



Third quarter 2020 Report



Contents

Financial review	3
Overview	3
Market developments and outlook	6
Additional factors impacting Hydro	9
Underlying EBIT	10
Finance	15
Tax	15
Interim financial statements	16
Condensed consolidated statements of income (unaudited)	16
Condensed consolidated statements of comprehensive income (unaudited)	17
Condensed consolidated balance sheets (unaudited)	18
Condensed consolidated statements of cashflows (unaudited)	19
Condensed consolidated statements of changes in equity (unaudited)	20
Notes to the condensed consolidated financial statements (unaudited)	21
Alternative performance measures	28
Additional information	32
Financial calendar	32

Oslo, October 22, 2020

Overview

Summary underlying financial and operating results and liquidity

Key financial information NOK million, except per share data	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Revenue	33,169	37,517	(12) %	30,931	7 %	102,224	114,276	149,766
Earnings before financial items and tax (EBIT)	1,822	222	>100 %	(1,661)	>100 %	2,462	898	499
Items excluded from underlying EBIT ¹⁾	(415)	1,144	>(100) %	2,610	>(100) %	2,141	1,902	2,860
Underlying EBIT ¹⁾	1,407	1,366	3 %	949	48 %	4,603	2,800	3,359
<i>Underlying EBIT :</i>								
Bauxite & Alumina	108	481	(78) %	1,047	(90) %	1,690	1,049	974
Primary Metal	(156)	(39)	>(100) %	(37)	>(100) %	380	(1,414)	(1,259)
Metal Markets	198	362	(45) %	21	>100 %	480	851	983
Rolled Products	17	166	(90) %	(57)	>100 %	258	379	413
Extruded Solutions	894	559	60 %	89	>100 %	1,685	1,924	2,009
Energy	132	254	(48) %	53	>100 %	622	946	1,243
Other and eliminations	213	(417)	>100 %	(166)	>100 %	(514)	(936)	(1,003)
Underlying EBIT ¹⁾	1,407	1,366	3 %	949	48 %	4,603	2,800	3,359
Earnings before financial items, tax, depreciation and amortization (EBITDA) ²⁾	3,879	2,430	60 %	2,267	71 %	10,616	7,261	9,878
Underlying EBITDA ¹⁾	3,387	3,479	(3) %	3,050	11 %	10,840	9,040	11,832
Net income (loss)	(221)	(1,390)	84 %	(1,471)	85 %	(3,717)	(1,705)	(2,370)
Underlying net income (loss) ¹⁾	550	606	(9) %	183	>100 %	1,884	1,011	708
Earnings per share	(0.11)	(0.62)	82 %	(0.61)	82 %	(1.60)	(0.65)	(0.88)
Underlying earnings per share ¹⁾	0.26	0.33	(23) %	0.10	>100 %	0.90	0.64	0.52
<i>Financial data:</i>								
Investments ^{1) 2)}	1,617	2,184	(26) %	1,417	14 %	4,623	7,110	10,907
Net cash (debt) ¹⁾	(9,894)	(14,549)	32 %	(13,194)	25 %	(9,894)	(14,549)	(11,760)
Adjusted net cash (debt) ¹⁾	(26,089)	(29,606)	12 %	(29,084)	10 %	(26,089)	(29,606)	(25,447)
<i>Key Operational information</i>								
	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Bauxite production (kmt) ³⁾	1,167	2,152	(46) %	2,332	(50) %	6,084	5,138	7,360
Alumina production (kmt)	1,074	1,320	(19) %	1,442	(26) %	4,047	3,057	4,487
Realized alumina price (USD/mt) ⁴⁾	260	310	(16) %	261	-	267	345	326
Primary aluminium production (kmt)	522	522	-	509	3 %	1,559	1,493	2,038
Realized aluminium price LME (USD/mt)	1,596	1,784	(11) %	1,579	1 %	1,649	1,852	1,827
Realized USD/NOK exchange rate	9.22	8.82	5 %	9.93	(7) %	9.52	8.64	8.74
Rolled Products sales volumes to external market (kmt)	212	245	(13) %	198	7 %	646	733	952
Extruded Solutions sales volumes to external market (kmt)	278	316	(12) %	224	24 %	807	996	1,269
Power production (GWh)	3,161	2,273	39 %	2,097	51 %	8,126	6,819	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 third quarter 2020

Hydro's underlying EBIT for the third quarter of 2020 was NOK 1,407 million, compared with NOK 1,366 million for the same quarter last year. Extruded Solutions experienced a faster than expected recovery, especially in Europe, a favourable cost position and insurance compensation of NOK 192 million related to the cyber-attack in 2019, also contributed positively. In addition, reduced raw material costs, improved fixed costs and positive currency effects, as both the NOK and BRL weakened against the USD and EUR, all contributed positively to the third quarter result. These positive elements were offset by a lower result from Bauxite & Alumina, due to reduced volumes at Alunorte in connection with extended maintenance on the pipeline connecting Paragominas and Alunorte, in addition to reduced realized alumina and aluminium prices.

Global GDP and industrial production have recovered during the quarter, but the Covid-19 situation continues to cause market uncertainty. The global fall in demand and government-imposed restrictions have negatively affected sales volumes for Hydro in the third quarter with Extruded Solutions and Rolled Products being impacted the most, although with order intake and capacity utilization improving through the quarter. Bauxite & Alumina, Primary Metal, Metal Markets recycling facilities and Energy have been operating largely as normal during the quarter.

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. Sustaining our operations in is a top priority and we have taken several precautionary measures.

On August 18, 2020, Hydro halted operation of the pipeline transporting bauxite from Hydro's Paragominas bauxite mine to the Alunorte alumina refinery for extended maintenance, in order to replace a section of the pipeline earlier than scheduled. The extended pipeline maintenance temporarily halted production at Paragominas and reduced production at Alunorte to 50 percent of full capacity. On October 8, 2020, production at Paragominas resumed, and alumina production at Alunorte is now ramping up towards nameplate capacity.

Hydro has decided to restart aluminium production for line B at the Husnes primary plant in Norway by the end of November, after running the plant for more than a decade at half capacity. Husnes is among the most climate-efficient aluminium smelters in the world, producing a material acknowledged by the European Union as an essential building block for the low-carbon, circular society.

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. Results are however, negatively impacted by the Covid-19 induced market effects and in the third quarter, the extended pipeline maintenance at Alunorte negatively impacted the improvements forecasted from the curtailment reversals at Alunorte. Alunorte, however, remains on target to reach nameplate capacity by the end of 2020. Strong results in the improvement program's cost and restructuring initiatives have supported the positive cash flow generation in the quarter.

The European Union has completed the CO2 compensation program for competitive industries in the period 2021-2030. The EU's revised guidelines for CO2 compensation pave the way for continued production of low-carbon aluminum in Norway. For Hydro's renewable-based aluminum production, predictable and robust compensation of the actual CO2 surcharge in power prices will make a very important contribution to being able to maintain and continue operations. Hydro believes that Norway has the prerequisites to create the world's greenest aluminium industry. Norwegian low-carbon products can play a crucial role in reducing global CO2 emissions and meeting the growing demand for these low carbon products in a number of sectors.

In addition, The European Commission announced on September 22, 2020, its intention to impose provisional antidumping duties on aluminium extrusions originating in China. The duties are an outcome of an investigation opened in February 2020. The European Commission has now found that Chinese extrusions have been sold in the European Union at prices so low that they can be considered dumping and unfair competition to domestic producers. For Hydro's around 40 extrusion plants in Europe, the antidumping action is a move that will mitigate unfair competition. For Hydro's customers, this will contribute to making sure Europe continues to have a viable extrusion industry which will still have a high level of competition due to its many competitors.

Compared to the second quarter 2020, Hydro's underlying EBIT increased, driven by increased downstream sales volumes and margins, partly offset by lower upstream sales volumes and negative currency effects.

Underlying EBIT for the first nine months 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.

Hydro incurred a Net loss of NOK 221 million in the third quarter including net foreign exchange loss, mainly unrealized, of NOK 1,523 million primarily reflects a weaker NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR, and the currency loss on USD denominated debt in Brazil, due to a weaker BRL versus USD.

Hydro's net debt¹ position decreased from NOK 13.2 billion to NOK 9.9 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 4.5 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.5 billion.

Hydro held NOK 17.5 billion in cash and cash equivalents and NOK 4.2 billion short-term deposits, included in short-term investments, at the end of the third 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⁾	Third quarter 2020	Third quarter 2019	Second quarter 2020	First 9 months 2020	First 9 months 2019	Year 2019
NOK million						
Unrealized derivative effects on LME related contracts	(656)	(120)	478	(191)	91	91
Unrealized derivative effects on power and raw material contracts	160	(46)	62	38	(107)	(99)
Metal effect, Rolled Products	95	123	165	391	393	370
Significant rationalization charges and closure costs	41	1,206	135	180	1,406	1,484
Impairment charges	77	95	1,826	1,916	123	906
Alunorte agreements - provision	-	30	-	129	80	80
Transaction related effects	(65)	-	6	(116)	35	21
Pension	-	(62)	-	-	(62)	(62)
Other effects	(68)	(82)	(62)	(207)	(56)	68
Items excluded from underlying EBIT ²⁾	(415)	1,144	2,610	2,141	1,902	2,860
Net foreign exchange (gain)/loss	1,523	1,403	(735)	5,340	1,646	1,204
Calculated income tax effect	(336)	(550)	(221)	(1,879)	(832)	(986)
Items excluded from underlying net income	771	1,996	1,654	5,602	2,716	3,078
Income (loss) tax rate	>100 %	1%	(30)%	(3)%	(23)%	(52)%
Underlying income (loss) tax rate	52%	47%	75%	51%	53%	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.

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.

Market developments and outlook

Market statistics ¹⁾	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
USD/NOK Average exchange rate	9.13	8.86	3 %	10.00	(9) %	9.53	8.70	8.80
USD/NOK Period end exchange rate	9.48	9.09	4 %	9.74	(3) %	9.48	9.09	8.78
BRL/NOK Average exchange rate	1.70	2.24	(24) %	1.86	(9) %	1.90	2.24	2.23
BRL/NOK Period end exchange rate	1.67	2.19	(24) %	1.79	(7) %	1.67	2.19	2.18
USD/BRL Average exchange rate	5.37	3.97	35 %	5.38	-	5.07	3.88	3.94
USD/BRL Period end exchange rate	5.66	4.16	36 %	5.46	4 %	5.66	4.16	4.02
EUR/NOK Average exchange rate	10.67	9.85	8 %	11.01	(3) %	10.71	9.77	9.85
EUR/NOK Period end exchange rate	11.10	9.90	12 %	10.91	2 %	11.10	9.90	9.86
<i>Bauxite and alumina:</i>								
Average alumina price - Platts PAX FOB Australia (USD/t)	274	299	(8) %	244	12 %	268	349	331
China bauxite import price (USD/mt CIF China) ²⁾	43	50	(14) %	46	(7) %	46	52	51
Global production of alumina (kmt)	31,077	30,997	-	30,648	1 %	93,037	92,540	123,643
Global production of alumina (ex. China) (kmt)	14,027	14,236	(1) %	14,342	(2) %	42,784	41,056	55,549
<i>Primary aluminium:</i>								
LME cash average (USD/mt)	1,705	1,762	(3) %	1,493	14 %	1,630	1,804	1,792
LME three month average (USD/mt)	1,741	1,789	(3) %	1,524	14 %	1,660	1,829	1,811
Standard ingot premium (EU DP Cash)	121	153	(21) %	102	19 %	123	143	142
Extrusion ingot premium (EU DP)	229	312	(27) %	213	8 %	233	368	343
Chinese production of primary aluminium (kmt)	9,263	8,854	5 %	8,896	4 %	27,025	26,408	35,189
Chinese consumption of primary aluminium (kmt)	9,503	9,271	3 %	10,215	(7) %	26,898	27,002	35,854
Global production of primary aluminium (ex. China) (kmt)	6,963	7,069	(1) %	6,911	1 %	20,896	20,922	28,008
Global consumption of primary aluminium (ex. China) (kmt)	6,112	6,913	(12) %	5,011	22 %	17,648	21,509	28,345
Global production of primary aluminium (kmt)	16,226	15,923	2 %	15,808	3 %	47,921	47,331	63,197
Global consumption of primary aluminium (kmt)	15,615	16,184	(4) %	15,226	3 %	44,547	48,511	64,119
Reported primary aluminium inventories (ex. China) (kmt)	3,183	2,591	23 %	3,365	(5) %	3,183	2,591	3,189
Reported primary aluminium inventories (China) (kmt)	1,454	1,741	(16) %	1,521	(4) %	1,454	1,741	1,419
<i>Rolled products and extruded products:</i>								
Consumption rolled products - Europe (kmt)	1,119	1,264	(11) %	945	18 %	3,244	3,837	5,073
Consumption rolled products - USA & Canada (kmt)	1,270	1,357	(6) %	1,104	15 %	3,649	4,158	5,389
Consumption extruded products - Europe (kmt)	763	822	(7) %	634	20 %	2,183	2,564	3,337
Consumption extruded products - USA & Canada (kmt)	553	618	(11) %	452	22 %	1,583	1,887	2,433
<i>Energy:</i>								
Average southern Norway spot price (NO2) (NOK/MWh)	52	328	(84) %	50	4 %	85	385	387
Average mid Norway spot price (NO3) (NOK/MWh)	67	343	(80) %	61	10 %	96	379	380
Average nordic system spot price (NOK/MWh)	95	342	(72) %	62	53 %	105	381	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

After the Covid-19 outbreak in the first quarter of 2020, the global economy experienced a sharp downturn followed by a soft rebound. The downturn affected all regions, and key segments for aluminium such as transportation and infrastructure experienced severe reductions in activity on a global scale. Following the sharp downturn, region after region gained control of the virus and loosened up containment measures. This caused economic growth to pick up towards the end of the second quarter, with increasing growth rates through the third quarter. However, not to the extent that it made up for the losses that occurred in the beginning of the year. In 2020 the global economy growth is expected to decline 4-5 percent.

Supported by government stimulus and softer containment measures the global economy picked up at a faster pace than expected in the third quarter, but the effects of the second infection wave are still uncertain. This creates uncertainty for economic development and the speed of the recovery. The development of the pandemic will impact the severity of lockdowns and size of stimulus packages, and thus decide the recovery rate. The speed of recovery has proven vary from country to country with China and the US improving faster than expected while economies such as India and Mexico developing weaker than expected.

Bauxite and alumina

The average Platts alumina index rose in the third quarter of 2020 to USD 274 per mt, compared to USD 244 per mt in the second quarter 2020. The Platts Alumina Index started the quarter at USD 262 per mt and rose to a quarterly high of USD 288 per mt at the end of August because of the temporary production curtailment at the Alunorte refinery. It then decreased gradually to USD 269 per mt at the end of September. Compared to the third quarter of 2019, the average Platts alumina index was 8 percent lower.

During July and August of 2020, China's net alumina imports reached 648 kmt compared to 314 kmt in the same period in 2019. Australia accounted for 64 percent of Chinese alumina imports in the period with smaller contribution from Vietnam and Kazakhstan.

China imported 21.3 million mt of bauxite in July and August 2020, at an annualized rate 29 percent higher than the third quarter 2019, mainly driven by significantly higher imports from Guinea. Guinea, Australia and Indonesia accounted for 98 percent of China's bauxite imports in the period.

The average Chinese bauxite import price was USD 43 per mt CIF in July and August 2020, down from USD 50 per mt CIF in the third quarter 2019, and down from USD 46 per mt in the second quarter of 2020.

Primary aluminium

The three-month aluminium price increased during the third quarter of 2020, starting at USD 1600 per mt and ending the quarter at USD 1770 per mt. The average price for the quarter was USD 1741 per mt. The price was stable above USD 1750 per mt during the second half of the quarter as a demand recovery in China and general positive market sentiment helped lift prices from mid-July.

European duty paid standard ingot premiums ended the third quarter at USD 138 per mt, up from USD 105 per mt at the end of the second quarter 2020. The US Midwest premium was up USD 75 per mt during the quarter ending at USD 275 per mt. The US Midwest premium traded at USD 335 in the second half of the quarter but ended lower due to changes in the duty regime for Canadian imports.

Shanghai Futures Exchange (SHFE) prices increased by USD 80 per mt ex. VAT from start of the quarter to the end, ending at USD 1816 per mt ex VAT. Average for the quarter was up USD 236 per mt ex. VAT compared to second quarter this year. The average estimated export arbitrage decreased to negative USD 95 in the third quarter 2020.

Global primary aluminium consumption was down 3.5 percent compared to the third quarter of 2019, driven by a combination of around 12 percent decline in world outside China and an increase of 2.5 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 3.3-4 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 the demand for sheet ingot, extrusion ingot and primary foundry alloys declined in the third quarter of 2020 compared to the same period last year.

Total global stocks at the end of the third quarter of 2020 were estimated to be 14.3 million mt, up 0.6 million mt compared to the second quarter of 2020 and up 3.4 million mt compared to end 2019.

Rolled products

The European demand for flat rolled products decreased by around 11 percent compared to the third quarter of 2019 and grew by 18 percent compared to the second quarter of 2020. Most segments showed positive signs of a recovery.

In Automotive, demand continued to recover as automotive manufacturers resumed production. However, demand is still down compared to the same quarter last year. Demand in beverage can improved but slightly declined year-on-year. Foil demand for packaging applications was relatively stable. General engineering has seen a good recovery particularly towards the end of the quarter, even though demand levels remain below 2019.

For the fourth quarter, Covid-19 will continue to put pressure on demand in most markets and CRU forecasts demand to decline by around 5 percent compared to the same quarter last year. In addition, negative effects from the introduction of anti-dumping duties by the US administration can be expected.

Extruded products

European demand for extrusions is estimated to have decreased 7 percent during the third quarter of 2020 compared to same quarter last year, but increasing 20 percent compared to the second quarter of 2020. Demand in the transport segment has started to improve as OEMs have restarted some of their production, while demand in the Building & Construction segment has been more stable. Demand in the industrial segment has increased compared to second quarter in line with improving industrial production. In September, the European Commission announced a decision to impose provisional anti-dumping duties on Chinese extrusion imports. Although it is still early to assess the impact of the decision, the relative share of Chinese extrusion imports into Europe have already started to moderate so far in 2020. While the continued impact of Covid-19 remains uncertain, CRU estimates that the European demand for extruded products will decrease by around 7 percent for the fourth quarter 2020 compared to the same quarter last year and by 13 percent in total for 2020 compared to 2019.

North American extrusion demand is estimated to have decreased 9 percent during the third quarter of 2020 compared to the same quarter in 2019, but increasing 22 percent compared to the second quarter of 2020. Although the on-going spread of the Covid-19 virus is still impacting all market segments, demand has developed better than expected in the third quarter in line with improving macro data. The trailer market build rates decreased by an estimated 49 percent in July and August compared to the same period last year, while automotive build rates were also down 6 percent over the same period. At the same time, estimated transport demand and optimism for the balance of the year are up, as indicated by orders for new trailers which are up 120 percent compared to last year. After decreasing in the second quarter, demand in the building and construction market improved dramatically in July/August, evident by a 12 percent increase in new housing starts. While the further market impact of the Covid-19 virus remains uncertain, CRU estimates that the North American market will be down approximately 8 percent for the fourth quarter 2020 compared to the same quarter last year and by 14 percent in total for 2020 compared to 2019.

Energy

Nordic power prices continued at low levels, but somewhat higher than the previous quarter. Following wet conditions, snowmelt and high inflow in July, the hydrological balance improved from August due to drier and calmer weather, particularly in Sweden. Due to maintenance, power production from the Nordic nuclear power plants were low. Both factors supported somewhat higher prices. Towards the end of the quarter wet conditions prevailed, and prices were in a declining trend. In Southern Norway, there were additional downward pressure on prices from record-high reservoir levels, and export capacity restrictions due to cable outages.

The Nordic hydrological balance ended the quarter around 16 TWh above normal², compared to around 2 TWh above normal at the end of the third quarter last year and 21 TWh above normal at the end of the previous quarter. Water reservoirs in Norway were at 94.1 percent of full capacity at the end of the quarter, which is 11.6 percentage points above the normal level. Snow reservoirs were above normal at the end of the quarter.

² Normal based on long term historical averages.

Additional factors impacting Hydro

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 completed this work by the beginning of October.

Primary Metal has sold forward around 60 percent of its expected primary aluminium production for the fourth quarter of 2020 at a price level of around USD 1,750 per mt³.

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.

During the third quarter Hydro hedged part of the USD/BRL exposure related to USD denominated sale of alumina produced in Brazil. In total USD 383 million has been sold forward for 2021 and 2022 at average exchange rates of 5.53 BRL/USD.

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

On October 21, 2020, Hydro and Lyse signed an agreement to merge part of their respective hydropower production assets to create a new hydropower company. The new company will be called Lyse Kraft DA and have a normal annual power production capacity of 9.5 TWh, of which Hydro will own 25.6 percent and Lyse 74.4 percent. As a consequence of the transaction, the RSK assets will not revert to state ownership at the end of 2022, meaning Hydro can use its share of the power produced by the new company for aluminum production in Norway. The transaction is expected to close in the fourth quarter of 2020, pending approval by the Norwegian Competition Authorities.

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.

Underlying EBIT

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

Bauxite & Alumina

Operational and financial information	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Earnings before financial items and tax (EBIT) (NOK million)	108	450	(76) %	1,047	(90) %	1,561	969	749
Underlying EBIT (NOK million)	108	481	(78) %	1,047	(90) %	1,690	1,049	974
Underlying EBITDA (NOK million)	578	1,071	(46) %	1,550	(63) %	3,229	2,833	3,337
Alumina production (kmt)	1,074	1,320	(19) %	1,442	(26) %	4,047	3,057	4,487
Sourced alumina (kmt)	940	660	42 %	667	41 %	2,270	2,076	2,845
Total alumina sales (kmt)	1,990	2,124	(6) %	2,243	(11) %	6,373	5,215	7,379
Realized alumina price (USD/mt) ¹⁾	260	310	(16) %	261	-	267	345	326
Bauxite production (kmt) ²⁾	1,167	2,152	(46) %	2,332	(50) %	6,084	5,138	7,360
Sourced bauxite (kmt) ³⁾	2,051	1,563	31 %	1,315	56 %	4,880	3,908	5,576

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

2) Paragominas on wet basis.

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

On August 18, 2020, Hydro halted operation of the pipeline transporting bauxite from Hydro's Paragominas bauxite mine to the Alunorte alumina refinery for extended maintenance, in order to replace a section of the pipeline earlier than scheduled. The extended pipeline maintenance temporarily halted production at Paragominas and reduced production at Alunorte to 50 percent of full capacity. On October 8, 2020, production at Paragominas resumed, and alumina production is now being ramped up at Alunorte.

Underlying EBIT for Bauxite & Alumina decreased compared to the third quarter of last year. Negative effects from decreased production following the extended pipeline maintenance and lower alumina prices were partly offset by positive currency effects.

Compared to the second quarter of 2020 the underlying EBIT decreased driven by the negative effects from the lower production due to the extended pipeline maintenance and higher raw material prices.

Underlying EBIT for the first nine months 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.

Primary Metal

	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Operational and financial information¹⁾								
Earnings before financial items and tax (EBIT) (NOK million)	(93)	30	>(100) %	(777)	88 %	(86)	(1,444)	(1,838)
Underlying EBIT (NOK million)	(156)	(39)	>(100) %	(37)	>(100) %	380	(1,414)	(1,259)
Underlying EBITDA (NOK million)	404	550	(26) %	560	(28) %	2,161	343	1,155
Realized aluminium price LME (USD/mt) ²⁾	1,596	1,784	(11) %	1,579	1 %	1,649	1,852	1,827
Realized aluminium price LME (NOK/mt) ²⁾	14,712	15,732	(6) %	15,689	(6) %	15,706	15,996	15,975
Realized premium above LME (USD/mt) ³⁾	211	305	(31) %	212	-	219	325	308
Realized premium above LME (NOK/mt) ³⁾	1,946	2,688	(28) %	2,106	(8) %	2,090	2,810	2,695
Realized USD/NOK exchange rate	9.22	8.82	5 %	9.93	(7) %	9.52	8.64	8.74
Primary aluminium production (kmt)	522	522	-	509	3 %	1,559	1,493	2,038
Casthouse production (kmt)	508	509	-	478	6 %	1,490	1,459	1,982
Total sales (kmt)	548	537	2 %	510	7 %	1,634	1,598	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.

	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Operational and financial information Qatalum (50%)								
Revenue (NOK million)	1,228	1,568	(22) %	1,541	(20) %	4,254	4,547	6,059
Underlying EBIT (NOK million)	61	216	(72) %	83	(26) %	294	423	534
Underlying EBITDA (NOK million)	351	448	(22) %	410	(14) %	1,203	1,297	1,709
Net income (loss) (NOK million)	6	149	(96) %	26	(77) %	71	205	272
Underlying Net income (loss) (NOK million)	6	149	(96) %	26	(77) %	71	205	272
Primary aluminium production (kmt)	79	79	-	79	1 %	237	234	314
Casthouse sales (kmt)	78	85	(8) %	86	(10) %	245	241	324

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

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

Compared to the first nine months of 2019, underlying EBIT for Primary Metal improved, mainly due to lower raw material cost, positive currency effects, and lower fixed cost and depreciation, partly offset by lower all-in metal prices.

Metal Markets

	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Operational and financial information								
Earnings before financial items and tax (EBIT) (NOK million)	385	381	1 %	(319)	>100 %	551	710	748
Underlying EBIT (NOK million)	198	362	(45) %	21	>100 %	480	851	983
Currency effects	(50)	24	>(100) %	(112)	55 %	15	(68)	(119)
Inventory valuation effects	(15)	-	-	(2)	>(100) %	(15)	-	(1)
Underlying EBIT excl. currency and inventory valuation effects	262	338	(22) %	135	95 %	481	919	1,103
Underlying EBITDA (NOK million)	233	395	(41) %	58	>100 %	588	943	1,110
Remelt production (kmt)	124	125	-	88	42 %	348	395	516
Metal products sales excluding ingot trading (kmt) ¹⁾	642	662	(3) %	606	6 %	1,923	2,052	2,700
Hereof external sales (kmt)	526	517	2 %	459	15 %	1,539	1,613	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 third 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 contributions from currency and inventory valuation effects.

Compared to the second quarter of 2020, underlying EBIT for Metal Markets improved due to higher results from the remelters, the sourcing and trading activities and positive contribution from currency effects, partly offset by negative inventory valuation effects.

Compared to first nine months of 2019, underlying EBIT decreased, mainly due to lower results from the remelters and the sourcing and trading activities, partly offset by a positive contribution from currency effects.

Rolled Products

	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Operational and financial information								
Earnings before financial items and tax (EBIT) (NOK million)	(42)	(978)	96 %	(79)	46 %	(53)	(1,019)	(865)
Underlying EBIT (NOK million)	17	166	(90) %	(57)	>100 %	258	379	413
Underlying EBITDA (NOK million)	316	430	(27) %	249	27 %	1,153	1,140	1,448
Sales volumes to external market (kmt)	212	245	(13) %	198	7 %	646	733	952

Sales volumes to external markets (kmt) - Product areas

Can & foil	91	92	(1) %	93	(2) %	269	264	347
Lithography & automotive	53	76	(31) %	36	46 %	163	233	301
GE and other ¹⁾	68	77	(11) %	69	(1) %	214	236	304
Rolled Products	212	245	(13) %	198	7 %	646	733	952

1) Earlier named Special Products

Underlying EBIT decreased compared to the third quarter 2019. The result from the rolling mills decreased mainly due to reduced sales volumes, partly offset by reduced costs. The Neuss smelter result increased due to lower raw material costs partly offset by lower all-in metal prices.

Compared to the second quarter of 2020, underlying EBIT increased. The result from the rolling mills increased, mainly due to higher sales volumes and positive currency effects. The Neuss smelter result increase was driven by higher all-in metal prices and lower raw material costs.

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

Extruded Solutions

	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Operational and financial information								
Earnings before financial items and tax (EBIT) (NOK million)	1,038	449	>100 %	(1,548)	>100 %	118	1,576	1,353
Underlying EBIT (NOK million)	894	559	60 %	89	>100 %	1,685	1,924	2,009
Underlying EBITDA (NOK million)	1,412	1,099	29 %	649	>100 %	3,304	3,477	4,132
Sales volumes to external markets (kmt)	278	316	(12) %	224	24 %	807	996	1,269

Sales volumes to external markets (kmt) - Business units

Extrusion Europe	113	120	(7) %	94	20 %	333	397	503
Extrusion North America	119	142	(17) %	96	23 %	345	437	553
Building Systems	19	19	(3) %	17	14 %	54	59	79
Precision Tubing	28	34	(16) %	17	63 %	75	103	134
Extruded Solutions	278	316	(12) %	224	24 %	807	996	1,269

Underlying EBIT for Extruded Solutions increased compared to the same quarter last year mainly driven by lower costs due to ongoing cost improvement initiatives and temporary cost reductions, in addition to higher margins. These positive effects were partly offset by reduced sales volumes. Results were positively impacted by insurance compensation of NOK 192 million related to the cyber-attack in 2019.

Compared to the second quarter 2020 the underlying EBIT increased due to higher sales volumes and lower costs.

Underlying EBIT for the nine months of 2020 decreased compared the same period last year due to significantly reduced sales volumes and temporary plant shut-downs due to the Covid situation. The negative effects were partly offset by reduced costs and positive currency effects. Results were positively impacted by insurance compensation of NOK 496 million related to the cyber-attack in 2019.

Energy

	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
Operational and financial information								
Earnings before financial items and tax (EBIT) (NOK million)	118	295	(60) %	20	>100 %	592	979	1,291
Underlying EBIT (NOK million)	132	254	(48) %	53	>100 %	622	946	1,243
Underlying EBITDA (NOK million)	200	319	(37) %	122	64 %	827	1,144	1,509
Direct production costs (NOK million) ¹⁾	141	126	12 %	125	13 %	445	431	586
Power production (GWh)	3,161	2,273	39 %	2,097	51 %	8,126	6,819	9,150
External power sourcing (GWh)	2,463	2,483	(1) %	2,430	1 %	7,314	7,085	9,660
Internal contract sales (GWh)	4,077	3,975	3 %	3,923	4 %	11,873	11,489	15,554
External contract sales (GWh)	146	199	(26) %	160	(9) %	553	774	1,095
Net spot sales (GWh)	1,401	582	>100 %	444	>100 %	3,014	1,641	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 increased, mainly due to higher production and prices.

Compared to the first nine 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	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
NOK million								
Earnings before financial items and tax (EBIT)	309	(405)	>100 %	(5)	>100 %	(221)	(874)	(939)
Other	(204)	(160)	(28) %	(109)	(88) %	(532)	(720)	(943)
Eliminations	417	(257)	>100 %	(58)	>100 %	19	(216)	(61)
Underlying EBIT	213	(417)	>100 %	(166)	>100 %	(514)	(936)	(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)	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
NOK million								
Interest income	45	58	(23) %	49	(8) %	163	164	295
Dividends received and net gain (loss) on securities	22	14	53 %	40	(46) %	26	61	70
Finance income	66	72	(8) %	89	(25) %	189	225	365
Interest expense	(266)	(221)	(21) %	(236)	(13) %	(739)	(632)	(893)
Capitalized interest	2	10	(85) %	2	(12) %	12	27	44
Net foreign exchange gain (loss)	(1,523)	(1,403)	(9) %	735	>(100) %	(5,340)	(1,646)	(1,204)
Net interest on pension liability	(28)	(45)	37 %	(30)	7 %	(81)	(133)	(180)
Other	(38)	(43)	12 %	(27)	(38) %	(119)	(128)	(188)
Finance expense	(1,853)	(1,700)	(9) %	444	>(100) %	(6,268)	(2,512)	(2,420)
Finance income (expense), net	(1,787)	(1,628)	(10) %	532	>(100) %	(6,079)	(2,287)	(2,055)

For the third quarter, the net foreign exchange loss, mainly unrealized, of NOK 1,523 million primarily reflects a weaker NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR, and the currency loss on USD denominated debt in Brazil, due to a weaker BRL versus USD.

For the first nine months of 2020, the net foreign exchange loss, mainly unrealized, of NOK 5,340 million primarily reflects a weaker NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts and other liabilities denominated in EUR, and the currency loss on USD denominated debt in Brazil, due to a weaker BRL versus USD.

Tax

Income tax expense amounted to NOK 256 million for the third quarter of 2020. The tax expense reflects a relatively high share of reported income before tax subject to power surtax and impairment of deferred tax assets.

Income tax expense for the first nine months of 2020 amounted to NOK 100 million. The tax expense 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	Third quarter 2020	Third quarter 2019	First 9 months 2020	First 9 months 2019	Year 2019
Revenue	33,169	37,517	102,224	114,276	149,766
Share of the profit (loss) in equity accounted investments	24	123	68	173	241
Other income, net	661	268	1,830	590	1,000
Total revenue and income	33,854	37,908	104,122	115,040	151,007
Raw material and energy expense	20,236	24,090	62,911	75,146	97,474
Employee benefit expense	5,609	6,728	17,876	18,943	24,871
Depreciation and amortization expense	2,010	2,142	6,324	6,314	8,572
Impairment of non-current assets	75	95	1,916	126	912
Other expenses	4,102	4,632	12,633	13,613	18,678
Total expenses	32,032	37,686	101,660	114,142	150,508
Earnings before financial items and tax (EBIT)	1,822	222	2,462	898	499
Finance income	66	72	189	225	365
Finance expense	(1,853)	(1,700)	(6,268)	(2,512)	(2,420)
Finance income (expense), net	(1,787)	(1,628)	(6,079)	(2,287)	(2,055)
Income (loss) before tax	35	(1,407)	(3,617)	(1,389)	(1,556)
Income taxes	(256)	16	(100)	(316)	(813)
Net income (loss)	(221)	(1,390)	(3,717)	(1,705)	(2,370)
Net income (loss) attributable to non-controlling interests	-	(131)	(437)	(370)	(558)
Net income (loss) attributable to Hydro shareholders	(222)	(1,259)	(3,280)	(1,335)	(1,811)
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) ¹⁾	(0.11)	(0.62)	(1.60)	(0.65)	(0.88)
Weighted average number of outstanding shares (million)	2,049	2,048	2,049	2,047	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	Third Quarter		First 9 months		2019
	2020	2019	2020	2019	
Net income (loss)	(221)	(1,390)	(3,717)	(1,705)	(2,370)
Other comprehensive income					
Items that will not be reclassified to income statement:					
Remeasurement postemployment benefits, net of tax	(353)	(1,282)	(1,678)	(1,561)	(443)
Unrealized gain (loss) on securities, net of tax	80	31	(82)	(387)	(664)
Total	(273)	(1,251)	(1,760)	(1,948)	(1,107)
Items that will be reclassified to income statement:					
Currency translation differences, net of tax	(1,320)	1,712	(1,584)	143	(576)
Cash flow hedges, net of tax	(154)	(23)	(99)	41	19
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	-	2	-	32	32
Total	(1,474)	1,691	(1,683)	215	(526)
Other comprehensive income	(1,747)	440	(3,443)	(1,732)	(1,633)
Total comprehensive income	(1,968)	(950)	(7,160)	(3,437)	(4,003)
Total comprehensive income attributable to non-controlling interests	(169)	(82)	(1,030)	(3,029)	(631)
Total comprehensive income attributable to Hydro shareholders	(1,799)	(868)	(6,130)	(409)	(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	September 30 2020	September 30 2019	December 31 2019
Assets			
Cash and cash equivalents	17,495	10,581	12,286
Short-term investments	5,399	929	969
Trade and other receivables	20,268	23,007	18,959
Inventories	19,288	21,679	20,816
Other current financial assets	553	700	635
Total current assets	63,004	56,897	53,665
Property, plant and equipment	68,657	74,025	74,243
Intangible assets	9,903	11,695	11,501
Investments accounted for using the equity method	12,048	11,809	11,501
Prepaid pension	5,959	5,721	6,676
Other non-current assets	6,295	6,877	6,815
Total non-current assets	102,862	110,128	110,736
Total assets	165,865	167,025	164,401
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	6,915	6,074	6,157
Trade and other payables	17,865	19,716	18,692
Other current liabilities	3,660	4,095	4,842
Total current liabilities	28,439	29,885	29,691
Long-term debt	25,873	19,985	18,858
Provisions	6,144	6,283	6,515
Pension liabilities	19,679	17,879	17,099
Deferred tax liabilities	2,620	2,911	3,132
Other non-current liabilities	6,215	5,435	5,025
Total non-current liabilities	60,531	52,494	50,629
Total liabilities	88,970	82,379	80,320
Equity attributable to Hydro shareholders	73,833	80,275	79,932
Non-controlling interests	3,062	4,371	4,148
Total equity	76,895	84,646	84,081
Total liabilities and equity	165,865	167,025	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	Third quarter 2020	Third quarter 2019	First 9 months 2020	First 9 months 2019	Year 2019
Operating activities					
Net income (loss)	(221)	(1,390)	(3,717)	(1,705)	(2,370)
Depreciation, amortization and impairment	2,085	2,236	8,240	6,440	9,485
Other adjustments	2,655	2,645	3,548	2,135	5,435
Net cash provided by operating activities	4,519	3,491	8,071	6,870	12,550
Investing activities					
Purchases of property, plant and equipment	(1,438)	(1,971)	(4,196)	(5,833)	(8,726)
Purchases of other long-term investments	(60)	(60)	(176)	(538)	(698)
Purchases of short-term investments	(500)	(3)	(5,480)	(45)	(52)
Proceeds from long-term investing activities	47	72	434	152	285
Proceeds from sales of short-term investments	500	18	1,300	18	18
Net cash used in investing activities	(1,451)	(1,944)	(8,118)	(6,246)	(9,173)
Financing activities					
Loan proceeds	1,199	1,849	12,029	12,780	15,881
Loan repayments	(1,916)	(3,337)	(5,947)	(6,298)	(10,090)
Net decrease in other short-term debt	(28)	(249)	(261)	(63)	(257)
Proceeds from shares issued	7	6	20	20	26
Dividends paid	-	-	-	(2,558)	(2,649)
Net cash provided by (used in) financing activities	(738)	(1,731)	5,841	3,881	2,911
Foreign currency effects on cash	(220)	175	(585)	81	3
Net increase (decrease) in cash and cash equivalents	2,110	(9)	5,209	4,586	6,291
Cash and cash equivalents at beginning of period	15,385	10,590	12,286	5,995	5,995
Cash and cash equivalents at end of period	17,495	10,581	17,495	10,581	12,286

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

Condensed consolidated statements of changes in equity (unaudited)

NOK million	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro shareholders	Non-controlling interests	Total equity
January 1, 2019	2,272	29,126	(756)	57,114	(1,936)	85,820	4,936	90,756
<i>Changes in equity for 2019</i>								
Treasury shares issued to employees		(3)	45			42		42
Capital contribution in subsidiaries							2	2
Dividends				(2,558)		(2,558)	(159)	(2,717)
Total comprehensive income for the period				(1,335)	(1,693)	(3,029)	(409)	(3,437)
September 30, 2019	2,272	29,123	(711)	53,220	(3,629)	80,275	4,371	84,646
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							2	2
Dividends						-	(16)	(16)
Total comprehensive income for the period				(3,280)	(2,850)	(6,130)	(1,030)	(7,160)
September 30, 2020	2,272	29,106	(662)	49,465	(6,347)	73,833	3,062	76,895

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	Third quarter 2020	Third quarter 2019	First 9 months 2020	First 9 months 2019	Year 2019
Total revenue					
Bauxite & Alumina	5,334	6,211	17,535	16,822	22,805
Primary Metal	8,228	8,718	25,701	26,678	35,175
Metal Markets	11,290	12,326	34,687	38,586	50,452
Rolled Products	5,668	6,672	17,939	20,139	26,331
Extruded Solutions	13,372	15,233	40,105	48,516	62,351
Energy	1,539	1,990	5,077	6,066	8,221
Other and eliminations	(12,263)	(13,633)	(38,820)	(42,530)	(55,569)
Total	33,169	37,517	102,224	114,276	149,766
External revenue					
Bauxite & Alumina	3,167	3,684	10,208	8,746	12,255
Primary Metal	1,632	1,642	4,993	4,489	6,141
Metal Markets	9,242	9,742	28,105	30,458	40,164
Rolled Products	5,644	6,639	17,949	20,070	26,179
Extruded Solutions	13,344	15,214	40,141	48,410	62,211
Energy	137	594	818	2,096	2,808
Other and eliminations	3	1	11	6	8
Total	33,169	37,517	102,224	114,276	149,766

NOK million	Third quarter 2020	Third quarter 2019	First 9 months 2020	First 9 months 2019	Year 2019
Internal revenue					
Bauxite & Alumina	2,168	2,527	7,328	8,076	10,550
Primary Metal	6,596	7,075	20,709	22,189	29,035
Metal Markets	2,047	2,584	6,581	8,127	10,287
Rolled Products	25	33	(10)	69	152
Extruded Solutions	28	18	(36)	106	140
Energy	1,402	1,397	4,259	3,970	5,414
Other and eliminations	(12,266)	(13,635)	(38,831)	(42,537)	(55,577)
Total	-	-	-	-	-
Share of the profit (loss) in equity accounted investments					
Bauxite & Alumina	-	-	-	-	-
Primary Metal	6	150	71	205	270
Metal Markets	-	-	-	-	-
Rolled Products	-	-	-	-	-
Extruded Solutions	-	-	-	18	18
Energy	(16)	(4)	(34)	(22)	(29)
Other and eliminations	34	(23)	31	(28)	(18)
Total	24	123	68	173	241
Depreciation, amortization and impairment					
Bauxite & Alumina	470	590	1,539	1,784	2,509
Primary Metal	589	616	2,374	1,839	3,030
Metal Markets	35	33	108	92	129
Rolled Products	299	264	896	761	1,036
Extruded Solutions	597	639	3,198	1,680	2,384
Energy	64	62	194	187	253
Other and eliminations	31	32	(69)	96	144
Total	2,085	2,236	8,240	6,440	9,485
Earnings before financial items and tax (EBIT) ¹⁾					
Bauxite & Alumina	108	450	1,561	969	749
Primary Metal	(93)	30	(86)	(1,444)	(1,838)
Metal Markets	385	381	551	710	748
Rolled Products	(42)	(978)	(53)	(1,019)	(865)
Extruded Solutions	1,038	449	118	1,576	1,353
Energy	118	295	592	979	1,291
Other and eliminations	309	(405)	(221)	(874)	(939)
Total	1,822	222	2,462	898	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	Third quarter 2020	Third quarter 2019	First 9 months 2020	First 9 months 2019	Year 2019
Earnings before financial items, tax, depreciation and amortization (EBITDA)					
Bauxite & Alumina	578	1,040	3,100	2,753	3,258
Primary Metal	467	619	2,199	313	1,081
Metal Markets	420	414	659	802	875
Rolled Products	257	(715)	842	(258)	170
Extruded Solutions	1,633	1,085	3,309	3,252	3,731
Energy	186	361	797	1,177	1,558
Other and eliminations	339	(373)	(290)	(778)	(795)
Total	3,879	2,430	10,616	7,261	9,878

Investments ¹⁾

Bauxite & Alumina	486	340	1,019	1,377	2,294
Primary Metal	515	1,002	1,917	2,978	4,235
Metal Markets	24	45	86	112	173
Rolled Products	220	191	452	475	876
Extruded Solutions	321	545	988	1,872	2,914
Energy	23	47	92	233	313
Other and eliminations	28	14	69	64	102
Total	1,617	2,184	4,623	7,110	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 Third quarter 2020				
Bauxite & Alumina	108	470	-	578
Primary Metal	(93)	589	(29)	467
Metal Markets	385	35	-	420
Rolled Products	(42)	299	-	257
Extruded Solutions	1,038	597	(2)	1,633
Energy	118	64	3	186
Other and eliminations	309	31	-	339
Total	1,822	2,085	(28)	3,879

NOK million	EBIT	Depr., amor. and impairment	Other items ¹⁾	EBITDA
EBIT - EBITDA First 9 months 2020				
Bauxite & Alumina	1,561	1,539	-	3,100
Primary Metal	(86)	2,374	(89)	2,199
Metal Markets	551	108	-	659
Rolled Products	(53)	896	-	842
Extruded Solutions	118	3,198	(7)	3,309
Energy	592	194	10	797
Other and eliminations	(221)	(69)	-	(290)
Total	2,462	8,240	(87)	10,616

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 led us to conclude that impairment indicators existed for several of our Cash Generating Units (CGUs) as of the end of June 2020. During the third quarter, market conditions stabilized and improved slightly, leading to the conclusion that there were no new impairment indicators for Hydro's significant CGUs. Hydro's share price has been below the carrying value of net assets for a period of more than one year, which requires additional caution in 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 were 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 were 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 during the first three quarters of 2020.

As of July 2020, it was 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, made determining assumptions more challenging. Further, the significant shift in currency rates whereby the US-dollar and Euro strengthened relative to the currencies of countries with significant commodity production including the countries where Hydro has important production facilities, shifted profitability between regions. The significant weakening of the NOK and the BRL relative to the USD gave upstream plants in Norway and Brazil a cost advantage that, if retained, translates into a better coverage for carrying value of the plants compared to our plants in the Euro zone and the Middle East. There has been no significant development in these factors during the period from July to October 2020. Hydro has thus concluded that the conclusions reached on whether any of our significant CGUs were impaired are valid also at the end of the third quarter.

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	Third quarter 2020	Third quarter 2019	First 9 months 2020	First 9 months 2019	Year 2019
Classification by asset category					
<i>Impairment losses</i>					
Property, plant and equipment	77	95	944	126	760
Goodwill	-	-	1,129	-	-
Other intangible assets	-	-	5	-	161
Total impairment of non-current assets	77	95	2,077	126	922
Reversal of impairment non-current assets	(2)	-	(161)	-	(10)
Total impairment of non-current assets, net	75	95	1,916	126	912

Classification by segment

<i>Impairment losses</i>					
Bauxite & Alumina	-	-	-	3	152
Primary Metal	-	-	504	-	506
Extruded Solutions	77	95	1,573	123	255
Energy	(2)	-	-	-	-
Other activities	-	-	(161)	-	-
Total impairment of non-current assets, net	75	95	1,916	126	912

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

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

Impairments write-downs recognized during the third quarter 2020

One CGU in Extrusion Europe was concluded to be impaired, and the assets were written down by NOK 77 million.

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

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 was estimated as a value in use discounted with a pretax discount rate of 7.25 percent. The test is sensitive to volumes and margins, which are interdependent, and also to the cost level, which is adjusted in response to market conditions and thus fixed over limited periods, however, no restructuring measures beyond what were committed at the time of testing were included in the estimated cash flows.

In addition, two CGUs in 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 was 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 exceeded the carrying amount and thus no impairment was present. Although some of these CGUs were experiencing challenging profitability short-term, profitability longer term supported the carrying value. In reaching this conclusion, we have assumed several years with negative impact on volumes and/or margins, and for most market segments that sales volumes will reach 2019 levels within a period of about five years. Further, margin pressure was assumed to continue for a significant period, resulting in a more limited coverage than for previous tests. However, we saw that restructuring measures reducing costs which have been implemented during 2019 and 2020 were improving coverage.

Discount rates used for 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 were estimated at less favorable levels compared to impairment tests as of the end of 2019. Local and regional competitive landscapes also impact the outcome for individual plants or groups of plants managed together to serve a market.

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 exceeded the carrying amount.

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

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

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

Bauxite & Alumina

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

Key assumptions impacting the conclusion of the test included the alumina margin over key input factors expressed in BRL, impacted by the partially mutually dependent assumptions for demand for base metals including aluminium, prices on energy and caustic soda as well as the cost level in Brazil. As the coverage was limited, a small negative deviation in any of those

assumptions will likely lead to an impairment unless there are positive deviations in other key assumptions, which are to some extent correlated.

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 included the volume growth or decline in key market segments as well as margin development. The key drivers are GDP growth, development in specific market sectors such as automotive, packaging and building and construction, and substitution effects with other materials, which currently favors aluminium. The development in key market segments such as the automotive segment and building and construction are also important for the outcome of tests. The dedicated aluminium smelter in Neuss, Germany, which is managed as part of the rolled product segment, 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 nine months 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 continues to be impacted by the Covid-19 pandemic, immediate measures to limit spread of the disease cause significant uncertainty for customers operations and liquidity. Customers' ability to pay is more difficult to assess in the current circumstances. Use of credit insurance and similar measures reduces Hydro's risk to a certain extent. Observed credit losses are limited during the first nine months of the year, however, the situation may change rapidly. To reflect the higher risk, provisions for losses on trade receivables have been carefully reviewed, however, have been retained at a level of between 2.5 percent and 3.0 percent of outstanding receivables through 2020, based on specific assessment of individual customers, market segments and region.

Of total trade receivables at September 30, 2020, about 6.5 percent were past due compared to about 9.5 percent at the end of June, 2020 and 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 October 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 16.8 billion in addition to the undrawn credit facility, while repayment obligation on loans over the next twelve months amounts to about NOK 7 billion. Hydro has hedged part of the USD/BRL exposure related to USD denominated sale of alumina produced in Brazil. In total USD 383 million has been sold forward for 2021 and 2022 during the third quarter at average exchange rates of 5.53 BRL/USD.

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 trading portfolios are included in underlying results. The other category includes material items which are not regarded as part of underlying business performance for the period, such as major rationalization charges and closure costs, major impairments of property, plant and equipment, effects of disposals of businesses and operating assets, as well as other major effects of a special nature. Materiality is defined as items with a value above NOK 20 million. All items excluded from underlying results are reflecting a reversal of transactions or other effects recognized in the financial statements for the current period, except for the metal effect. Part-owned entities have implemented similar adjustments.

- *Unrealized derivative effects on LME related contracts* include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, where hedge accounting is not applied. Also includes elimination of changes in fair value of certain internal physical aluminium contracts.
- *Unrealized derivative effects on power and raw material contracts* include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.
- *Metal effect in 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, and certain similar agreements.
- *Other effects* include insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.
- *Pension* includes recognition of pension plan amendments and related curtailments and settlements.
- *Transaction related effects* reflect the net measurement (gains) losses relating to previously owned shares in acquired business and inventory valuation expense related to the transaction, as well as a net gain or loss on divested businesses and/or individual major assets.
- *Items excluded in equity accounted investments* reflects Hydro's share of items excluded from underlying net income Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- *Net foreign exchange (gain) loss*: Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.
- *Calculated income tax effect*: In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax.
- *Other adjustments to net income* include other major financial and tax related effects not regarded as part of the underlying business performance of the period.

Items excluded from underlying EBIT per operating segment and for Other and eliminations ¹⁾ NOK million	Third quarter 2020	Third quarter 2019	Second quarter 2020	First 9 months 2020	First 9 months 2019	Year 2019
Alunorte agreements - provision ²⁾	-	30	-	129	80	80
Impairment charges ³⁾	-	-	-	-	-	145
Bauxite & Alumina	-	30	-	129	80	225
Unrealized derivative effects on LME related contracts	(198)	(27)	200	(61)	80	90
Unrealized derivative effects on power contracts	165	(42)	48	65	(50)	(17)
Impairment charges ⁴⁾	-	-	504	504	-	506
Other effects ⁵⁾	(30)	-	(12)	(42)	-	-
Primary Metal	(63)	(69)	740	467	30	579
Unrealized derivative effects on LME related contracts	(187)	(19)	340	(71)	141	235
Metal Markets	(187)	(19)	340	(71)	141	235
Unrealized derivative effects on LME related contracts	(63)	(24)	(94)	19	(41)	(82)
Metal effect	95	123	165	391	393	370
Significant rationalization charges and closure costs ⁶⁾	61	1,145	-	62	1,145	1,088
Other effects ⁷⁾	(34)	(99)	(50)	(161)	(99)	(99)
Rolled Products	59	1,145	22	311	1,398	1,277
Unrealized derivative effects on LME related contracts	(201)	(44)	13	(73)	(93)	(163)
Impairment charges ⁸⁾	77	95	1,483	1,573	123	255
Significant rationalization charges and closure costs ⁹⁾	(20)	61	134	118	261	396
Pension ¹⁰⁾	-	(62)	-	-	(62)	(62)
Transaction related effects ¹¹⁾	-	-	6	(51)	35	21
Other effects ¹²⁾	-	59	-	-	85	209
Extruded Solutions	(143)	109	1,637	1,567	348	656
Unrealized derivative effects on power contracts	14	1	33	30	9	(6)
Other effects ¹³⁾	-	(42)	-	-	(42)	(42)
Energy	14	(41)	33	30	(33)	(48)
Unrealized derivative effects on power contracts ¹⁴⁾	(19)	(5)	(19)	(57)	(65)	(75)
Unrealized derivative effects on LME related contracts ¹⁴⁾	(7)	(7)	18	(6)	4	11
Impairment charges ¹⁵⁾	-	-	(161)	(161)	-	-
(Gains)/losses on divestments ¹⁵⁾	(65)	-	-	(65)	-	-
Other effects	(4)	-	-	(4)	-	-
Other and eliminations	(96)	(12)	(162)	(293)	(62)	(64)
Items excluded from underlying EBIT	(415)	1,144	2,610	2,141	1,902	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 42 million related to property damage at Albras.

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

7) Other effects include partly reversals of the provision recognized in 2017 related to the customs case in Germany with NOK 34 million in the third quarter, NOK 26 million in the second quarter, and NOK 37 million in the first quarter of 2020, and NOK 99 million in the third quarter of 2019. Other effects also include insurance refunds of NOK 25 and 39 million related to property damage received in the second and first quarter of 2020.

8) Impairment charges include impairments of various assets, including goodwill, 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 a gain of NOK 62 million due to partially settled pension liabilities in the US in 2019.

11) Transaction related effects relate to divestments of 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 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 in 2019.

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 in the second quarter, and the gain on selling the property in the third quarter 2020.

Underlying EBITDA	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
NOK million								
EBITDA	3,879	2,430	60 %	2,267	71 %	10,616	7,261	9,878
Items excluded from underlying EBIT	(415)	1,144	>(100) %	2,610	>(100) %	2,141	1,902	2,860
Reversal of impairments	(77)	(95)	19 %	(1,826)	96 %	(1,916)	(123)	(906)
Underlying EBITDA	3,387	3,479	(3) %	3,050	11 %	10,840	9,040	11,832

Underlying earnings per share	Third quarter 2020	Third quarter 2019	Change prior year quarter	Second quarter 2020	Change prior quarter	First 9 months 2020	First 9 months 2019	Year 2019
NOK million								
Net income (loss)	(221)	(1,390)	84 %	(1,471)	85 %	(3,717)	(1,705)	(2,370)
Items excluded from net income (loss)	771	1,996	(61) %	1,654	(53) %	5,602	2,716	3,078
Underlying net income (loss)	550	606	(9) %	183	>100 %	1,884	1,011	708
Underlying net income attributable to non-controlling interests	27	(69)	>100 %	(25)	>100 %	34	(306)	(365)
Underlying net income attributable to Hydro shareholders	523	675	(23) %	209	>100 %	1,850	1,317	1,073
Number of shares	2,049	2,048	-	2,049	-	2,049	2,047	2,047
Underlying earnings per share	0.26	0.33	(23) %	0.10	>100 %	0.90	0.64	0.52

Adjusted net cash (debt)	Sep 30 2020	Jun 30 2020	Change prior quarter	Sep 30 2019	Jun 30 2019	Change prior year quarter
NOK million						
Cash and cash equivalents	17,495	15,385	2,110	10,581	10,590	(8)
Short-term investments ¹⁾	5,399	5,110	289	929	1,090	(161)
Short-term debt	(6,915)	(7,094)	179	(6,074)	(8,177)	2,103
Long-term debt	(25,873)	(26,595)	722	(19,985)	(18,620)	(1,365)
Net cash (debt)	(9,894)	(13,194)	3,300	(14,549)	(15,117)	568
Cash and cash equiv. and short-term investm. in captive insurance company ²⁾	(915)	(898)	(18)	(899)	(944)	44
Net pension obligation at fair value, net of expected income tax benefit ³⁾	(11,569)	(11,127)	(442)	(10,282)	(8,758)	(1,524)
Short- and long-term provisions net of exp. income tax benefit, and other liab. ⁴⁾	(3,711)	(3,865)	154	(3,876)	(3,087)	(789)
Adjusted net cash (debt)	(26,089)	(29,084)	2,994	(29,606)	(27,905)	(1,700)
Net debt in EA ⁵⁾	(5,542)	(5,564)	23	(5,376)	(5,386)	10
Adjusted net cash (debt) incl. EA	(31,631)	(34,648)	3,017	(34,982)	(33,291)	(1,690)

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 2152 million and NOK 2203 million for September 2020 and June 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.

Additional Information

Financial calendar

December 10 Capital markets day

2021

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

Hydro reserves the right to revise these dates.

Cautionary note

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

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

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



We are aluminium

Norsk Hydro ASA
NO-0240 Oslo
Norway

T +47 22 53 81 00
www.hydro.com

Design and production: Hydro
Print: Printbox
© Hydro 2020

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.