded Solutions 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 are 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.

Primary 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 primary aluminium plants were tested for impairment with the conclusion that the recoverable amount exceeds the carrying amount.

Key assumptions impacting the conclusion of tests include the margin on primary aluminium over key input factors expressed in the functional currency of the smelter. The main elements are 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 currently observed. We have 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 are assumed in the tests for the period covered by contract.

Discount rates used are 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 are similar to what is 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 exceeds the carrying amount of NOK 12.6 billion. A pre-tax discount rate of 10.75 percent has been applied, reflecting business risk, country risk and the time value of money. The impairment test is 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 is also sensitive to the discount rate. An increase of 1 percentage-point would reduce the recoverable amount by about NOK 1.3 billion.

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 is 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 is 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 include 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 is 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.

Rolled Products

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 includes 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 rolled product segments, is impacted by the same factors as the Primary 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 the first half of 2020 has resulted in increased measurement uncertainty for assets and liabilities compared to the prior 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 are 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 during the first half of the year, however, the situation may change rapidly. To reflect the higher risk, provisions for losses on trade receivables is increased from a level of about 2.5 percent of outstanding receivables to about 3.0 percent, based on specific assessment of individual customers, market segments and region.

Of total trade receivables at June 30, 2020, about 9.5 percent were past due compared to about 12 percent at the end of 2019, with the majority due within 30 days for both periods. The Extruded Solutions 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 July 2020, 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 for the coming months. Dividends have been postponed as discussed in note 4 *Dividend*. Amounts allocated to investments during 2020 has been 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. 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 has cash and short-term investments of NOK 13.8 billion in addition to the undrawn credit facility, while repayment obligation on loans over the next twelve months amounts to about NOK 7 billion.

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 in the section on reported EBIT and net income. 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.

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 Rolled Products. When realized, effects of changes in the market values since the inception are included in underlying EBIT. Changes in the market value of the trading portfolio 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 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 Rolled Products* 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 Rolled Products 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
- *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 ¹⁾ NOK million	Second quarter 2020	Second quarter 2019	First quarter 2020	First half 2020	First half 2019	Year 2019
Alunorte agreements - provision ²⁾	-	14	129	129	49	80
Impairment charges ³⁾	-	-	-	-	-	145
Bauxite & Alumina	-	14	129	129	49	225
Unrealized derivative effects on LME related contracts	200	(15)	(64)	137	107	90
Unrealized derivative effects on power contracts	48	(35)	(147)	(100)	(8)	(17)
Impairment charges ⁴⁾	504	-	-	504	-	506
Other effects ⁵⁾	(12)	-	-	(12)	-	-
Primary Metal	740	(50)	(211)	529	99	579
Unrealized derivative effects on LME related contracts	340	(62)	(224)	116	160	235
Metal Markets	340	(62)	(224)	116	160	235
Unrealized derivative effects on LME related contracts	(94)	60	177	83	(17)	(82)
Metal effect	165	3	130	295	270	370
Significant rationalization charges and closure costs ⁶⁾	-	-	-	-	-	1,088
Other effects ⁷⁾	(50)	-	(76)	(126)	-	(99)
Rolled Products	22	63	230	252	253	1,277
Unrealized derivative effects on LME related contracts	13	27	114	128	(50)	(163)
Impairment charges ⁸⁾	1,483	28	12	1,496	28	255
Significant rationalization charges and closure costs ⁹⁾	134	200	4	137	200	396
Pension ¹⁰⁾	-	-	-	-	-	(62)
Transaction related effects ¹¹⁾	6	35	(57)	(51)	35	21
Other effects ¹²⁾	-	-	-	-	26	209
Extruded Solutions	1,637	289	74	1,710	238	656
Unrealized derivative effects on power contracts	33	2	(17)	16	8	(6)
Other effects ¹³⁾	-	-	-	-	-	(42)
Energy	33	2	(17)	16	8	(48)
Unrealized derivative effects on power contracts ¹⁴⁾	(19)	(39)	(19)	(38)	(61)	(75)
Unrealized derivative effects on LME related contracts ¹⁴⁾	18	1	(16)	2	10	11
Impairment charges ¹⁵⁾	(161)	-	-	(161)	-	-
Other and eliminations	(162)	(39)	(35)	(197)	(50)	(64)
Items excluded from underlying EBIT	2,610	219	(54)	2,556	758	2,860

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 Bauxite & Alumina include write downs of an undeveloped area in Brazil.

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

5) Other effects in Primary Metal relates to an insurance refund of NOK 12 million related to property damage at Albras.

6) Significant rationalization and closure costs in 2019 include a reversal of NOK 57 million in the fourth quarter 2019 of recognized provisions in the third quarter for closures and environmental clean-up activities in Rolled Products.

7) Other effects in the second and first quarter 2020 include insurance refunds of respectively NOK 25 and 39 million related to property damage. NOK 26 million in the second quarter 2020, NOK 37 million in the first quarter 2020 and NOK 99 million in the third quarter 2019 refer to partly reversals of the provision recognized in 2017 related to the customs case in Germany.

8) Impairment charges include impairments of various assets in Extruded Solutions.

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

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

11) Transaction related effects relate to divestments of Extruded Solutions 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 Extruded Solutions 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) Other effects in Energy include in 2019 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.

14) 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.

15) Impairment charges relate to reversal of previously impaired industrial park in Germany, the property was sold in July 2020.

Underlying EBITDA	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
NOK million								
EBITDA	2,267	2,737	(17) %	4,470	(49) %	6,736	4,831	9,878
Items excluded from underlying EBIT	2,610	219	>100 %	(54)	>100 %	2,556	758	2,860
Reversal of impairments	(1,826)	(28)	>(100) %	(12)	>(100) %	(1,839)	(28)	(906)
Underlying EBITDA	3,050	2,928	4 %	4,403	(31) %	7,453	5,561	11,832

Underlying earnings per share	Second quarter 2020	Second quarter 2019	Change prior year quarter	First quarter 2020	Change prior quarter	First half 2020	First half 2019	Year 2019
NOK million								
Net income (loss)	(1,471)	(190)	>(100) %	(2,025)	27 %	(3,496)	(315)	(2,370)
Items excluded from net income (loss)	1,654	472	>100 %	3,176	(48) %	4,830	720	3,078
Underlying net income (loss)	183	281	(35) %	1,151	(84) %	1,334	405	708
Underlying net income attributable to non-controlling interests	(25)	(104)	75 %	32	>(100) %	6	(237)	(365)
Underlying net income attributable to Hydro shareholders	209	385	(46) %	1,119	(81) %	1,328	642	1,073
Number of shares	2,049	2,047	-	2,048	-	2,048	2,046	2,047
Underlying earnings per share	0.10	0.19	(46) %	0.55	(81) %	0.65	0.31	0.52

Adjusted net cash (debt)	Jun 30 2020	Mar 31 2020	Change prior quarter	Jun 30 2019	Mar 31 2019	Change prior year quarter
NOK million						
Cash and cash equivalents	15,385	12,160	3,225	10,590	6,099	4,490
Short-term investments ¹⁾	5,110	1,641	3,469	1,090	1,274	(184)
Short-term debt	(7,094)	(7,728)	634	(8,177)	(8,913)	736
Long-term debt	(26,595)	(21,290)	(5,305)	(18,620)	(10,559)	(8,061)
Net cash (debt)	(13,194)	(15,217)	2,023	(15,117)	(12,099)	(3,018)
Cash and cash equiv. and short-term investm. in captive insurance company ²⁾	(898)	(897)	-	(944)	(879)	(64)
Net pension obligation at fair value, net of expected income tax benefit ³⁾	(11,127)	(12,385)	1,258	(8,758)	(8,414)	(344)
Short- and long-term provisions net of exp. income tax benefit, and other liab. ⁴⁾	(3,865)	(4,328)	463	(3,087)	(3,001)	(85)
Adjusted net cash (debt)	(29,084)	(32,827)	3,744	(27,905)	(24,394)	(3,511)
Net debt in EA ⁵⁾	(5,564)	(6,488)	924	(5,386)	(5,737)	351
Adjusted net cash (debt) incl. EA	(34,648)	(39,316)	4,668	(33,291)	(30,131)	(3,161)

1) 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.

2) 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.

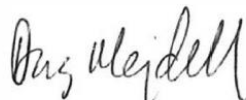
3) The expected income tax benefit related to the pension liability is NOK 2203 million and NOK 2266 million for June 2020 and March 2020, respectively.

4) 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.

5) 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.

Responsibility statement

We confirm to the best of our knowledge that the condensed set of financial statements for the period January 1 to June 30, 2020 has been prepared in accordance with IAS 34 - Interim Financial Reporting, and gives a true and fair view of the Hydro Group's assets, liabilities, financial position and result for the period. We also confirm to the best of our knowledge that the financial review includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the financial statements, any major related parties transactions, and a description of the principal risks and uncertainties for the remaining six months of the financial year.



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Deputy chair



ARVE BAADE
Board member



RUNE BJERKE
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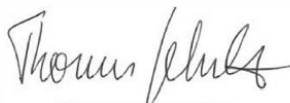
LISELOTT KILAAS
Board member



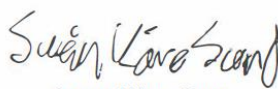
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Board member



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Board member



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Board member



MARIANNE WIINHOLT
Board member



HILDE MERETE AASHEIM
President & CEO

Additional Information

Financial calendar 2020

October 23	Third quarter results
December 10	Capital markets day

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.



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Hydro is a fully integrated aluminium company with 35,000 employees in 40 countries on all continents, combining local expertise, worldwide reach and unmatched capabilities in R&D. In addition to production of primary aluminium, rolled and extruded products and recycling, Hydro also extracts bauxite, refines alumina and generates energy to be the only 360° company of the global aluminium industry. Hydro is present within all market segments for aluminium, with sales and trading activities throughout the value chain serving more than 30,000 customers. Based in Norway and rooted in more than a century of experience in renewable energy, technology and innovation, Hydro is committed to strengthening the viability of its customers and communities, shaping a sustainable future through innovative aluminium solutions.