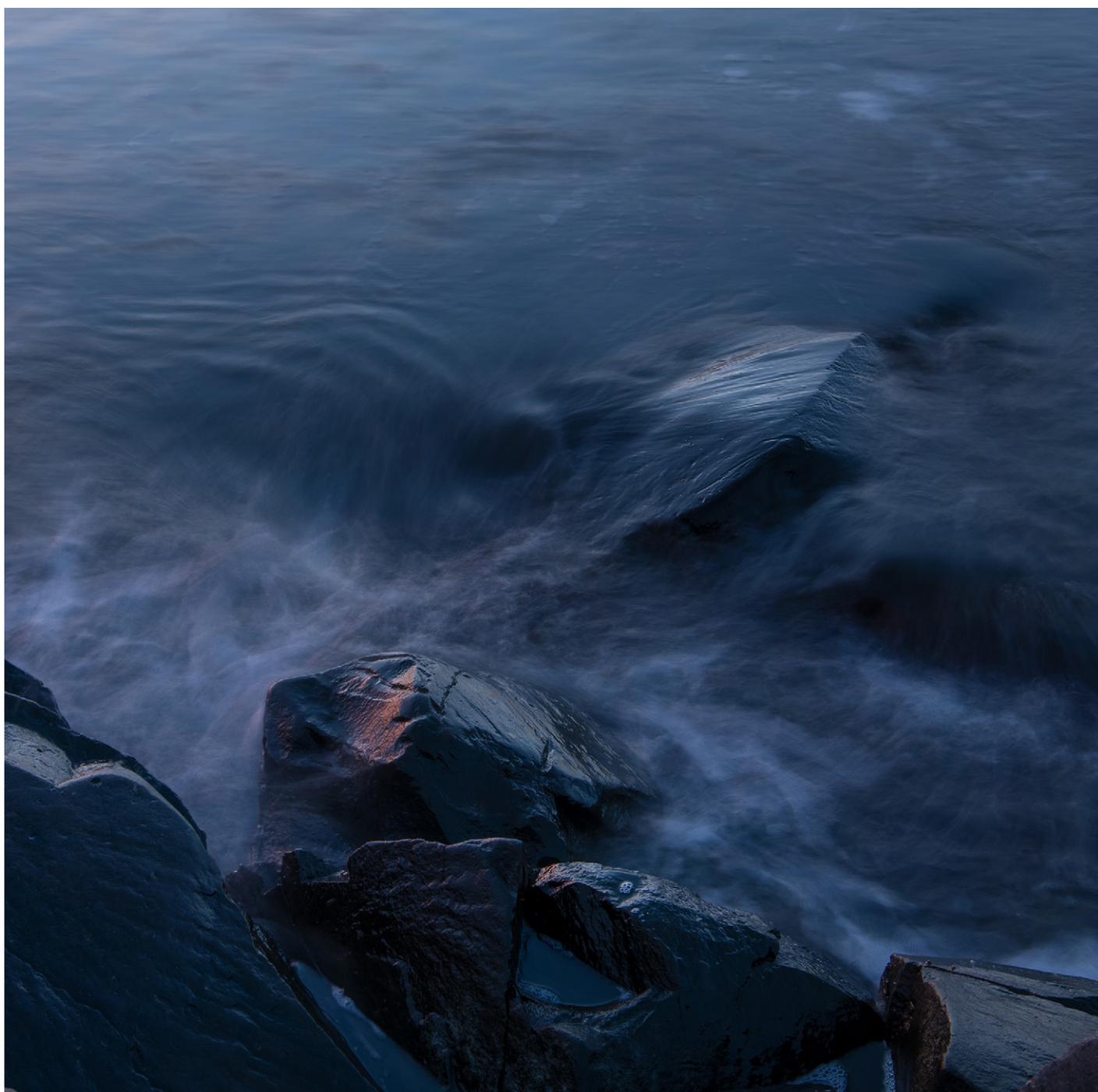




Financial statements and
Board of Directors' report
2020



Hydro's reporting 2020

The enclosed Financial statements and Board of Directors' report, together with the accompanying notes, fulfills Hydro's Norwegian statutory requirements for annual reporting. The remainder of the Annual Report includes additional information about Hydro's business, viability performance, financial and operating performance, shareholder information and corporate governance.

The "Annual report - 2020" is available in PDF-format on our website www.hydro.com in English. The "Financial statements and Board of Directors' report - 2020" is also available in PDF-format as a separate document in both English and Norwegian. All parts of the reports can be downloaded and printed in PDF-format, together with additional, supplementary information. Paper copies of the reports can also be ordered on our website.

Throughout the report, Hydro refers to Norsk Hydro ASA and its consolidated subsidiaries if not otherwise stated.

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Year in brief

Progress towards profitability and sustainability in an extraordinary year

In 2020, Covid-19 created significant social, operational and market challenges. In response, Hydro focused on providing a healthy and safe work environment, maintaining operations and positioning for the future. Hydro's underlying EBIT increased to NOK 6,051 million from NOK 3,359 million for 2019. Hydro also progressed on sustainability goals throughout the year, with key climate, environmental and social ambitions remaining on track.

Our top priority is the health and safety of our people and the communities where we operate. During the Covid-19 pandemic many plants across our global organization have supported authorities, local NGOs, institutions and organizations to address local needs. One example of our progress on environment and safety relates to the tailings dry backfill project. The application of this approach in Paragominas represents the end of construction of new facilities for storage of bauxite tailings.

Hydro exceeded its improvement target, achieving NOK 4.2 billion for 2020 compared to 2018, supporting the positive cash flow generation for the year. During Capital Markets Day 2020, Hydro announced an extension and higher ambition to the original improvement program.

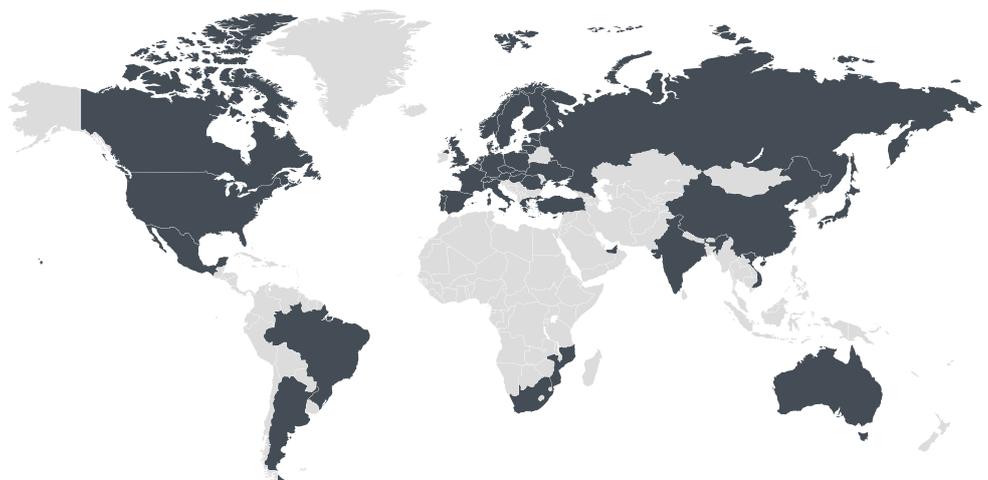
On March 5, 2021, Hydro entered into an agreement to sell its Rolling business to KPS Capital Partners for EUR 1,380 million (around NOK 14.2 billion) on an enterprise value basis. The sale of Rolling will strengthen our ability to deliver on the 2025 strategy, strengthening our position in low-carbon aluminium, while exploring new growth in areas where our capabilities match global megatrends.



40
countries



34,000
employees



■ Hydro present

Based in Norway, Hydro has 34,000 employees involved in activities in 40 countries.

Key figures

Amounts in NOK million unless other unit indicated	2020	2019	2018
Revenue	138,118	149,766	159,377
<i>Underlying EBIT</i>			
Hydro Bauxite & Alumina	1,806	974	2,282
Hydro Aluminium Metal	1,225	(1,259)	1,762
Hydro Metal Markets	728	983	686
Hydro Rolling	70	413	413
Hydro Extrusions	2,196	2,009	2,390
Hydro Energy	974	1,243	1,846
Other and eliminations	(948)	(1,003)	(310)
Total	6,051	3,359	9,069
Net Income	1,660	(2,370)	4,323
Underlying return on average capital employed (RoaCE), percent	3.7%	1.3%	6.6%
Investments	14,174	10,907	7,614
Total assets	164,408	164,401	164,928
Share price year-end, NOK	39.86	32.64	39.21
Dividend per share, NOK	1.25	1.25	1.25
Number of employees, year-end	34,240	36,310	36,236
Recordable injuries, per million hours worked	2.7	3.0	3.4
Greenhouse gas emissions, million tonnes CO ₂ e	8.95	8.62	8.55

6,051 MNOK

Underlying EBIT

Increased result driven by the ramp-up of Alunorte's production, reduced raw material costs and positive currency effects were partly offset by reduced realized alumina and aluminium prices, and reduced downstream volumes.

7.7 BNOK

Free cash flow

Net cash flow from operations in 2020 amounted to 13.5 BNOK, supported by 2.4 BNOK in net operating capital release. Net investments amounted to 8.3 BNOK.

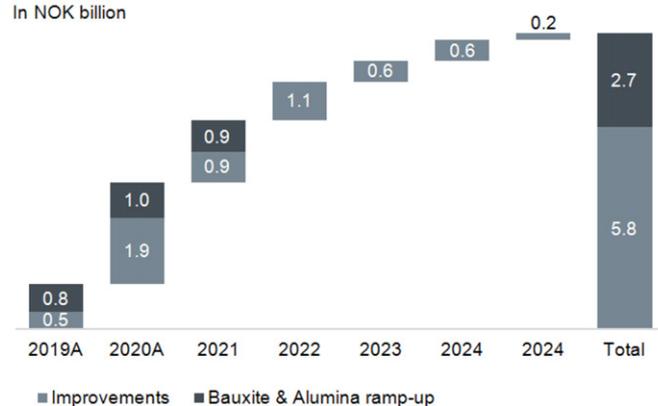
8.95 mt CO₂e

Greenhouse gas emissions

Hydro's direct greenhouse gas emissions increased in 2020 due to increased production at Hydro's alumina refinery Alunorte. However, specific emissions per ton alumina produced decreased due to improved performance.

2025 accumulated improvement potential by year

In NOK billion



* Improvement target to be revised following the sale of the Rolling business

Greenhouse gas emissions from Hydro's consolidated operations

Million metric tons CO₂e





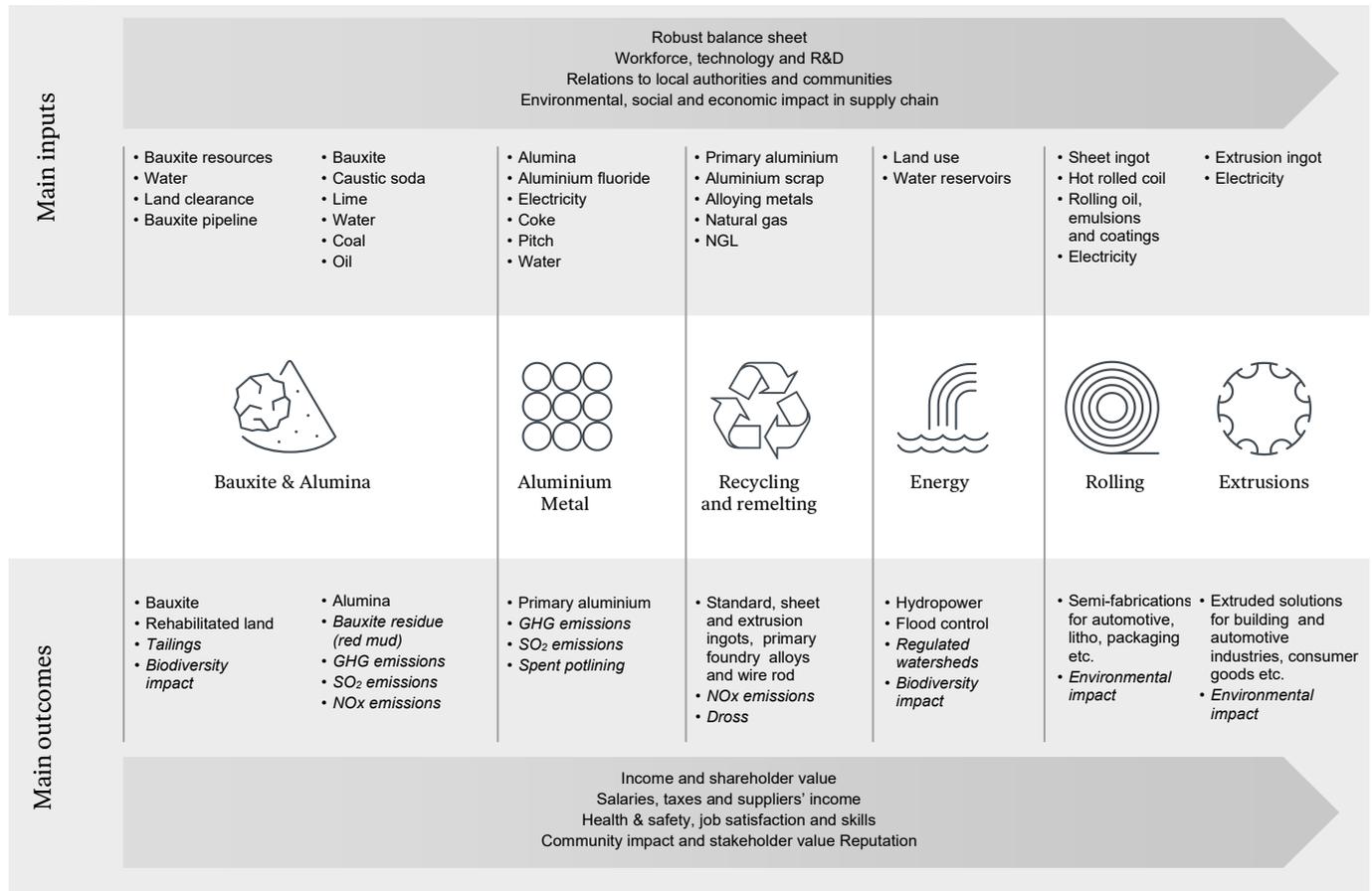
1520 Yn 11

1520 Yn 11380



H70

Hydro's main inputs and outcomes 2020



Text in italics reflects mainly negative impacts.

Hydro and the UN Sustainable development goals

The UN Sustainable Development Goals (SDGs) embrace a universal approach to the sustainable development agenda. They explicitly call on business to use creativity and innovation to address development challenges and recognize the need for governments to encourage sustainability reporting. Hydro has an impact on all of the 17 development goals, but some more than others. Of the 17, Hydro has chosen eight goals that are the most important to us, that are highlighted throughout the report.

Improving our footprint



Making a positive difference



Driving innovation



Emerging stronger from an extraordinary year

The pandemic put us all to the test. It challenged our operations, our employees, our customers and the world around us. Yet, Hydro managed an extraordinary 2020 carefully, emerging stronger and well positioned to deliver on our agenda to become a profitable and more sustainable industry leader.

I'm grateful and impressed by how our organization kept the wheels turning, delivering on the improvement ambitions and positioning Hydro for the future, while at the same time always putting health and safety first.

Our No 1 priority is to ensure our employees come home from work safely. I am happy that our safety performance overall improved in a difficult year. The rate of recordable injuries per million work hours improved to 2.7 in 2020 from 3.0 in 2019. We had no fatalities in our operations, and we have maintained a strong focus on high-risk incidents. We can never rest in our safety work. The ultimate target is an injury-free work environment.

Sadly, we are mourning the loss of eight good colleagues to the Coronavirus in 2020. Our thoughts go to their loved ones, their families, friends and colleagues.

Lifting profitability, driving sustainability

At our investor day in September 2019, we set a new and ambitious agenda for the company to lift profitability and drive sustainability. Earnings had simply been too low for too long time.

We launched several initiatives, including a new ambitious improvement program, a strategic review of the Hydro Rolling business area, a new capital allocation framework, and we set a clear target for profitability to deliver a return on capital of at least 10 percent over the cycle. We also set new sustainability ambitions, including a target to reduce our own CO₂ emissions by 30 percent by 2030.

We have made significant progress towards all these ambitions.

We have accelerated our improvement efforts in 2020. Our extended program targets NOK 8.5 billion by 2025 across all business areas and staffs. I am happy that we exceeded our improvement target and achieved savings of NOK 4.2 billion for 2020, amounting to about half of the overall 2025 ambition.

In March 2021, we reached another milestone with the finalization of the strategic review of the Rolling business and with a conclusion to sell the business to the US-based private equity firm KPS Capital Partners. The agreement, expected to be finalized in the second half of 2021, marks

another step towards making Hydro a profitable and more sustainable industry leader – to the benefit of our employees, our customers and our shareholders.

Amid all the challenges, I am impressed by how unexpected events tend to spur a willingness in our organization to go the extra mile. We take inspiration from our ability to mobilize as we face another important transformation: The green transition.

Hydro 2025

In 2020, we established a new strategic direction toward 2025, building on our profitability and sustainability agenda. We will pursue our strategic ambition by capturing opportunities where our capabilities match the global megatrends such as sustainability, electrification and urbanization.

We have a great starting point, with a unique position within renewable energy-based low-carbon aluminum as well as recycled aluminium, and with strong capabilities in renewable energy, built up throughout our 115-year-history.

Based on our capabilities and the megatrends, our strategic direction towards 2025 is based on two pillars: It's about strengthening our position in low-carbon aluminium, while exploring new growth opportunities in areas such as recycling, renewable energy and batteries.

Our ability to deliver on our strategic ambition rests on our ability to ensure robustness and profitability in all business areas, freeing up cash and allocating fresh capital where we see potential for greatest return.

1. Strengthening our position in low-carbon aluminium

We will strengthen our position in low-carbon aluminum, and we have a good starting point as 70 percent of the electricity used in Hydro's primary production is based on renewable power. We're sustaining and improving our facilities, ensuring robustness and competitiveness, while reducing our climate footprint across the value chain from bauxite, alumina and aluminium production to recycling, aluminium extrusions and solutions.

We reached an encouraging milestone in 2020 by verifying our Karmøy Technology Pilot in Norway, where we produce primary aluminium with 15 percent lower specific energy consumption and significantly lower greenhouse gas emissions compared with the world average. Many of the same technology elements were implemented in the upgrade at the Husnes aluminium plant in Norway, which is ramping up to full capacity after running at half capacity since the financial crisis in 2009.

Lowering our emissions enables us to further develop our low-carbon aluminium products, and we are seeing promising traction in the market for Hydro REDUXA and Hydro CIRCAL. We expect sales for Hydro REDUXA and Hydro CIRCAL to continue to grow, as customers and consumers are demanding and increasingly willing to pay for low-carbon and circular products and solutions.

2. Diversify and grow in recycling, renewable energy and batteries

As part of our new strategic direction, we will also grow in new areas, including recycling, renewable energy and batteries.

The world needs to produce more for less, making recycling a great potential for us. We will build capability to double post-consumer scrap volumes through organic and inorganic growth, with several promising projects in the pipeline.

We also want to build on our competence, portfolio and more than 100 years of renewable energy development to become an international renewable energy developer. We aim to go from being an energy off-taker of power to an international renewable energy developer and increase our captive production in wind, solar and hydropower in partnership with others.

By merging parts of our hydropower production assets into the new hydropower company, Lyse Kraft DA, in 2020, we secured a crucial part of Hydro's renewable energy sourcing for the future. Hydro is now Norway's third-largest power operator.

We also see potential in the batteries sector. With capabilities and experience in materials, electrochemistry, energy and manufacturing, and a long-term relationship with European automotive producers, we have a unique opportunity to take a lead role in the rapidly growing battery sector.

In 2020 we started construction of a pilot plant for the recycling of electric vehicle batteries, via HydroVolt, a 50/50 joint venture with Swedish Northvolt with a promising future.

With the new strategy towards 2025, Hydro has gone from being one long value chain within aluminum, to now pursuing a strategy built on two pillars: low-carbon aluminium and renewable energy. This is how we will create value going forward.

Leading the way

Based on our DNA as a responsible industrial company for more than a century, Hydro is engaging with a range of international organizations, working to improve industry standards for human rights, transparency and responsible production. Hydro is a signatory to the UN Global Compact and a committed member of the Aluminium Stewardship Initiative (ASI).

We are progressing on our work to strengthen local community relations, communities and business partners through education and empowerment where we operate. We also have high expectations to our pioneer tailings dry-backfill method at our Paragominas bauxite mine in Brazil, that will eliminate the need to establish new tailing dams.

As a global energy and aluminium company, Hydro is committed to leading the way by creating more for less. With a new strategic direction, we embark on the next chapter in Hydro's history of building industries that matter and creating value by taking a lead role in the green transition. Building on the same foundation that has made us 115 years old, we will continue to build businesses that matter for generations to come.



“Building on the same foundation that has made us 115 years old, we will continue to build businesses that matter, producing products and solutions for the low-carbon, circular economy.”

Hilde M. Aasheim

Hilde Merete Aasheim
CEO and President

Board of Directors' report

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Quick overview

Hydro aims to lift profitability and drive sustainability, in order to increase long-term value for our stakeholders and contribute to a viable society. Hydro is a leading industrial company committed to a sustainable future and creating industries that matter.

In 2020, Covid-19 created significant social, operational and market challenges. In response, Hydro focused on providing a healthy and safe work environment, maintaining operations and positioning for the future. Hydro exceeded its improvement target, achieving NOK 4.2 billion for 2020 and took forceful actions to protect its balance sheet throughout the downturn. Hydro also progressed on sustainability goals throughout the year, with key climate, environmental and social ambitions remaining on track.

Despite the challenges of 2020, Hydro has focused on positioning the company for the future.

On March 5, 2021, Hydro entered into an agreement to sell its Rolling business to KPS Capital Partners for EUR 1,380 million (around NOK 14.2 billion) on an enterprise value basis. The sale of Rolling strengthens our ability to deliver on the 2025 strategy, strengthening our position in low-carbon aluminium, while exploring new growth in areas where our capabilities match global megatrends.

Strategic direction and key developments

Seizing opportunities where capabilities match megatrends

Hydro aims to lift profitability and drive sustainability, in order to increase long-term value for our stakeholders and contribute to a viable society. Hydro is a leading industrial company committed to a sustainable future and creating industries that matter.

In 2020, Covid-19 created significant social, operational and market challenges. In response, Hydro focused on providing a healthy and safe work environment, maintaining operations and positioning for the future. Hydro realized NOK 4.2 billion in improvements thereby exceeding its NOK 4.1 billion target for 2020, and took forceful actions to protect its balance sheet throughout the downturn. Hydro also progressed on sustainability goals throughout the year, with key climate, environmental and social ambitions on track.

Despite the challenges of 2020, Hydro has focused on positioning the company for the future. On March 5, 2021, Hydro entered into an agreement to sell its Rolling business. The sale of Rolling will strengthen our ability to deliver on the 2025 strategy, strengthening our position in low-carbon aluminium, while exploring new growth in areas where our capabilities match global megatrends.

Global megatrends such as sustainability, electrification, and urbanization support future demand growth for aluminium and renewable energy. According to CRU¹, aluminium semis demand is expected to grow by 32 million tonnes by 2030 at 3 percent annual growth rate.

In addition, Hydro's political and regulatory landscape supports increasing aluminium demand. The EU has defined aluminium as a critical raw material for the green transition in Europe. In addition, the European Green Deal with a goal of reducing emissions by 55 percent by 2030 is a catalyst for a restructuring of the energy market toward renewable sources.

Hydro is well positioned to extract value from these trends by leveraging our capabilities into green, growing industries. Our track record of renewable, sustainable industrial development, close customer collaboration, combined with an interlinked commercial and sustainability agenda provide a solid foundation for the future. Hydro's strategic direction toward 2025 will focus on two key areas: strengthening the company's position in low-carbon aluminium and growing in recycling, renewable energy and battery storage.

The initiatives within both pillars of Hydro's 2025 strategy support achievement of Hydro's main profitability target of

10 percent RoaCE over the cycle for the group. In addition, all business areas aim for RoaCE above their differentiated cost of capital. Hydro's RoaCE has averaged 5 percent over the past 5 years, negatively impacted by challenging markets and the Alunorte production embargo in 2018-19.

Strengthening position in low-carbon aluminium

Hydro's ambition is to be an industry leader in low-carbon aluminium.

Cost competitive asset base

Hydro's cost competitive asset base is positioned within the first and second quartile upstream, and reduced cost and operational excellence within the asset base remain a priority. Considerable restructuring work is underway in our downstream businesses to optimize that cost base as well. Hydro has extended its improvement program by two years with an overall goal of NOK 8.5 billion² by 2025.

Global megatrends in our favor



Sustainability

- Decarbonization
- Circular economy



Electrification

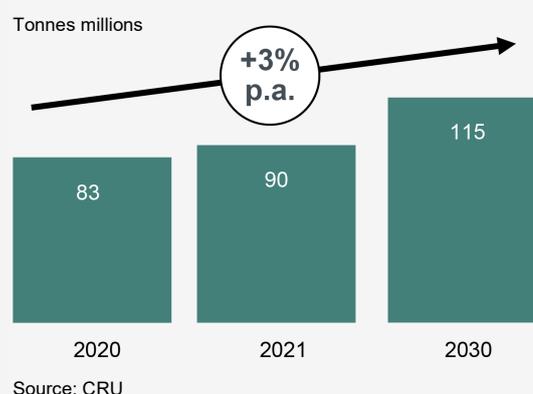
- Energy transition
- E-mobility



Urbanization

- Smart housing
- Infrastructure

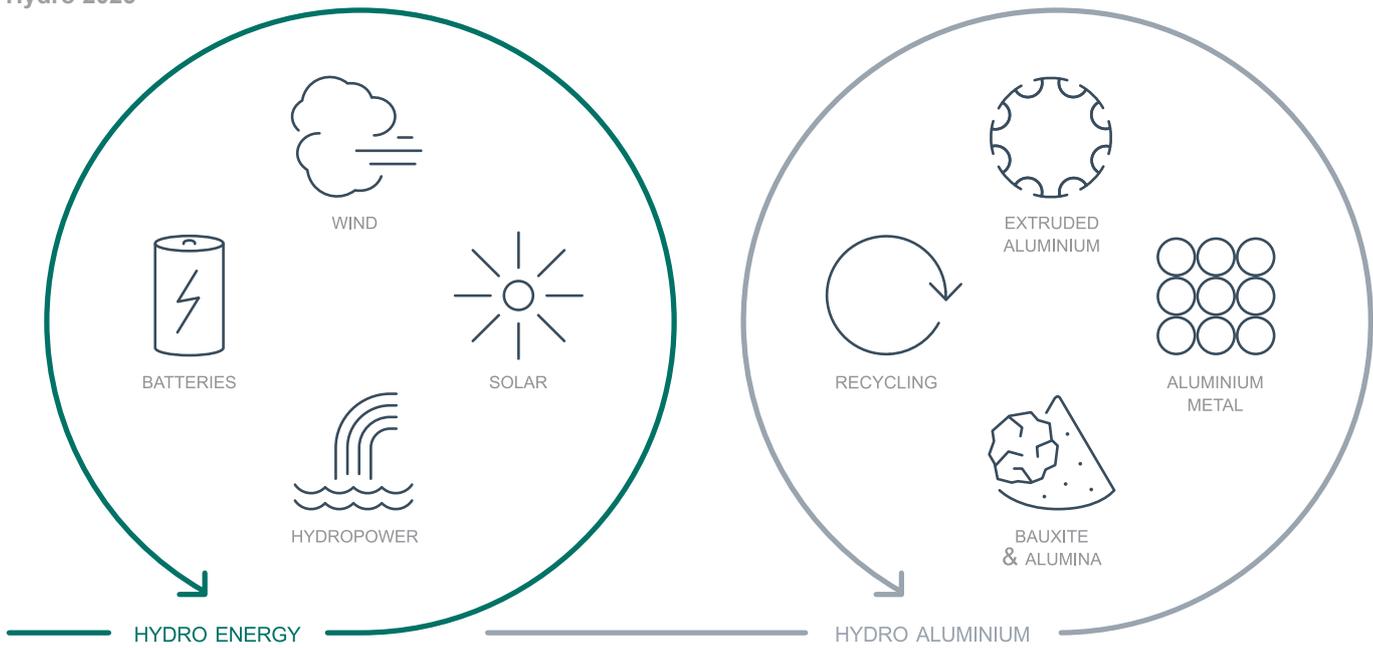
Aluminium semis demand



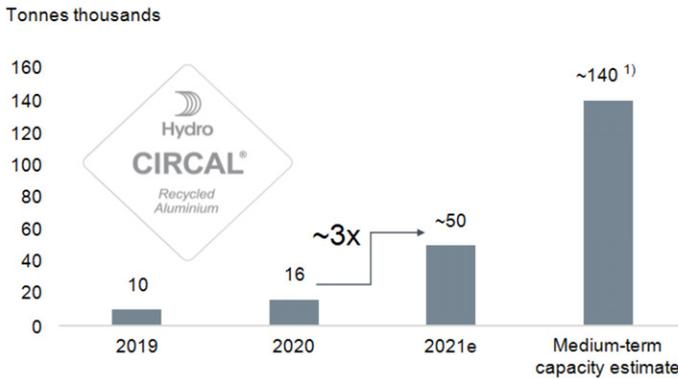
¹ CRU is an external provider of analysis, prices and consulting in the mining, metals and fertilizer markets.

² Improvement target to be revised following the sale of the Rolling business area

Hydro 2025

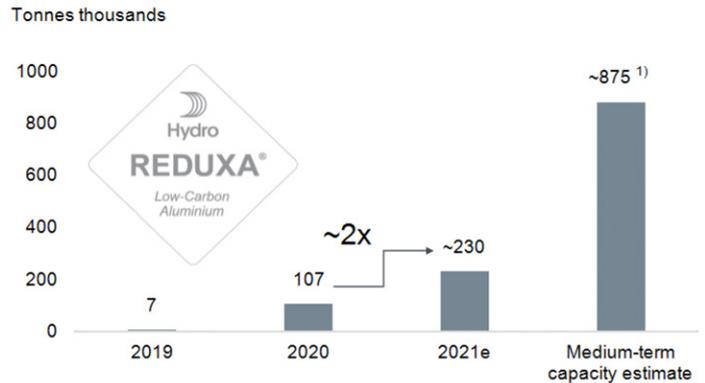


CIRCAL external sales volumes



1) Capacity level require upgrades and investments in primary remelters; Some upgrades will be dependent on market conditions.
 * Estimated sales volume may be revised following the sale of the Rolling business area

REDUXA external sales volumes



1) Norwegian smelter portfolio currently Hydro REDUXA certified

Strong market and low carbon position

Strong downstream market positions and close customer relationships support Hydro’s margins and growth ambitions in key segments. Our innovative solutions are also increasing the substitution potential of aluminium and creating new markets.

Hydro’s climate ambition is to reduce CO2 emissions by 30 percent by 2030 and move toward zero emissions by 2050. Achieving a greener energy mix at Alunorte is a key enabler of the 2030 goal. Three initiatives are underway to support this, including replacing heavy fuel oil with liquid natural gas, installing three new electric boilers, and electrifying the remaining coal boilers with power from renewable sources.

Hydro earns additional premiums or volume commitments on its low carbon products, and many customers choose Hydro’s aluminium due to its low carbon content. Demand for low carbon products increased in 2020 and is expected to grow in 2021. More than 70 percent of the electricity used in Hydro’s primary production is based on renewable power, enabling Hydro to offer low carbon brands, such as Hydro REDUXA, which differentiates our product portfolio from many peers’ and supports both margin and volume growth. Hydro will make key capacity investments over the medium term to ensure our recycling portfolio can facilitate the increasing demand for Hydro CIRCAL.

By leveraging Hydro’s differentiating positions in attractive markets, Hydro aims to achieve commercial uplift in current businesses of NOK 2.0 billion by 2025. This commercial ambition comes in addition to the NOK 8.5 billion improvement program.

Diversifying into strategic growth areas

Hydro's strategic growth areas look beyond aluminium to diversify the current portfolio where capabilities match the megatrends. Hydro will make strategic investments in high-growth areas such as recycling, renewables, and batteries. These investments will come in addition to the NOK 2 to 3 billion in return-seeking CAPEX supporting the improvement and commercial ambitions within our current portfolio.

Recycling

Hydro's current recycling portfolio provides a foundation for further growth. Recycling is key to keeping aluminium in the loop, reducing our CO₂ footprint, and lowering our hot metal costs. In addition, demand for recycled aluminium is increasing as seen in our volumes of Hydro CIRCAL. Hydro has strong metallurgic and commercial competence, developing products in partnership with customers, like recycling friendly alloys. Hydro currently has a portfolio of 29 recyclers and an annual capacity of 2.6 million tonnes for recycled scrap.

The 2025 ambition includes a doubling of Hydro's current post-consumer scrap utilization, implementation of advanced sorting technology, and an upgrade of existing recycling and recasting capabilities. A strategy has been established across the recycling value chain within Aluminium Metal, Rolling, and Extrusions.

Renewable energy

A new business unit – Renewable Growth – was established in Hydro Energy, which will leverage Hydro's industrial footprint and energy competence to take positions in renewable energy projects, primarily in the Nordics and Brazil within solar and wind. Renewable Growth has a promising project pipeline, with opportunities being matured, in partnership with Scatec, Equinor, and Green Investment Group in Brazil. Renewable Growth targets investments into more than 1 GW in 2021 to feed portfolio repowering requirements. Renewable Growth will also mature business cases for energy storage solutions in Hydro's operations.

Batteries

Hydro has also established a new Battery business unit as part of Hydro Energy. Hydro has already undertaken several successful investments in the battery value chain in recent years, including Corvus Energy in 2017 and NorthVolt in 2019. In addition, Hydro entered two separate joint ventures in 2020. HydroVolt is a 50/50 battery recycling joint venture with NorthVolt, and Hydro has also entered a Memorandum of Understanding (MoU) with Equinor and Panasonic to explore opportunities for establishing a profitable and sustainable European battery business.

2020 Status and targets

 <p>Lifting profitability</p>	<p>Capital returns</p> <p>URoACE 3.7%¹⁾</p> <p>10% target over the cycle</p>	<p>Balance sheet</p> <p>FFO/aND 39%²⁾</p> <p>>40% target over the cycle</p>	<p>Free cash flow</p> <p>7.7 BNOK³⁾</p> <p>Lifting free cash flow</p>
<p>Improvement program</p> <p>4.2 BNOK⁴⁾</p> <p>2020 target 4.1 BNOK 2021 target 6.0 BNOK 2025 target 8.5 BNOK</p>	<p>Cash effective change in net operating capital</p> <p>2.4 BNOK release</p> <p>Optimizing net operating capital</p>	<p>Capex</p> <p>6.5 BNOK⁵⁾</p> <p>2020 revised target 7.5-8 BNOK 2021 target 9.5-10 BNOK 2022-2025 target 9-9.5 BNOK</p>	<p>Shareholder payout</p> <p>1.25 NOK/share⁶⁾</p> <p>65% average 5-yr payout ratio 40% payout ratio over the cycle 1.25 NOK/share dividend floor</p>

1) URoACE Hydro (Annual definition) calculated as underlying EBIT last 4 quarters less Income tax expense adjusted for tax on financial items/ Average capital employed last 4 quarters.

2) Funds from operation LTM/Average LTM adjusted net debt. From 2021, Hydro will replace this measure with a goal of net debt excluding equity accounted investments over uEBITDA < 2x.

3) Free cash flow – operating cash flow less investing cash flow excluding sales/purchases of short-term investments.

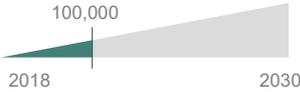
4) The original improvement program definition was revised in 2020 with effect from 2019, now focused on cost and efficiency initiatives and excluding market driven initiatives.

5) 2020 capex excluding lease. 2021 target including capex carry-over from 2020.

6) Pending approval from the AGM on May 6, 2021. From 2021 onwards, the policy has been revised to a minimum of 50% payout ratio of underlying net income over the cycle with the dividend floor maintained at 1.25 NOK per share.

* Targets to be revised following the sale of the Rolling business area.

2020 Status and targets

	<p>Safety</p> <p>TRI rate 2.7 FY 2020</p> <p>Ambition: Zero fatalities and injury free work environment</p>	<p>Social responsibility</p>  <p>2030 target: Contribute to education and skills for 500,000 people</p>	<p>Biodiversity</p> <p>On track 2020</p> <p>Target: rehabilitate available mined areas within two hydrological cycles¹⁾</p>
	<p>Climate</p> <p>GHG emissions -9% compared to strategy baseline²⁾³⁾</p> <p>2030 target: 30% reduction in GHG emissions</p>	<p>Business integrity</p> <p>76% Integrity culture index</p> <p>Ambition: high employee perception of a culture of business integrity</p>	<p>Greener products</p> <p>16.000 mt CIRCAL produced FY 2020</p> <p>combined 2020/21 target: 65,000 mt in total</p>

1) This is known as the 1:1 target
 2) Baseline emissions 13.3 million metric tonnes CO₂ equivalents and includes direct and indirect emissions (scope 1 and 2).
 3) About half of the reduction were due to improved performance, especially at the Alunorte refinery. The remaining reduction was due to significant reduced production across Hydro because of the Covid-19 pandemic.
 * Targets may be subject to revision following the Hydro Rolling transaction.

2020 Developments

The Covid-19 situation has been a significant challenge to the global economy and continues to cause uncertainty for Hydro's operations and financial performance. Global GDP and industrial production have recovered towards the end of the year, but the Covid-19 situation continues to cause market uncertainty. The global fall in demand and government-imposed restrictions negatively affected sales volumes for Hydro, with Metal Markets' recycling facilities, Extrusions and Rolling being impacted the most. Bauxite & Alumina, Aluminium Metal, and Energy have been operating largely as normal during the year. Supported by government stimulus and softer containment measures the global economy recovered at a faster pace than expected in the second half of the year.

Our top priority is the health and safety of our people and the communities where we operate. Many plants across our global organization have supported authorities, local NGOs, institutions and organizations. They have contributed with, for instance, protective gear or monetary donations to local hospitals, medical centers, local health organizations or local food banks, as well as to funds to support the most vulnerable affected by Covid-19.

Social responsibility programs, initiatives and dialogue in local communities surrounding our operations continued in 2020. Due to Covid-19, all activities have adapted new measures. Where possible, activities have been moved to digital platforms, and prevention protocols are strictly followed for physical activities. During 2020, Hydro has published a revised Human Rights Policy and Supplier Code of Conduct, based on prioritized human rights risks to people.

The number of total recordable injuries rates improved over 2019 levels to a total recordable injury rate of 2.7, from 3.0 in 2019. There were no fatal accidents in our operations, but we tragically lost eight colleagues to Covid-19 during 2020. In addition, we experienced a life changing injury resulting in an amputation of a foot.

In February 2020, the Board proposed a dividend of NOK 1.25 per share for 2019, in accordance with the floor level stated in Hydro's dividend pay-out policy. Following the decision, the outbreak of the Covid-19 pandemic introduced significant uncertainty regarding the financial outlook for the company. The Board was therefore granted an authority at the Annual General Meeting held on 11 May 2020 to resolve distribution of dividends at a later stage at the Board's discretion. The dividend was distributed in November 2020 based on the improved financial situation and positive outlook for the company. Further measures to improve liquidity included a NOK 7 billion bond issue in May 2020 and a freeze of NOK 2 billion on planned 2020 capital expenditure. Capital expenditure was NOK 6.5 billion for the year, around NOK 3 billion lower than the original plan reflecting project postponements and re-prioritization.

Hydro's underlying EBIT for the full year was NOK 6,051 million, compared with NOK 3,359 million in 2019. The ramp-up of Alunorte's production, reduced raw material costs and positive currency effects were partly offset by reduced realized alumina and aluminium prices, and reduced downstream volumes.

Hydro exceeded its improvement target, achieving NOK 4.2

billion for 2020 compared to 2018, supporting the positive cash flow generation for the year. During Capital Markets Day 2020, Hydro announced a new and extended improvement ambition, now aiming to achieve improvements of NOK 8.5 billion by 2025.

The World ex-China alumina market was oversupplied in 2020 with China absorbing the excess production as imports to balance the global market. The Covid-19 pandemic caused temporary production declines in some regions, particularly in China during the first quarter of the year, but the overall impact on annual production was limited. Chinese demand for imported bauxite continued to grow, driven by increased capacity and more expensive domestic bauxite, which remains challenging to source. The increased demand was largely met by the continued growth in imports from Guinea and by increasing Indonesian volumes, while bauxite imports from Australian were stable.

Global primary aluminium demand declined 3.7 percent in 2020 affected by the Covid-19 situation, with World ex-China experiencing a 13.5 percent demand drop. Global supply increased by 2.4 percent, resulting in a global surplus of around 3 million mt. Primary production growth in China increased 4.0 percent year-on-year in 2020 on high smelter profitability due to high aluminium margins. Demand in downstream segments dropped in the second quarter of the year due to lockdowns in Europe and North America but recovered relatively strongly in the subsequent quarters, returning to normal levels by the end of the year and entering 2021 with increasing market optimism.

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 paves 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 and strengthens our position to be an industry leader in low carbon aluminum.

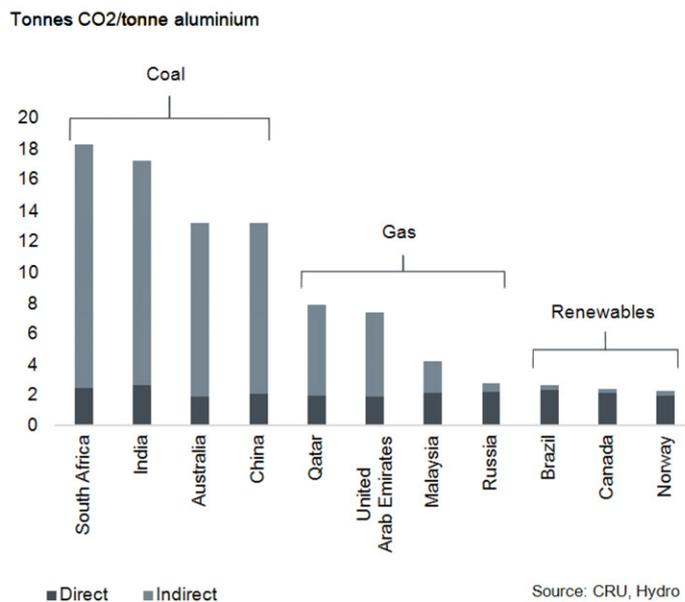
Norwegian low-carbon products can play an important role in reducing global CO₂ emissions and meeting the growing demand for these low carbon products in several sectors.

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 ensuring Europe continues to have a viable extrusion industry which will still have a high level of competition due to its many competitors.

61 of Hydro's aluminium sites worldwide have achieved certification according to the Aluminium Stewardship

Initiative (ASI)'s Performance Standard. ASI is a global, multi-stakeholder, non-profit standards setting and certification organization. It works toward responsible production, sourcing and the stewardship of aluminium following an entire value-chain approach.

CO₂ emissions and main energy source in aluminium production by country 2020



61 Hydro sites certified against ASI Performance Standard

100% European production sites certified against ASI Performance Standard

100% Alunorte and Paragominas certified against ASI Performance and Chain of Custody

100% Fully owned Primary production facilities and recyclers

On June 20, 2020, three power transmission towers overturned, cutting the power supply to Hydro's Paragominas bauxite mine and temporarily halting production. 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 was subsequently ramped up, reaching full capacity utilization by the end of 2020.

Hydro Bauxite & Alumina has developed and tested of the "Tailings Dry Backfill" methodology at the Paragominas mine, addressing one of the industry's key challenges. This is an approach to minimize the volume of tailings stored, by excavating dried tailings from the storage facility and returning it to the mined areas before they are rehabilitated. The methodology eliminates the need for continuous construction or upgrade of new permanent tailings facilities. The application of this approach in Paragominas represents the end of construction of new facilities for storage of bauxite tailings. The operating license to implement this new approach was received in December 2020, and it has now been fully adopted into operations at the mine.

Hydro's Technology Pilot at Karmøy, Norway, the HAL4e technology was successfully verified in 2020 after a two-year internal testing program. The industrial-scale pilot plant produces the world's most climate friendly and energy efficient primary aluminium, operating at around 15 percent lower energy consumption than the world average.

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

Hydro Extrusions has undergone an optimization of its large asset portfolio to identify ways to streamline and to reduce costs supporting its improvement target. In 2020, some extrusion plants were closed or divested, and in most cases, production volumes were transferred to other facilities.

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

Sale of Rolling business areas

On March 5, 2021, Hydro entered into an agreement to sell its Rolling business to KPS Capital Partners for EUR 1,380 million (around NOK 14.2 billion) on an enterprise value basis. The sale of Rolling will strengthen our ability to deliver on the 2025 strategy, strengthening our position in low-carbon aluminium, while exploring new growth in areas where our capabilities match global megatrends.

Hydro launched a strategic review and restructuring of our Rolling business area in 2019, restructuring initiatives have delivered above expectations, with NOK 500 million of NOK 1.1 billion improvement program delivered by end 2020. In order to enable Hydro to deliver on the 2025 strategy, and ensuring full potential development of Rolling, a 100 percent sale to KPS Capital Partners is viewed as a good solution for all stakeholders.

The transaction includes seven plants, including the Neuss primary aluminium plant, one R&D center, global sales offices, and around 5,000 employees, of which 650 employees are in Norway and the remaining mainly in Germany. In 2020, Hydro Rolling contributed approximately NOK 24 billion in revenue, 17 percent of Hydro's total and NOK 1.3 billion in Underlying EBITDA, 9 percent of Hydro's total. The sales volumes amounted to 864,000 tonnes, serving segments including Can, Foil, Lithography, Automotive and General Engineering.

The agreed transaction price of EUR 1,380 million will result in a reduction of EUR 856 million in pension liabilities and EUR 435 million cash proceeds. The transaction is subject to customary approvals from competition authorities and is expected to be completed during second half of 2021. Executive Vice President and Head of Hydro Rolling, Einar Glomnes, will become CEO of the new company after closing.

The Rolling operations will be treated as an asset held for sale and discontinued operations in Hydro's financial reporting from the first quarter of 2021. An impairment of NOK 1.9 billion was recognized in the financial statements for 2020, as the agreed sales price was below the carrying value of the Rolling business.

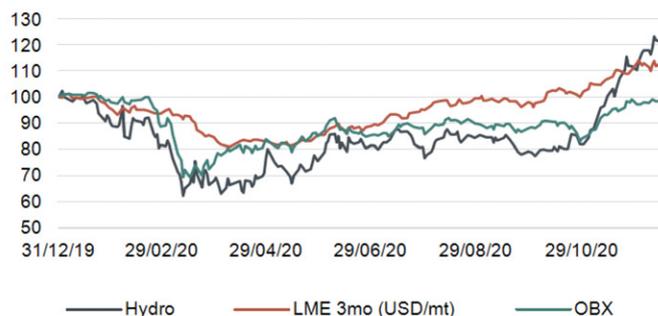
The sales transaction will impact Hydro's targets and ambitions such as the improvement program, commercial ambitions, recycling growth targets and sustainability goals and targets. Targets included in this report include the Rolling business area and will be adjusted during 2021.

Investor information

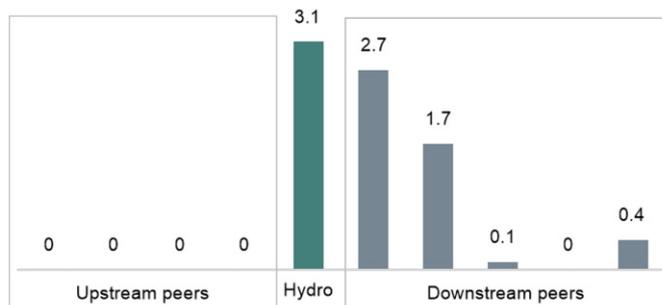
Hydro's share price closed at NOK 39.86 at the end of 2020. The return ex. dividend for 2020 was NOK 7.22, or 22 percent.

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

Share price vs. market



Aluminium peer group dividend yield¹⁾ (%)



1) Dividend yield defined as dividend per share paid out in year 2020/share price year end 2020. Peer group includes (in alphabetical order): Upstream: Alcoa, Century, Chalco, Hindalco, Rusal Downstream: Amag, Arconic, Constellium, Kaiser

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

Financial results

Underlying financial and operating results

Key financial information	Year	Year
NOK million, except per share data	2020	2019
Revenue	138,118	149,766
Earnings before financial items and tax (EBIT)	7,332	499
Items excluded from underlying EBIT ¹⁾	(1,281)	2,860
Underlying EBIT ¹⁾	6,051	3,359
<i>Underlying EBIT:</i>		
Hydro Bauxite & Alumina	1,806	974
Hydro Aluminium Metal	1,225	(1,259)
Hydro Metal Markets	728	983
Hydro Rolling	70	413
Hydro Extrusions	2,196	2,009
Hydro Energy	974	1,243
Other and eliminations	(948)	(1,003)
Underlying EBIT ¹⁾	6,051	3,359
Earnings before financial items, tax, depreciation and amortization (EBITDA) ²⁾	19,465	9,878
Underlying EBITDA ¹⁾	14,316	11,832
Net income (loss)	1,660	(2,370)
Underlying net income (loss) ¹⁾	2,718	708
Earnings per share	0.90	(0.88)
Underlying earnings per share ¹⁾	1.25	0.52
<i>Financial data:</i>		
Investments ¹⁾²⁾	14,174	10,907
Net cash (debt) ¹⁾	(7,830)	(11,760)
Adjusted net cash (debt) ¹⁾	(22,620)	(25,447)
Underlying Return on average Capital Employed (RoaCE) ¹⁾	3.7 %	1.3 %
Key Operational information		
	Year	Year
	2020	2019
Bauxite production (kmt) ³⁾	8,640	7,360
Alumina production (kmt)	5,457	4,487
Realized alumina price (USD/mt) ⁴⁾	268	326
Primary aluminium production (kmt)	2,091	2,038
Realized aluminium price LME (USD/mt)	1,685	1,827
Realized USD/NOK exchange rate	9.42	8.74
Rolling sales volumes to external market (kmt)	864	952
Extrusions sales volumes to external market (kmt)	1,099	1,269
Power production (GWh)	11,522	9,150

1) Alternative performance measures (APMs) are described in the appendices to the Board of Directors' report.

2) EBITDA and investments per segment are specified in Note 1.4 Operating and geographic segment information in the financial statements.

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 either the LME prices or alumina index with one-month delay.

Hydro's underlying EBIT for the full year was NOK 6,051 million, compared with NOK 3,359 million in 2019. The ramp-up of Alunorte's production, reduced raw material costs and positive currency effects were partly offset by reduced realized alumina and aluminium prices, and reduced downstream volumes.

Underlying EBIT for Bauxite & Alumina 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.

Aluminium Metals' underlying EBIT increased compared to 2019. Lower raw material cost, positive currency effects, lower fixed cost and depreciation were partly offset by lower all-in metal prices.

Underlying EBIT for Metal Markets decreased compared to 2019, mainly due to lower results from the recyclers and lower results from the sourcing and trading activities, partly offset by positive currency effects.

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

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

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

Impairments and transaction gain

Extrusions recognized an impairment of NOK 1.5 billion in 2020, reflecting weaker growth expectations in key market segments driven by the negative macroeconomic effects of Covid-19. Aluminium Metal's majority owned primary aluminium plant, Slovalco recognized an impairment of NOK 0.5 billion in 2020, reflecting the continued weak market environment combined with Slovalco's relatively high cost position. Rolling recognized an impairment of NOK 1.9 billion resulting from the agreement to sell the Rolling business. The agreed sales price was below the carrying value of the business to be sold by an estimated amount of NOK 1.9 billion.

The impairments described above are excluded from underlying EBIT. See *Note 2.5: Impairment of non-current assets* and the APM section for further information.

On December 31, 2020, Hydro and Lyse merged part of their respective hydropower production assets to create a new hydropower company Lyse Kraft DA. A gain resulting from the transaction of NOK 5.3 billion was recognized in 2020, the gain was excluded from underlying EBIT.

Liquidity, financial position, investments

Hydro's net debt was NOK 7.8 billion at the end of 2020, compared to NOK 11.8 at the end of 2019. Net cash provided by operating activities of NOK 13.5 billion was sufficient to cover net cash used in investing activities of NOK 8.3 billion and dividend payments of NOK 2.6 billion to Norsk Hydro's shareholders.

Hydro's adjusted net cash (debt) to equity ratio was 35 percent, well below its targeted maximum ratio of 55 percent. Funds from operations to average adjusted net cash (debt) ratio was 39 percent, slightly below the targeted minimum of 40 percent over the business cycle. Hydro's management has decided to replace these two ratios with average Adjusted net cash (debt) to underlying EBITDA going forward. See note 7.1 to the financial statements for information on Hydro's capital management measures.

Hydro held NOK 17.6 billion in cash and cash equivalents and NOK 2.5 billion in short-term bank deposits, included in short-term investments, at the end of the year. Short-term bank deposits are normally available at short notice. Norsk Hydro ASA has a USD 1.6 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in December 2025, with one remaining one-year extension option. The facility was undrawn per year-end 2020. The facility will continue to serve primarily as a back-up for unforeseen funding requirements. See Note 7.1 Capital management in the Financial statements for additional information.

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 table below. Items excluded

from underlying EBIT and underlying net income (loss) are defined and described as part of the Alternative Performance Measures in the Appendices to the Board of Directors' report.

Items excluded from underlying EBIT and net income ¹⁾ NOK million	Year 2020	Year 2019
Unrealized derivative effects on LME related contracts	(340)	91
Unrealized derivative effects on power and raw material contracts	171	(99)
Metal effect, Rolling	298	370
Significant rationalization charges and closure costs ²⁾	202	1,484
Impairment charges ³⁾	3,868	906
Alunorte agreements - provision ⁴⁾	129	80
Transaction related effects ⁵⁾	(5,407)	21
Pension ⁶⁾	-	(62)
Other effects ⁷⁾	(203)	68
Items excluded from underlying EBIT	(1,281)	2,860
Net foreign exchange (gain)/loss	3,861	1,204
Other finance (income) expense	(128)	-
Calculated income tax effect	(1,393)	(986)
Items excluded from underlying net income	1,059	3,078
Income (loss) tax rate	21%	(52)%
Underlying income (loss) tax rate	46%	72%

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

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

3) Impairment charges for 2020 include assets in Rolling, Slovako smelter and various assets in Hydro Extrusions. The amount also includes a reversal of previously impaired industrial park in Germany.

4) 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.

5) Transaction related effect in 2020 includes a divestment gain in Hydro Energy of NOK 5,308 million, representing the gain on contributing the Røldal Suldal power assets to Lyse Kraft DA, which is partly owned by Hydro. The gain is net of the unrealized share equal to Hydro's retained ownership interest of 25.6 percent, which is eliminated. The amount also includes divestments of Hydro Extrusions plants and gain on selling a previously impaired property in Germany.

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

7) Other effects include adjustments in Hydro Rolling, Hydro Extrusions and Hydro Aluminium Metal as described in the Alternative Performance Measures section in the appendices to the Board of Directors' report.

Market developments and outlook

Upstream market developments

The World ex-China alumina market was oversupplied in 2020 with China absorbing the excess production as imports to balance the global market. The Covid-19 pandemic caused temporary production declines in some regions, particularly in China during the first quarter of the year, but the overall impact on annual production was muted. Chinese demand for imported bauxite continued growing as the share of domestic bauxite in the refineries decreased and a new refinery on the coast of Guangxi province started production mid-year. Higher demand was largely met by higher imports from Guinea and Indonesia, bauxite imports from Australian were stable.

The Platts alumina price index started the year at USD 275 per mt, ranging from USD 225 – 305 per mt during 2020. The price index increased during the first quarter as logistical challenges in China due to the Covid-19 reduced raw material supply thus restricting alumina production and

transportation. The price index then decreased sharply as Covid-19 slowed economic activity in most regions of the world, falling to the annual low of USD 225 per mt in mid-April. The price index then gradually recovered, reaching its annual high of USD 305 per mt at year-end.

The Platts alumina price index averaged USD 271 per mt for the year, an 18 percent decrease compared to 2019. Prices as a percentage of LME varied, averaging 15.7 percent for the year compared with 18.3 percent in 2019. The price index at the end of 2020 represented 15.4 percent of the three-month aluminium price quoted on LME.

China imported 3.8 million mt (3.7 million mt net of exports) of alumina in 2020 compared to net imports of 1.4 million mt in 2019. Australia accounted for 57 percent of imports followed by Vietnam and Indonesia with 13 percent and 12 percent, respectively.

China imported 111.6 million mt of bauxite in 2020, 11 percent higher than the previous year. Driven by new mines increasing production, imports from Guinea increased 19 percent from 2019 to 52.7 million mt, imports from Indonesia increased 29 percent to 18.2 million mt and imports from Australia increased 3 percent to 37 million mt. These three

countries accounted for 97 percent of China's bauxite imports, compared to 94 percent in 2019. Imports from the Solomon Islands and Malaysia reached 0.8 million mt and 0.2 million mt, respectively.

The price of bauxite imported into China in 2020 decreased to an annual average of USD 45 per mt CIF China compared to USD 51 per mt CIF China in 2019.

Three-month LME prices started the year around USD 1,810 per mt and ended the year at USD 1,980 per mt. Prices dropped to a low of USD 1,462 in May, following the Covid-19 outbreak, before increasing as global economic growth recovered. Prices increased continuously throughout the remainder of the year, reaching a two-year high of USD 2,060 in December.

North American and European standard ingot premiums started the year at USD 320 per mt and USD 140 per mt respectively. European standard ingot premiums declined to USD 92 per mt as the Covid-19 outbreak affected the European market, recovering slowly but steadily as demand recovered. The US Midwest standard ingot premium decreased to USD 177 per mt in May as the Covid-19 outbreak effected the North American market, and the premium recovery was more volatile in the second half of the year as changes to Section 232 tariffs caused uncertainty. North American and European standard ingot premiums ended the year at USD 323 per mt and USD 150 per mt respectively.

Global primary aluminium consumption decreased by 3.7 percent to 62.1 million mt in 2020. Global supply increased by 2.7 percent to 64.9 million mt resulting in global surplus of around 3 million mt. For 2021, global primary aluminium demand is expected to increase by 7-8 percent and aluminium production is expected to increase by 6-7 percent, resulting in a continued but lower global surplus in 2021 compared to 2020.

Demand for primary aluminium outside China decreased by around 13 percent in 2020, while corresponding production increased by 0.5 percent. Overall, production outside China exceeded demand by around 2.4 million mt in 2020. Demand for primary aluminium outside China is expected to increase by around 12-13 percent in 2021. Corresponding production is expected to be up about 4-5 percent, leaving the world outside China in a continued but lower surplus of around 1.4 million mt for 2021.

Demand for primary metal in China increased around 3.5 percent to 37.4 million mt in 2020. Chinese production increased by 4.4 percent in 2020, resulting in a small surplus for the year. Production growth was supported by high prices and several new and expanded smelters starting production. Chinese primary production is expected to increase by 7-8 percent in 2021. Primary demand is estimated to increase by around 5-6 percent, resulting in a surplus of around 0.5 million mt in 2021.

LME stocks decreased slightly in 2020, from 1.47 million mt at the end of 2019 to 1.35 million mt at the end of 2020. After an increase in stocks from beginning to mid-2020 due to lack of global demand, stocks decreased again as demand from China increased. Total global inventories, including unreported inventories, are estimated to have increased by

2.6 million mt in 2020. The total stock level is estimated to be around 13.3 million mt at the end of 2020.

The negative impact of the Covid-19 virus on European economies and industries reduced the demand for extrusion ingot, primary foundry alloys and sheet ingot significantly in 2020 compared to 2019. The consumption of wire rod was less affected and reached a level only slightly below 2019.

Aluminum shipments in the U.S., both extrusion ingots and foundry alloys, began the year at a modest pace, fell sharply with Covid-19 related restrictions on manufacturing activity, but rebounded sharply in the third quarter and ended the year with the fourth quarter stronger than the same period in 2019. In total extrusion ingot and foundry alloy shipments decreased in 2020 compared to 2019.

The Asian market suffered an unprecedented decline in the second quarter due to the Covid-19 pandemic. The extrusion ingot demand for Asia ex. China decreased significantly in 2020 compared to 2019. In automotive, light vehicles production in Asia ex. China decreased about 20 percent y-o-y leading to a similar drop of primary foundry alloys consumption in 2020. However, a surprisingly strong recovery was seen in the fourth quarter and is expected to continue into 2021.

Downstream market developments

European demand for flat rolled products declined by 10 percent in 2020 due to the Covid-19 situation. The pandemic led to a steep decline in demand, particularly in the transport and general engineering segments.

The beverage can demand was stable, negative effects from Covid-19 in the second and third quarters were balanced by solid demand in the first and fourth quarters. The market for Foil was stable, benefitting from an increased demand in packaging. CRU expects European demand to grow by 8 percent in 2021.

Demand for extrusions experienced a volatile development throughout 2020 as Covid-19 affected key geographies and segments. Both European and North American demand fell significantly in the second quarter, mainly driven by weaker demand in the transport segment and overall lower industrial activity. Demand improved gradually in the second half of the year supported by improving automotive production and improved market sentiment. The building and construction segment saw a more stable development throughout the year, supported by strong residential demand driven by refurbishing. In total for 2020, demand is estimated to have decreased by 12 percent compared to 2019 in both Europe and North America.

In recent years the European market has seen increasing levels of Chinese imports at low prices. In October 2020, anti-dumping duties on imports of Chinese extrusions into Europe were introduced. Following the imposition, the level of imports from China have moderated substantially during a period with improving demand.

Energy market developments

Nordic electricity prices declined to unusually low levels during 2020, primarily due to a strong hydrology and lower power consumption, due to mild weather and decreased demand. In addition, Nordic wind power production was above normal levels. Nordic electricity prices gradually

recovered towards the end of the year and increased further in early 2021.

In Brazil, strong hydrology and low demand, mainly due to Covid-19 effects, caused prices to fall to low levels for the year through to September. Both increased demand and a delayed wet season caused prices to increase significantly during the fourth quarter, reaching levels close to the regulatory ceiling by November 2020.

Risk review

ERM in Hydro

Hydro has, with active engagement from the Board of Directors, developed and implemented a revised enterprise risk management framework. In accordance with this model, risk factors that are relevant for Hydro's business are continuously identified, analyzed, addressed and monitored. Risk management is an integral part of our business system where responsibility and ownership for incident- and HSE risks mainly resides in the business areas, while strategic risks for the Hydro Group are mainly addressed at Group level.

The main improvements in Hydro's recently revised ERM framework include more granularity in risk descriptions and evaluations, more distinct differentiation between strategic and incident risks, increased focus on evaluation of risk mitigation, including discussions of further and faster risk mitigation and evaluating how this relates to Hydro's risk appetite. Major risks are analyzed and managed according to Hydro's risk appetite through the annual strategy process with a status update provided in the business planning process. Mitigating actions are followed up on an ongoing basis, as part of our internal board review structure.

Risk management is an integral part of our business system and the responsibility of managers at all levels. Hydro's Group functions establish and develop policies and procedures for managing risk and coordinate an annual enterprise risk assessment with a biannual status update. Each manager shall be aware of significant risks within their area of responsibility and ensure that adequate risk mitigation is in place. The business areas ensure that risks within their area are identified, assessed and adequately addressed. Assessment of the main risks and mitigating plans should be well documented and regularly updated. The Corporate Management Board (CMB) is responsible for risk management at Hydro Group level. CMB assists the CEO in ensuring that Hydro has adequate risk management systems in place and that appropriate actions are taken to mitigate undesirable risk exposures. The Board of Directors oversees the risk management framework, including monitoring of the risk picture through biannual assessments of Hydro Group's main risks.

Overview of Hydro's main risks

Hydro's main risks may affect business operations, reputation, financial condition, and ultimately, the share price. Some of these risks might also have a positive business impact or represent a business opportunity, whereas the focus in the descriptions in this report is on downside risk.

In line with Hydro's ERM framework, the risks are categorized as Strategic-, Incident- and HSE risks. The development in the risk picture may be driven by both changes in the external environment and Hydro's own mitigating activities. Despite Hydro's efforts, our risk mitigating initiatives may fail, be insufficient or prove to be inadequate to mitigate the risks we are facing. As risks will emerge, increase, decrease or change with time and events, the information in this section should be carefully considered by investors. The risk picture described in this report may be impacted by the sale of Hydro Rolling business area to KPS Capital Partners announced in March 2021, and will be reviewed as part of the regular annual ERM update in 2021.

An assessment of Hydro's top Strategic-, Incident- and HSE risks is presented in the table below. By definition, if materialized, the top risks could significantly impact operations, financials, reputation or license to operate with severe consequences to Hydro. The table indicates a likelihood of a risk materializing with the current set of mitigating actions in place, the most affected business area(s), as well as an extent to which Hydro is able to influence a negative risk outcome or its magnitude.

For further details on Hydro's main strategic, incident, and HSE-risks, including description, status and mitigating actions, please see the Risk Review Chapter of the Annual Report.

Description of Hydro's main risks

Hydro's main strategic risks

Risk overview

Strategic risks are emerging risks challenging Hydro's strategic objectives. Mitigation could require long-term and potentially structural changes of the company and is therefore owned by the CEO and CMB. The majority of strategic risks are driven by external developments such as macroeconomics, industry and market environment, competition, changes in regulatory frameworks or political environment, or changes in stakeholder expectations. Strategic risks are normally characterized by:

- potential long-term impact on profitability
- mitigation often requires longer-term efforts and may involve structural moves or changes in strategic direction
- trend-based nature with high uncertainty
- potential build-up over time
- potential later transformation to incident risks
- immediate action is not always required

Strategic risks

		Main exposed Business Area	Influenceability	Likelihood
1	Increased competition from China and other countries			
2	Unfavorable macroeconomic development			
3	Value chain concentration			
4	Not delivering on sustainability expectations			
5	Changes in regulatory framework or political environment			

Incident risks

1	Insufficient asset integrity			
2	Material CSR-, legal- or non-compliance incident			
3	Major cyber-attack on industrial control systems or enterprise IT			
4	Discontinued ICMS deferral and increased Qatalum tax rate			
5	Pandemic outbreak or other major global events			

HSE risks

1	Fatal or life-changing accidents			
2	Security incidents			
3	Spills, unlicensed releases or gradual contamination build-up			
4	Structural collapse or other major accident			
5	Insufficient water supply to meet operational mining demands			

	Low		Low		Hydro Group		Hydro Extrusions
	Medium		Medium		Hydro Bauxite & Alumina		Hydro Rolling
	High		High		Hydro Aluminium Metal		Hydro Energy

The aluminium industry is commodity-driven and pro-cyclical implying a high correlation with the overall macroeconomic situation as well as a market sentiment towards commodities in general. Hydro's earnings are sensitive to aluminum, alumina and raw material prices and are exposed to exchange rate fluctuations. In addition, due to the global nature of the industry with China accounting for more than half of the global aluminium production and demand, developments in China have had a significant impact on the aluminium industry as a whole over the last decade.

Sustainability has become a major topic also in the aluminium industry addressing climate change, environment and social challenges among others. It has gained attention from customers, end-users, regulators, shareholders and other stakeholders. While Hydro is among aluminium producers with the lowest CO₂ footprint, the production process as such is still energy- and carbon- intensive. Technological developments may represent an opportunity, while the same breakthrough developed by competitors is a risk to Hydro. The aluminium industry is subject to multiple local and global regulatory frameworks. Climate-related regulations in the EU and mining standards regulations applicable to our Brazilian operations have been particularly relevant lately. The developments in regulatory frameworks may represent both an opportunity and a risk for Hydro.

Hydro's integrated aluminium production chain poses risks related to value chain concentration, where disruptions upstream could impact other parts of the company. Over the last few years, Hydro has experienced challenges running stable operations in Brazil for various reasons, including asset integrity and a complex political and social environment. This has driven a focus on significantly enhancing our robustness in the region.

Risk development

In 2020, the Covid-19 pandemic resulted in an economic-downturn worldwide, reduced demand for our products and affected commodity prices as well as currencies. This impacted Hydro's earnings and created a significant uncertainty for the outlook. Even though the impact of Covid-19 on the macroeconomy has been less dramatic than feared, the risk of an economic slowdown in the near or far future cannot be ruled out.

Global trade disputes and increased geopolitical uncertainties are drivers lowering general economic growth, and this also impacts Hydro, both in terms of demand but also directly as experienced by Hydro Rolling with the imposed US anti-dumping duties. At the same time, the trend towards increased protectionism supports regulations lowering the risk of increased and unfair competition. The EU has put in place anti-dumping duties on some aluminium products, mostly on imports from China.

The underlying risks related to sustainability are trending upwards. The increasing awareness around sustainability is to a large degree positive for Hydro compared to peers. However, regulations are tightening; especially driven by the European authorities. R&D efforts and funds are focused on greener solutions, which will result in increasing competition within sustainable materials. In general, all industries and companies which do have a significant negative sustainability

footprint are expected to come under increased scrutiny the coming years.

Brazilian operation experienced several operational disruptions in 2020. On the other hand, progress is made across key sustainability areas, including increased robustness of our operations in Brazil, strengthened community relationships, and reducing environmental impact of our mining operations.

Risk mitigation

As most strategic risks are driven by the external developments and trends, mitigation often requires longer-term efforts and may involve structural moves and strategic shifts. Nevertheless, Hydro takes actions to ensure strong relative positions in the industry compared to peers, closely follows regulatory developments, actively participates in relevant discussions and strives to meet expectations of key stakeholders.

Hydro's top strategic risks were an important backdrop when developing the Hydro 2025 strategic direction. The revised strategy is set out to diversify Hydro's earnings and differentiate through our strong sustainability position. Hydro will work on strengthening its position in low carbon aluminium, and grow businesses where megatrends match capabilities, such as recycling, renewable energy and batteries.

In Brazil, actions have been taken to improve asset integrity, strengthen community relationships, and reduce long-term environmental impact. Progress has been made on long-term targets. Most notably, the dry tailings backfill technology has been licensed and is a significant technological breakthrough eliminating the long-term need for new bauxite tailing dams. Systematic CSR efforts are ongoing including Sustainable Barcarena initiative and TAC/TC commitments. Projects to reduce CO₂ emissions in the refinery, such as fuel switch and electrification of boilers, are being developed.

To limit the downside of a severe economic downturn on the back of Covid-19, Hydro implemented significant cash preservation measures in 2020 through cost optimization and reduced investments. This has illustrated the flexibility of Hydro's financial framework. Hydro has also revised its hedging policy, and while the majority of our positions will remain exposed to market fluctuations, Hydro will also utilize hedging instruments, when warranted.

Hydro's main incident risks

Risk overview

Incident risks are often operational in nature, driven by internal factors, and with a potentially sudden occurrence and immediate impact. Risk mitigation is largely within Hydro's control where the benefits must be evaluated against the associated costs. Hydro's main incident risks could influence the whole or multiple parts of the value chain, potentially with a major financial impact. Responsibility and ownership for incident risks mainly resides in the business areas. All main incident risks are addressed with risk mitigation plans and are followed up in our internal board review structure.

Hydro's top incident risks are mainly related to our operations in Brazil, including operational, regulatory and corruption risks. Focus is also currently high on cyber

security, compliance with competition law and on ensuring a favorable tax framework for Qatalum.

Risk development

Throughout 2020, the Covid-19 situation has highlighted Hydro's (and the society's at large) vulnerability during such extreme scenarios. The pandemic has increased the risk of operational disruption due to government-imposed restrictions, social unrest or lack of raw materials. Hydro has sought to limit the operational and financial impact on the company, and wherever possible maintain business as normal activities. Although the impact of the pandemic has been less than feared, preparedness for the future disease outbreaks or other major global events is key.

The risk of a major operational incident in Hydro Bauxite & Alumina remains high. In 2020, Hydro experienced several operational disruptions in Brazil. This includes a fire incident in Albras, extended pipeline maintenance and incidents with the power transmission lines in Paragominas, as well as a crane incident at the Alunorte port.

In June 2020, ICMS deferral was approved by the Brazilian National Council of Finance Policy (CONFAZ), thereby reducing the risk of immediate ICMS deferral removal. The Qatalum tax holiday expired in September 2020 and the future tax rate is not yet concluded. The tax situation for Qatalum is further described in note 3.1 to the financial statements.

The external threat picture for cyber risk remains high with several recent attacks in Norway. The risk of a major breach of competition compliance law remains relatively stable.

Risk mitigation

Progress has been made on mitigating actions related to several of Hydro's main incident risks. Asset integrity programs are being revised and investments are allocated to strengthen asset robustness. Additional measures have been put in place in 2020 to reduce operational risks in Bauxite & Alumina. An external risk and control review study is initiated, the pipeline wear model is being reviewed and a project is looking into differences between historic and current slurry properties. Security in critical areas of the power transmission line is strengthened.

In order to be better equipped to prevent and handle future cyber-attacks, Hydro has taken steps to strengthen its cyber security maturity level. A Cyber Response Program for the period 2020-2022 has been launched and is addressing both the state of the central IT infrastructure and industrial control systems in the business areas.

The main activities to mitigate the operational impact of Covid-19 are based on guidelines and regulations from national authorities such as travel restrictions, social distancing, home offices or even more complete societal lockdowns. Alignment with authorities and associations, including providing input on industry needs, is key to ensure business continuity. Hydro-specific measures include assessments of key risks and vulnerabilities, and preparation and review of plans. To reduce the supply chain risk, minimum stock levels for key raw materials were increased. The financial impact has been mitigated with a set of cash-preservation measures to reduce cost and capital expenditures and ensure sufficient liquidity.

Hydro's Board-sanctioned Code of Conduct requires adherence with laws and regulations as well as global directives and procedures, and is systematically implemented and maintained through our compliance system. Over many years, Hydro has been running training of management and staffs, in combination with e-learning programs and competition compliance guidelines in order to build awareness and basic understanding of the concept of competition law. Hydro has active dialogues with relevant parties affected by our activities. These include unions, works councils, customers, suppliers, business partners, local authorities and non-governmental organizations.

Hydro's main HSE-risks

Risk overview

Hydro's main HSE risks are mostly operational by nature or influenced by operational processes. These are risks with a potentially fatal outcome or risks with a potential major environmental, social or financial impact. Responsibility and ownership for HSE risks mainly resides in the Business Areas. All main HSE risks are addressed with risk mitigation plans and followed up in our internal board review structure and in the CEO HSE committee.

Based on Hydro's processes, risks of fatal or life-changing incidents could include molten metal explosion, mobile equipment interaction and transportation, working at height, energy isolation, overhead cranes, confined space entry, equipment failure, major fires, occupational illness and chemical spills. Security risks such as public violence, robbery or theft is particularly relevant in the Barcarena region in Brazil.

The nature of Hydro's mining and industrial operations implies a potential climate and environmental risk exposure. Hydro is also exposed to risks related to the effects of known and unknown historical and current emissions to air, water and soil around large assets. These risks are usually long-term, and to a large extent related to our Bauxite & Alumina operations in Brazil. Climate change may also have an impact on Hydro's operations. For example, Hydro may be faced with insufficient water supply to meet future operational demands at the Paragominas mine.

Although the likelihood is not considered to be high, there is a risk of major accidents such as collapse of a hydropower dam, tailings storage facilities or bauxite residue storage facilities, collapse of the entire port structure at the Alunorte alumina refinery, or rupture of the bauxite slurry pipeline. If materialized, these accidents would have a significant and potentially lasting impact on the environment as well as health & safety of the employees and nearby communities.

Risk development

Hydro's main safety and security risks have developed positively over the past 12 months with a reduction in the number of Total Recordable Injuries and High-Risk Incidents and corresponding rates. There were no fatal accidents in our operations in 2020, but, unfortunately, one life changing injury resulting in an amputation of a foot. There have been high-risk incidents that had the potential to be fatal, however the number of such incidents has reduced significantly over previous years.

The violence in Barcarena and surrounding area remains similar to previous year. There was one significant incident

involving our security guards being fired upon while on patrol at one of our Brazilian sites. No security personnel were injured and resulting security mitigation measures were employed to protect personnel and prevent further incidents.

Hydro's main environmental risks have remained stable or been reduced. Mitigating actions and monitoring processes have been identified and implemented to reduce the likelihood of incidents occurring.

Risk mitigation

Hydro's influenceability on its HSE risks is in most cases medium to high. Adequate mitigating actions are planned or in place for all of Hydro's main HSE risks.

Mitigating actions to reduce the likelihood of fatal and life-changing incidents occurring have been developed and implementation is progressing in all business areas with quarterly updates for the critical 7 fatality prevention procedures.

Hydro Bauxite & Alumina security team closely monitors security risks in areas which Hydro operates and maintains close contact with authorities in specific areas. Security risk assessments and protective measures are in place both at operations and hotels used by Hydro employees.

All sites are required to monitor and maintain a record of known legacies related to their operations and address them according to the agreements made with the relevant regulatory bodies. Where potential legacy risks are more significant, comprehensive environmental monitoring campaigns and proactive remediation activities are in place. A new Environment Global procedure aimed at chemical management has been developed. Risk mitigation related to tailings dams, water dams and pipeline rupture continues. The bauxite pipeline has undergone extended maintenance, while the pipeline wear model and replacement plan are under review. The risk of insufficient landfilling capacity has been addressed with licensing of the dry tailings backfill technology in Paragominas. MRN is an active member of the tailings committee and the possibility of dry tailings backfill is under review.

Hydro is continuously monitoring the HSE-risk development and the impact of its operations. For example, an environmental baseline and effect study is underway in Barcarena to determine the environmental impact of our operations. A similar study is underway in Norway to determine the impact of our smelting operations. Hydro follows the developments in and commits to comply with relevant local and global HSE regulations and standards. Hydro will continue to evaluate current mitigation plans and assess potential additional or alternative mitigations.

Hydro's financial position and key financial exposures

Hydro's main strategy for mitigating risk related to volatility in cash flow is to maintain a strong balance sheet and an investment grade credit rating, while at the same time focusing on reducing the average cost position of production assets, and allocating capital in line with our strategic ambitions. In certain circumstances, derivatives may be used to mitigate financial risk on business area or group level. During 2020, Hydro has performed a review of its risk management strategy, and intends to utilize derivative and non-derivative measures to manage price exposure over slightly longer periods than the practice in recent years. The targeted key financial ratio levels over the business cycle are described in note 7.1 to the financial statements.

Key financial exposures

Hydro's operating results are primarily affected by price developments of our main products, raw materials, margin developments and fluctuations in the most significant currencies for Hydro, which are USD, NOK, EUR and BRL.

To mitigate the impact of exchange rate fluctuations, long-term debt is mainly maintained in currencies reflecting underlying exposures and cash generation. Hydro may also use foreign currency swaps and forward currency contracts to reduce effects of fluctuations in the US dollar and other exchange rates.

The table below shows sensitivities regarding aluminium prices and foreign currency fluctuations for 2020. The table illustrates the sensitivity of earnings, before tax, interest and depreciation (EBITDA) to changes in these factors and is provided to supplement the sensitivity analysis required by IFRS, included in note 8.2 to the financial statements. These sensitivities are on an underlying basis, and do not consider revaluation effects of derivative instruments, which may influence earnings.

Sensitivities with 100% production

Commodity price sensitivity +10%

NOK Million	UEBITDA
Hydro Group	
Aluminium	3,530

Currency sensitivities +10%

NOK Million	USD	BRL	EUR
Sustainable effect			
EBITDA	3,620	(710)	-
One-off reevaluation effect			
Financial items	(240)	680	(3,960)

Annual sensitivities based on normal annual production volumes, LME USD 1 790 per mt, USDNOK 9.13, BRLNOK 1.67, EURNOK 10.47.

Compliance, controls and procedures

Hydro's Code of Conduct requires adherence with laws and regulations as well as internal directives and procedures. It is systematically implemented and followed up through our compliance system. The compliance system is based on four pillars: prevention, detection, reporting and responding. In addition to financial compliance, priority areas are health, safety and environment (HSE), human rights, anti-corruption, competition law and data privacy (see the section Society).

Hydro follows the most recent version of Norwegian Code of Practice on Corporate Governance of October 2018. Details on Hydro's compliance with the code are in the section Norwegian Code of Practice on Corporate Governance, in the appendices to this report.

The Board Audit Committee carries out a control function and assists the board in exercising its oversight responsibility with the company's financial reporting and the requirements that extends beyond the financial reporting, covering environmental, social and governance issues.

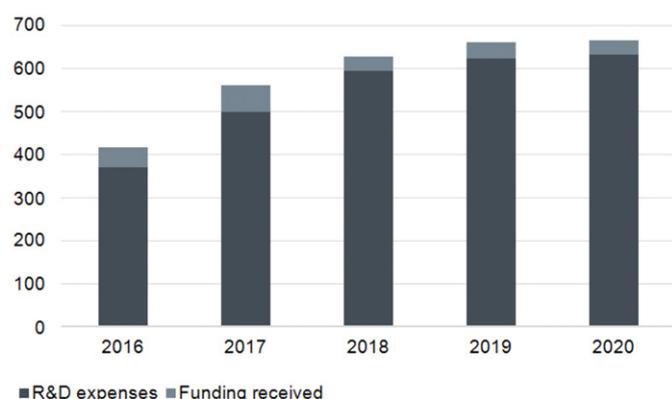
Research and development

We believe that the key to Hydro's 115-year-long stretch of industrial progress is the combination of production and innovation, where research and development have gone hand in hand with full-scale production.

The greater part of our R&D expenses goes to our in-house research and application development organization, while the remainder supports work carried out at external institutions. Our main R&D centers are in Årdal (smelter technology) and Sunndal (alloys and casting) in Norway, Barcarena in Brazil (bauxite and alumina), and Finsspång in Sweden and Detroit in the US (both Extrusions). The R&D unit in Bonn in Germany is included in the Hydro Rolling transaction, see page 16.

R&D Expenses

NOK million



Our R&D efforts are concentrated on:

- Reducing energy consumption, waste, emissions and carbon footprint in line with Hydro's sustainability agenda
- Making products and solutions that promote the use of aluminium and sustainable development
- Implementing technology elements from the Karmøy Technology Pilot in order to optimize productivity, energy efficiency and emissions in smelters
- Using R&D and technology to ensure optimal operations in existing assets, including cost and HSE
- Improving environmental impact in Bauxite & Alumina, such as biodiversity, rehabilitation and utilization of bauxite residue
- Developing recycling technology and low-carbon products based on post-consumer scrap, e.g. Circal
- Increasing the share of value-added products and tailored solutions in collaboration with the customer
- Utilizing the opportunities of Industry 4.0 to improve process stability, productivity, cost and safety



Hydro's Technology Board consists of the members of Hydro's Corporate Management Board. The technology and innovation group meet every quarter to understand and discuss innovations in the business areas, including their value to the company. Innovations include the changes achieved through our continuous improvement work on all organizational levels. Business areas are responsible for their own technology development and for the execution of their respective technology strategies. A corporate technology office is established to ensure a holistic and long-term approach to Hydro's technology strategy and agenda. The Chief Technology Officer leads an internal R&D network with representatives from the business areas, and supports the Hydro Technology Board in developing overall research and technology priorities and strategies.

A major advantage for Hydro from an innovation perspective is our broad knowledge and control of the entire value chain from bauxite mining, alumina refining, electrolysis of primary aluminium and alloy technology to finished products and recycling.

We are now in the process of implementing the technology elements from the Karmøy Technology Pilot in our existing primary aluminium producers, improving performance and financial robustness. This includes the Husnes line B in Norway, which started production in 2020, and as a part of the regular maintenance and relining of the electrolysis cells in all smelters, with emphasis on Sunndal due to its importance in the smelter portfolio. Hydro has also started working on several initiatives to reduce direct CO₂ emission in primary aluminium production.

Towards 2050 we are exploring different paths for low or zero carbon technology for aluminium production. We are partnering with several start-ups and academic environments to explore and develop technology for low carbon concentrations, like direct air capture and the emissions from our own primary production facilities. We are looking into projects to replace fossil carbon in our

anodes with bio carbon, and while it appears challenging, we are part of two fundamental R&D programs supported by the Norwegian Research Council looking into this. In addition, we are on track with our chloride feasibility project, supported by Gassnova, where we explore a new process based on aluminium chloride with zero CO₂ emissions.

Tailings management and bauxite residue is a challenge in our industry. One example of our progress relates to the tailings dry backfill project. The application of this approach in Paragominas represents the end of construction of new facilities for storage of bauxite tailings. Bauxite residue is a challenge due to its alkalinity and large volumes. Hydro participates in international collaboration projects investigating possibilities to use bauxite residue as a resource. Another example is together with the Norwegian University of Technology and Science (NTNU), Sintef, Norcem/Heidelberg and Veidekke to develop a new type of concrete using bauxite residue as a resource to improve quality. We are also working with other aluminium companies through the International Aluminium Institute to solve this industry challenge. In addition, we are investing in R&D to reduce the total alkalinity of the bauxite residue.

An important part of Hydro's overall technology strategy is that our researchers cooperate closely with operators and experts in optimizing operations in existing plants. The competence base in Hydro's technology environments is on a very high level and in core areas it is world-class.

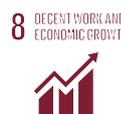
The growing use of aluminium in the automotive industry is being driven by emissions regulations and passenger safety requirements. Aluminium is well suited for all cars, from petrol-powered automobiles to fully electric vehicles and vehicles which use hydrogen fuel cell technology. This is creating new opportunities for Hydro. Hydro is a large supplier to the automotive industry. Customers include major producers in Europe, North America and Asia. In 2020, we opened a new application lab, including automotive test facilities, in Finspång, Sweden.

Society

As a global energy and aluminium company with mining interests, ensuring responsible conduct in relation to society at large is important throughout Hydro's value chain. We have to consider our impact on society, spanning from construction to divestment activity, including risk of human rights violations, within our own operations, the communities we are part of, and in the supply chain.

Our compliance system shall ensure that all persons acting on behalf of Hydro comply with applicable laws and regulations and with the requirements adopted by Hydro. Some of the measures we pursue to ensure integrity and responsible behavior include:

- Zero tolerance of corruption in the private and public sector
- Ongoing human rights due diligence, including audits of joint ventures and suppliers
- Continuous stakeholder engagement linked to existing operations and new projects



Hydro's board-sanctioned Code of Conduct creates the foundation that supports our efforts to do the right things and to always act with integrity throughout our global organization wherever we operate and conduct business on behalf of Hydro. It requires adherence with laws and regulations as well as internal constituting documents and global directives and is systematically implemented and followed up through our compliance system.

Our compliance system is based on a clear governance structure defining roles and responsibilities regarding compliance and all compliance-related activities undertaken throughout the company.

The management of compliance risks, including risks related to corruption and human rights violations, are integrated in our business planning, enterprise risk management and follow-up process, including relevant risk-mitigating actions and key performance indicators. The progress of actions as well as any non-compliance matters is addressed in the quarterly internal board meetings that each business area has with the CEO, and an annual compliance report is submitted to the Board of Directors. The head of Group compliance reports to the Board of Directors through the Board Audit Committee at her own discretion. She meets with the Board of Directors periodically and participates in all Board Audit Committee meetings.

The head of internal audit reports to the company's board of directors through the board audit committee. Every quarter he informs the board audit committee and periodically the corporate management board about matters reported through the AlertLine. Hydro's internal audit has resources in Norway, Brazil and North-America.

We are committed to building a culture of trust where employees are comfortable to ask questions, seek guidance, raise concerns, and report suspected violations. Normally, concerns and complaints should be raised with the employee's superior. However, if the employee is uncomfortable with that, he or she may raise the issue with Human Resources, HSE, a union/safety representative, Compliance, Legal or internal audit. The employee can also use Hydro's whistle-blower channel, AlertLine, where concerns can be reported anonymously. All employees and on-site contractors can use the AlertLine in their own language at all times via tollfree phone numbers, Hydro's intranet or through a dedicated address on the Internet. In certain countries, e.g. Spain, there are legal restrictions on such reporting lines. In 2020, 224 cases were reported through the AlertLine channel. All cases reported through the AlertLine were assessed, and investigations were performed where relevant. In total, 4 people were dismissed as a result of reported breaches of Hydro policy in 2020. The number is limited to cases reported to Hydro's internal audit.

Grievance, or complaint, mechanisms are important to understand the impact of Hydro's operations, and the impact on the rights of individuals and groups affected by our

operations. Grievances may be of any kind, including social and environmental issues, and can be made anonymously. In situations where we identify adverse human rights impact, we work to mitigate, prevent, address and remedy these as recommended in the UN Guiding Principles on Business and Human Rights. Channels for submitting grievances vary depending on local needs and stakeholder groups. In Brazil, the system has several channels, including a phone number, email and dedicated, specially trained field workers.

We encourage, and will not retaliate against, individuals who in good faith raise concerns regarding Hydro's respect for human rights.

Hydro recognizes that businesses have a responsibility to respect, support and promote human rights. We respect the human rights of all individuals and groups that may be affected by our operations. As an employer, owner and purchaser, an important contribution toward respecting human rights is to secure decent working conditions in our organization, in minority-owned companies and with our suppliers.

Hydro also supports key frameworks that define human rights principles and is committed to following these, including the UN Guiding Principles on Business and Human Rights and ILO's eight core conventions. Hydro's human rights management is based on the OECD Due Diligence Guidance for Responsible Business Conduct.

We do not tolerate any form of harassment or discrimination, including but not limited to gender, race, color, religion, political views, union affiliation, ethnic background, disability, sexual orientation or marital status. And we do not tolerate any form of forced labor or child labor abuse.

Hydro is concerned about fundamental labor rights, such as minimum wage requirements and the regulation of working hours, and we support the principle of freedom of association and collective bargaining. We have a long tradition of maintaining a good dialogue with employee organizations. All major sites in Europe and Brazil are unionized. Hydro Extrusions has a major presence in the US, and about 60 percent of our US employees are working at unionized sites. All business areas have a forum for dialogue between the management and union representatives. Hydro's Global Framework Agreement was last updated in 2016. The negotiation of a new agreement has been delayed due to the Covid-19 pandemic.

We recognize that our activities impact communities in which we operate. We have identified Hydro's major risks to people, which according to the UN Guiding Principles Reporting Framework are defined as the human rights salient to our operations and which we are most at risk of impacting. We engage and collaborate with stakeholders both internally and externally when relevant to help inform us about, and evaluate the effectiveness of, our human rights management. This may include NGOs, unions, works councils, local associations, authorities, customers, suppliers, business partners.

Where relevant, and in line with our risk-based approach, we have regular dialogue with communities, and more frequent and structured dialogue in communities with higher risk of

facing adverse human rights impacts. Hydro has significant operations in Barcarena, Brazil, including the Alunorte alumina refinery and Albras aluminium plant. Local social conditions are challenging with high levels of unemployment and general poverty. We have established contact with local authorities and representatives for our neighbors, including dialogue with traditional Quilombola groups in Brazil.

The Brazilian human rights consultancy Proactiva has conducted a thorough human rights due diligence of our operations in Pará state, Brazil. The due diligence covers the alumina refinery Alunorte, primary aluminium plant Albras and the Paragominas bauxite mine, including the bauxite slurry pipeline from Paragominas to Alunorte. An action plan is under implementation, prioritized by severity for implementation by 2023. During 2020, we made progress in several areas. Examples include conducting human rights training for employees and suppliers, and improving human rights in the Bauxite & Alumina's Enterprise Risk Management and procurement processes.

Unresolved issues remain related to identifying individuals directly impacted by the construction of a 244-km-long bauxite pipeline that crosses areas inhabited by traditional Quilombola groups in the Jambuaçu Territory in Pará state, Brazil. As part of an integrated plan to remedy impacts along the pipeline, Hydro reached an agreement in 2020 with 61 families identified as directly impacted by the construction, but not covered under the legal agreement with the former owner. In addition, Hydro is currently working together with different stakeholders including Quilombola communities, Fundação Cultural Palmares, State of Pará and INCRA, to reach an agreement to support six community associations, and establish a fund for social investments for the Jambuaçu Territory that Hydro aims to contribute to. INCRA is the Brazilian agency in charge of land certifications, including Quilombola matters, as part of environmental licenses.

To better understand the perception of Hydro's reputation, the impact of our social initiatives and dialogue, and Hydro's relationship with the communities, a survey was performed in the seven municipalities we operate in in Pará state. The baseline was conducted in early 2020 with a second survey conducted in late 2020. In the second survey, half of the respondents agreed to Hydro's social initiatives as being positive. This is a 13 percent improvement from the baseline survey. The surveys were part of the Corporate Management Board's KPIs in 2020. We will follow up with yearly surveys to monitor the perceived impact of our initiatives.

On February 5, 2021, CAINQUIAMA – Associação dos Cablocos, Indigenas e Quilombolas da Amazônia (an association with office in Barcarena) and nine Brazilian individuals filed a lawsuit with the Rotterdam District Court, in the Netherlands, against Hydro's Dutch entities and Norsk Hydro ASA (Hydro) seeking compensation for alleged financial damages and personal injuries suffered as a result of Alunorte and Albras activities in the municipality of Barcarena. According to the plaintiffs, Hydro's Dutch entities and Hydro are part of Alunorte and Albras' corporate group and, therefore should be liable for the alleged environmental violations caused in the municipality of Barcarena throughout the years.

Hydro's social responsibility ambition is to make a positive difference by strengthening our business partners and the

local communities where we operate. To do this, we target the fundamental drivers of long-term development. In line with stakeholder expectations and needs, and through strong partnerships, we aim to:

- Contribute to quality education in our communities
- Promote decent work throughout the value and supply chain
- Foster economic growth in our communities
- Strengthen local communities and institutions through capacity building on human rights and good governance

We have committed to contribute to quality education and capacity building for 500,000 people in our communities and for business partners from 2018 until end of 2030. In 2020, we reached close to 60,000 people. Continuous improvement of current initiatives and development of new high-impact initiatives will be important going forward. Some of our community programs are linked to mining license requirements, while others are voluntary commitments. The programs target education, economic growth, decent work, capacity building and strengthening of institutions. Many social programs have either been put on hold or transferred to digital platforms due to Covid-19 in 2020. Several programs are linked to partnerships.

Community investments, charitable donations and sponsorships



In 2018, around 45 million NOK relates to emergency relief and TAC-agreement following the extreme rainfall and subsequent flooding of Barcarena.

In Pará state, Brazil, Hydro currently has more than 10 social programs across the seven municipalities where we have operations. For each of these projects, we have an implementation partner. Due to Covid-19, all programs have adapted new measures. Where possible, programs have been moved to digital platforms, and infection prevention protocols are strictly followed for physical activities. For each program we have an implementation partner. In 2020, the implementation partners met digitally to share knowledge and identify synergies to strengthen our partners and contribute towards the common goal of local development.

We initiated the Sustainable Barcarena Initiative in 2018 and have continued developing it in 2020. The initiative is an independent platform for sustainable development in

Barcarena in Pará state. The overall aim is to bring local stakeholders together to discuss challenges and opportunities, strengthen capabilities and ultimately invest in the social initiatives they plan and develop together. In 2019, we established the Hydro Sustainability Fund which serves as a financing mechanism for the Sustainable Barcarena Initiative. Hydro contributes with BRL 100 million to the fund over a 10-year period. In 2020, the fund established partnerships with USAID and the Partnership Platform for the Amazon's Solidarity initiative to strengthen initiatives in the Amazon region.

In Pará state we also engage with regional initiatives to preserve the Amazon. We run several programs that emphasize entrepreneurship and strengthening of traditional livelihoods. This also includes environmental efforts and collaborations such as the Biodiversity Research Consortium Brazil-Norway.

Hydro's supplier and business partner requirements regarding social and environmental responsibility are, as stated in our global directives and procedures, an integral part of all stages of the procurement process. The requirements demand the suppliers and business partners to comply with all applicable laws and regulations relating to corruption and bribery, human rights, working conditions and environment and that they reflect the values and principles that Hydro promotes internally and externally.

To prepare for and respond to intentional, unintentional and/or naturally caused disasters, and to protect people and critical assets, we adapt and initiate security measures depending on the evolving risk picture.

Hydro has been included in the Dow Jones Sustainability Indices each year since the index series started in 1999. We are also listed on the corresponding UK index FTSE4Good, and the UN Global Compact 100 stock index.

Hydro support the principles underlying the Universal Declaration of Human Rights, the UN Global Compact and ILO's eight core conventions. We are a member of the International Council on Mining and Metals (ICMM) and are committed to follow their principles and position statements. Hydro has a long-standing partnership with Amnesty International Norway since 2002, and a cooperation agreement with the Danish Institute for Human Rights. We are also a founding member of the Aluminium Stewardship Initiative, a multi-stakeholder process to set standards to improve environmental, social and governance performance across the aluminium value chain. 61 of Hydro's aluminium sites worldwide have achieved certification according to the ASI, covering Hydro's value chain from bauxite mining to finished products.

Hydro uses the GRI Standards for voluntary reporting of sustainable development. We support the Extractive Industries Transparency Initiative (EITI) and comply with the Norwegian legal requirements on country-by-country reporting, we prepare a modern slavery transparency statement according to UK and Australian legislation, and we prepare a diversity and inclusion statement in accordance with Norwegian legal requirements, see the appendices to this report. In addition, we follow the Euronext guidelines to issuers for ESG reporting.

Environment

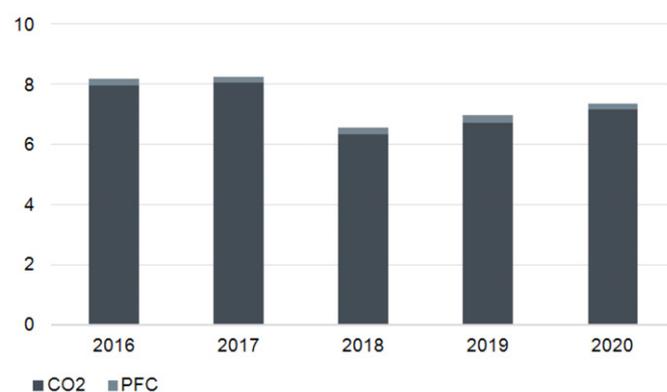
The most important environmental effects of Hydro's activities relate to climate change, biodiversity, recycling and water and waste management. The main resource inputs are bauxite, energy, water and land use.



Hydro's overarching climate ambition towards 2030 is to reduce the global impact of our value chain through greener sourcing, greener production and greener products. We aim to reduce our own greenhouse gas emissions by 30 percent in 2030 and explore different paths towards further significant emissions reductions and CO₂-free processes by 2050. Through greener sourcing and greener production, we also aim to help our customers in reducing their emissions through providing greener products.

Direct greenhouse gas emissions from Hydro's consolidated activities

Million mt CO₂e



Hydro's direct greenhouse gas emissions increased in 2020 due to increased production at Hydro's alumina refinery Alunorte. Still, specific emissions per ton alumina and aluminium produced decreased due to improved performance.

Our strategy puts emphasis on reducing own emissions. Changes in our production portfolio might influence these targets, but our aim is still to reduce our specific emissions. We have set targets to reduce greenhouse gas emissions by 10 percent by 2025 and 30 percent by 2030, based on a 2018 baseline (2017 for Paragominas, Alunorte and Albras due to the production embargo at Alunorte and curtailment at Albras and Paragominas). The baseline emissions equal 13.3 million tonnes CO₂ equivalents (CO₂e) and includes direct emissions and indirect emissions from electricity generation (scope 1 and scope 2 emissions). The Hydro Rolling transaction will impact the strategy baseline, see page 16.

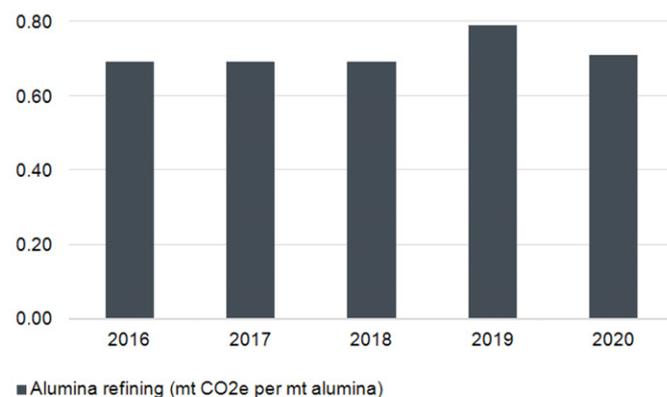
Greener sourcing refers to Hydro's position as a purchaser of raw materials and energy. Hydro has the opportunity to source less carbon-intensive electricity and cold metal with a lower carbon footprint. We also have the opportunity to increase the use of post-consumer scrap in metal production.

Since 2013, Hydro's ambition has been to be carbon neutral in a life cycle perspective by 2020. This was achieved in 2019.

Innovation and technology development are key enablers towards reducing CO₂ emissions. We have initiated a significant R&D program towards 2030 to look into different alternatives to achieve CO₂-free processes. We will explore different paths such as carbon capture and storage, biomass anodes and carbon-free processes. By 2030 we expect to have a clearer view on a path to further significant emission reductions by 2050.

GHG emission intensity - alumina refining

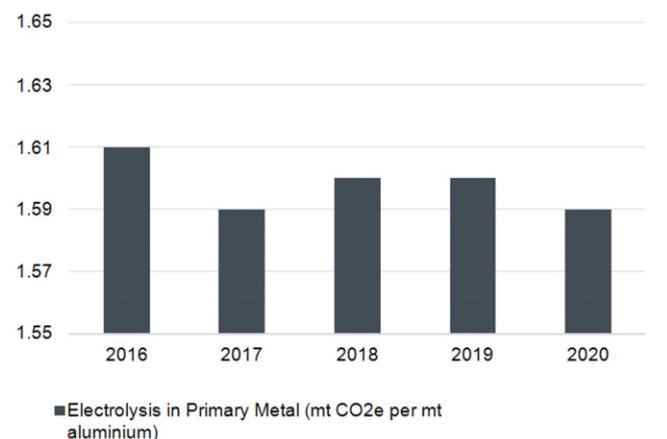
Mt CO₂e per mt alumina



Includes greenhouse gas (GHG) emissions from alumina refining.

GHG emission intensity - electrolysis

Mt CO₂e per mt aluminium



Greenhouse gas (GHG) emissions from the electrolysis process from Hydro's smelters, excluding Neuss in Germany. Albras is excluded from the 2019 average due to extraordinary emissions during start-up of curtailed capacity. The emission intensity at Albras was 1.89 in 2019

The goal of our 2030 environmental strategy is to minimize our impact along the aluminum value chain by addressing the industry's key environmental challenges. We aim to do so by driving rehabilitation at our bauxite mine, developing and implementing sustainable management solutions for our tailings and bauxite residue streams whilst reducing our waste to landfill from our downstream operations and significantly reducing our non-GHG emissions to air.



Hydro's only operated mine, the Paragominas bauxite mine, is located in the state of Pará in Northern Brazil, in the Amazon Basin. Due to the nature of mining, Paragominas has an impact upon the landscape, that will affect the ecosystems and biodiversity that exists there and must be managed in a responsible manner.

To address this impact, Paragominas has set a target to rehabilitate these impacted areas, as soon as practically possible. The rehabilitation target is rolling, aiming to begin the rehabilitation of all available mined areas within two hydrological seasons after their release from operations. This definition takes into account the nature of the mining and rehabilitation cycles, and the time lag necessary to ensure quality rehabilitation to restore biodiversity. It also takes into account that land periodically needs to be set aside for temporary infrastructure, e.g. roads, in order to safely operate the mine. This is what we refer to as our 1:1 rehabilitation target.

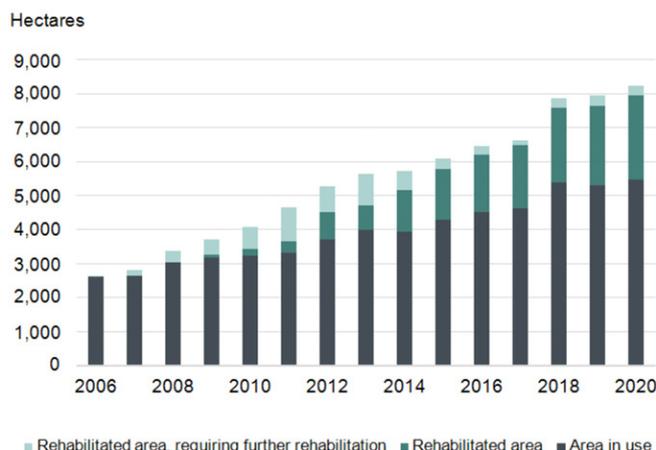
We cooperate with academic institutions to increase our knowledge and secure a science-based approach. This includes the formation of the Biodiversity Research Consortium Brazil-Norway (BRC) in 2013.

In addition to land use and biodiversity, the main environmental issues in bauxite extraction and alumina refining include waste disposal and greenhouse gas emissions. Waste production includes significant amounts of mineral rejects (tailings) from the bauxite extraction process and bauxite residue, from the alumina refining process. Tailings are stored in settling ponds. Separated water is clarified and reused in the process. Hydro Bauxite & Alumina has developed and tested out the "Tailings Dry Backfill" methodology at the Paragominas mine. The application of this approach in Paragominas represents the end of construction of new facilities for storage of bauxite tailings. The operating license to implement this new approach was received in December 2020, and it has now been fully adopted into operations at the mine.

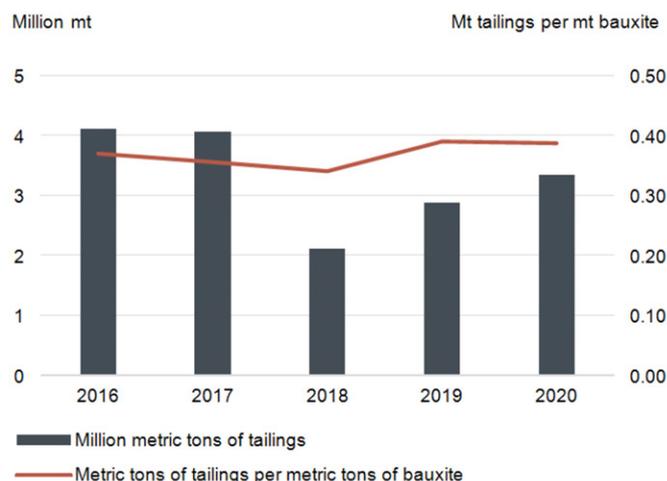
In Paragominas, a new tailings system was completed in 2017. The new tailings dams are situated on a plateau where mining has been finalized. The old tailings system is constructed in a shallow valley. When tailings dams are closed, they need to settle for at least five years before being available for rehabilitation. A tailor-made approach will be needed to rehabilitate the closed tailing dams as they differ in nature from the mined areas.

Bauxite residue is a waste product of the alumina refining process. Its disposal is challenging due to large volumes and the alkaline nature of the liquid component of the residue. The residue is washed with water to lower the alkalinity and to recover caustic soda for reuse. Hydro uses an enhanced dry stacking technology for disposing of bauxite residue which allows for residue storage at steeper slopes, reducing the disposal area requirements. This reduces the relative environmental footprint. The new bauxite residue deposit area at Alunorte includes more advanced press filters. These are capable of reducing the residue moisture content to 22 percent, down from 36 percent achieved with the previous drum filter technology.

Land use and rehabilitation - Paragominas

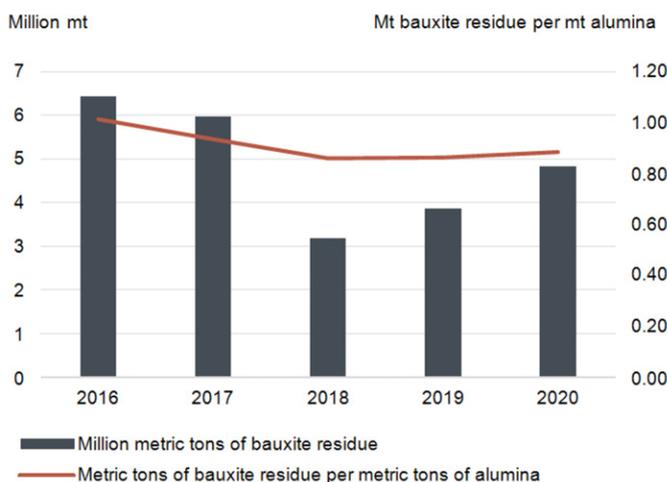


Tailings from bauxite production



Tailings production decreased significantly in 2018 due to the Paragominas curtailment. This is partly reversed in 2019 and 2020 due to the lifting of the embargo and ramp-up of production.

Bauxite residue from alumina production



Bauxite residue production decreased significantly in 2018 due to the Alunorte embargo. This is partly reversed in 2019 and 2020 due to the lifting of the embargo and ramp-up of production.

The dams and deposits are regularly inspected by Hydro and the Brazilian authorities. They have also been reviewed against international standards by external international geotechnical consultants, NGI and Geomecnica, in 2016 and 2019. Based on the output of the 2016 audit, an action plan was created for tailings storage facilities and dams at Paragominas. The recommendations have been addressed, based on priority, and, to date, 54 of the 56 identified actions have been completed, with the remaining two actions expected to be addressed in 2021. In addition, independent third-party audits are performed twice a year, to comply with Brazilian regulations and maintain the stability certifications for each dam.

The tailings storage facilities at Paragominas are raised exclusively using the downstream elevation method, with the exception of one relatively short and low centerline raising at the very top of the dam. The downstream elevation method provides the greatest level of structural integrity and safety. In addition, the tailings stored in our tailings storage facilities are of a higher solids content (ca 55-60 percent solids content) than that generally found in the iron ore industry (e.g. Samarco and Brumadinho).

Hydro's tailings storage facilities and bauxite residue storage areas are operated in line with relevant regulations. For active storage facilities we follow voluntary best practice and audits are conducted by international third parties. As an ICMM member, Hydro is committed to implement the Global Industry Standard on Tailings Management (GISTM).

Alunorte will perform an updated socioeconomic study to assess if there were any significant impacts of the installation of the new bauxite residue storage area (DRS2). If the study indicates such impacts and a need for compensatory measures, such measures shall aim to contribute to sustainable and long-term improvements in potentially affected communities.

Spent potlining (SPL) from electrolytic cells used in primary aluminium production is defined as hazardous waste. We are actively trying to find alternative use of SPL from our operations. We aim to recycle 65 percent of our spent pot lining (SPL) by 2030, and find more sustainable solutions for our waste streams, identifying where they can be utilized as a resource.



Hydro use the WRI Aqueduct water tool to perform an annual review of water withdrawal from water-stressed areas. The mapping of Hydro's sites in 2020 showed that 0.8 percent of our overall fresh-water input came from water-stressed areas, with regard to annual renewable water supply (according to the definition used by WRI).

Operating in water-stressed areas is not considered a material risk for Hydro's key operations. Instead, the more material risks are linked to the management of excess water

and the quality of the external bodies into which Hydro discharges process water. As a first step towards implementing risk-based water management targets and increased local stakeholder engagement, Hydro is strengthening current water reporting and management practices. We aim to have implemented industry best practice water reporting by 2021, and as of Hydro's Annual Report 2020 we are in line with the ICMM's minimum water disclosure standard.

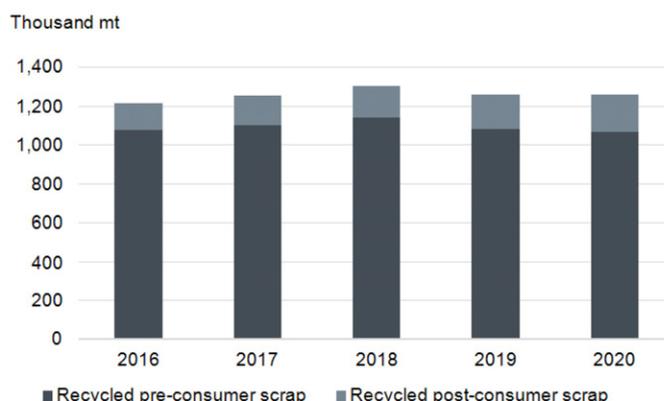
Following a mass balance of mercury at Alunorte in Brazil, which was concluded in 2017, Hydro decided to install four mercury condensers on the digester lines. The first condenser was installed in 2018, as a pilot, and its technical performance is being monitored prior to the installation of the remaining units. The initial timeline was to install the remaining units in 2020, but this has been rescheduled to allow for further performance optimization of the technology.

Engagement with customers and other stakeholders on the environmental impact of our processes and products is an important element of our product stewardship. We perform life-cycle assessments for all major product groups to identify improvement potential. We also assess other aspects such as energy and material consumption, toxicity and recyclability.

Hydro is a large remelter and recycler of aluminium. We remelt process scrap from our own production and from other companies, as well as post-consumer scrap from the market.

During 2020 we performed a strategic review of our recycling activities, and we set a growth ambition to double the post-consumer scrap recycling capacity to more than 600 thousand tonnes per year by 2025³. To deliver on the growth ambition we established a center of excellence for recycling in Hydro Aluminium Metal to bundle competence and develop necessary capacity supporting all business areas in their growth ambitions.

Recycling



We set a growth ambition to double the post-consumer scrap recycling capacity to more than 600 thousand tonnes per year by 2025.

³ Target may be subject to revision following the Hydro Rolling transaction, see page 16

People

Hydro shall be a leading company in our industry in the area of occupational health and safety. Our ambition is to strive for an injury free environment. This will be achieved through the consistent implementation of the management system; committed and visible leadership, and full engagement of all employees.

The number of total recordable injuries and associated rates improved over 2019 levels to a total recordable injury rate of 2.7 from 3.0. There were no life-threatening injuries during the year; however, there was one life changing injury at one of our North American facilities where a worker's right foot was surgically amputated after his foot was crushed when a heavy load fell from the forks of a forklift truck.

Nearly half of the reported injuries in 2020 were related to hands, about 20 percent legs, about 10 percent related to the face, eyes and head and 10 percent arms and shoulders.



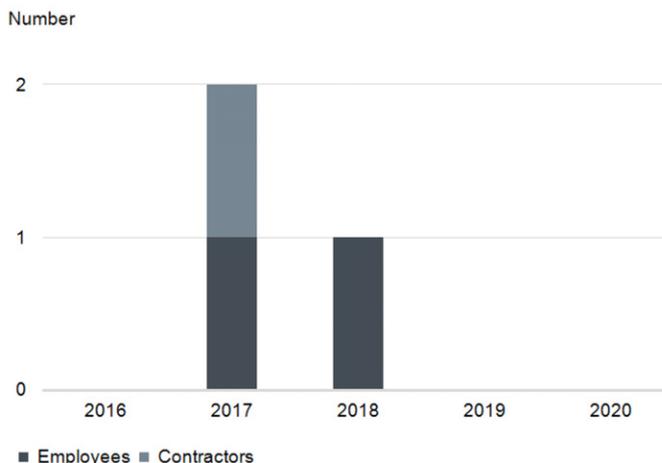
We continue to see high-risk incidents with a potential for fatality or permanent injuries or ill health, but at a lower level than previous years. We consider this the main leading indicator for our safety performance. From 2020, our emphasis has also been on the closing rate of actions related to high-risk incidents in our operations in 30 days. For 2020 we achieved a rate above 90 percent. We consider this one of the main leading indicators for our safety performance. The high-risk incident rate improved in 2020.

Our approach to improve occupational health is based on work environment risk assessments covering physical, chemical and psychosocial risks.

Hydro closely monitors the development of Covid-19 and has implemented control measures to help prevent the risk of infection and spread and its impact on employees and operations. Hydro has acknowledged the potential impact of Covid-19 on our employees' mental health and have held several webinars to provide tools to help build resilience and coping mechanisms in line with our mental health and wellbeing programs.

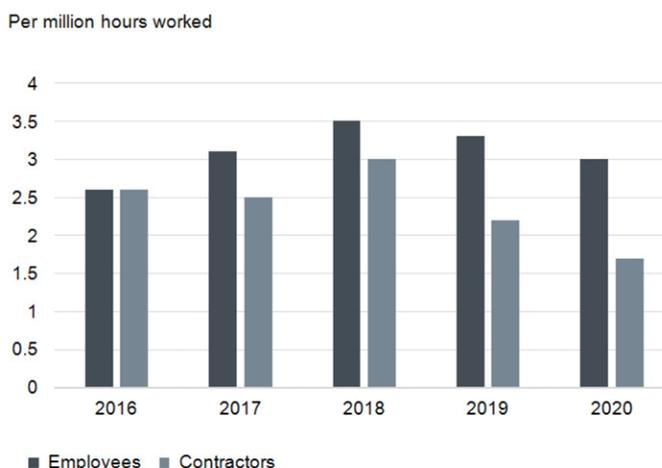
The occupational illness rate in 2020 was 0.2 cases per million hours worked, compared to 0.5 in 2019. Most of the cases related to occupational illness relates to noise. Hydro Extrusions records occupational illness as part of the total recordable injuries. Reporting on occupational illness is challenging due to data privacy requirements.

Fatal accidents



In 2019, there was one fatality in Qatar in the 50/50 JV managed by Qatalum

Total recordable injuries



Hydro had 34,240 permanent employees at the end of 2020, a decrease from 36,310 in 2019. The number of temporary employees was 1,929 compared to 1,647 the year before. Contractor employees represented about 11,820 full-time equivalents during 2020 compared to 10,500 in 2019. The large majority of employees are concentrated in the USA, Brazil, Germany and Norway. Extrusions has a greater extent of seasonal variations than the other business areas in Hydro. This is solved in different ways in different parts of the organization and may include the use of agency workers. We still do not have the full overview of the extent of such use.

Through Hydro's global people processes we ensure the right competence, capabilities and organizational culture to be able to deliver on our overall strategic agenda – lifting profitability, driving sustainability.

Hydro's new people strategy was launched in 2020, setting global strategic priorities and activities, in addition to a defined process for annual update and revision. The global priorities cover learning and competence development, leadership and succession as well as diversity and inclusion.

These priorities are supported by every business area with targets and activities based on their specific needs, addressing challenges in regions where they operate.

A new people platform was rolled out in 2020 to enable standardized and digitalized global human resources processes throughout the employee's career path.

Hydro's common process for people performance and development includes an appraisal dialogue, individual development plan and follow up, as well as talent planning and succession management.

In order to have a healthy pipeline of leaders with the required breadth of experience, we strive to rotate leaders so that they gain knowledge from different parts of the organization. Through the succession and talent processes, we work with the leadership and specialist pipeline and identify required development. We have a portfolio of learning programs that supports development for leaders as well as specialists.

Portfolio optimizations, reviews and continuous improvement are essential elements of our business operations. Our aim is to involve employees in such processes at an early stage in order to achieve the best results for individuals and the company.

The annual bonus of Hydro executives shall reflect achievements in relation to pre-defined financial targets and achievements of operational and organizational key performance indicators (KPIs). Targets relating to safety, environment and climate change, social responsibility, compliance and leadership expectations constitute a substantial part of the annual bonus plan. Please see note 9.1 and 9.2 to the consolidated financial statements for more information.

For information about Hydro's approach to diversity and inclusion, including information about our global employee engagement survey Hydro Monitor as well as information about compensation, please see the appendix to The Board of Directors' report 2020, Diversity and inclusion, on page 144.

Board developments

The board of directors has an annual plan for its work. It includes recurring topics such as strategy review, business planning, risk and compliance oversight, financial reporting, people strategy, succession planning as well as health and safety, and sustainability including social responsibility, climate and environment. The Board of Directors is closely following the market and macroeconomic developments relevant for the aluminum industry.

High on the board's agenda in 2020 was the Covid-19 situation and its impact on people and operations as well as the Hydro 2025 strategy process. In addition, the board has spent time on the strategic review of the business area Rolling, Hydro's operations in Brazil, people strategy and succession planning, health and safety developments as well as cyber security improvement initiatives. The board has conducted several deep dives throughout the year, including Hydro's human rights management and the business areas Aluminium Metal and Energy. Extraordinary meetings have been held to handle critical matters, including measures to address the Covid-19 situation.

The board of directors conducts an annual self-assessment of its work competence, and cooperation with management and an assessment of the chairperson. The Board Audit Committee also performs a self-assessment. The review was facilitated by the corporate advisory firm Egon Zehnder. The main conclusions of the assessment were submitted to the nomination committee, which in turn assessed the board's composition and competence.

The board of directors held 13 meetings in 2020 with an attendance of 96 percent. The compensation and people committee held nine meetings and the audit committee ten meetings.

Net income and dividend – Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a net loss of NOK 467 million in 2020 compared with net income of NOK 4,668 million in 2019. The result reflects reduced dividends from subsidiaries in 2020 compared to 2019.

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

According to section 3-3a of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the assumption of a going concern.

Oslo, March 9, 2021



Dag Mejdell
Chair



Irene Rummelhoff
Deputy chair



Arve Baade
Board member



Rune Bjerke
Board member



Liselott Kilaas
Board member



Peter Kukielski
Board member



Sten Roar Martinsen
Board member



Ellen Merete Olstad
Board member



Thomas Schulz
Board member



Marianne Wiinholt
Board member



Hilde Merete Aasheim
President and CEO

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Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended December 31	Notes	2020	2019
Revenue	1.4, 5.1	138,118	149,766
Share of the profit (loss) in equity accounted investments	1.4, 3.1	223	241
Other income, net	5.2	7,519	1,000
Total revenue and income		145,861	151,007
Raw material and energy expense	5.3	84,592	97,474
Employee benefit expense	9.3	23,767	24,871
Depreciation and amortization expense	2.4	8,374	8,572
Impairment of non-current assets	2.5	3,879	912
Other expense		17,917	18,678
Total expense		138,529	150,508
Earnings before financial items and tax		7,332	499
Finance income	7.5	290	365
Finance expense	7.5	(5,013)	(2,420)
Finance income (expense), net		(4,723)	(2,055)
Income (loss) before tax		2,609	(1,556)
Income taxes	10.1	(950)	(813)
Net income (loss)		1,660	(2,370)
Net income (loss) attributable to non-controlling interests		(185)	(558)
Net income (loss) attributable to Hydro shareholders		1,845	(1,811)
Basic and diluted earnings per share attributable to Hydro shareholders	7.6	0.90	(0.88)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

Amounts in NOK million. Years ended December 31	Notes	2020	2019
Net income (loss)		1,660	(2,370)
Other comprehensive income			
Items that will not be reclassified to income statement			
Remeasurement postemployment benefits, net of tax	7.6	(926)	(443)
Unrealized gain (loss) on securities, net of tax	7.6, 8.2	(156)	(664)
Total		(1,081)	(1,107)
Items that will be reclassified to income statement			
Currency translation differences, net of tax	7.6	(4,689)	(576)
Cash flow hedges, net of tax	7.6, 8.3	120	19
Share of other comprehensive income that will be reclassified to income statement of equity accounted investments, net of tax	7.6	-	32
Total		(4,568)	(526)
Other comprehensive income		(5,650)	(1,633)
Total comprehensive income		(3,990)	(4,003)
Total comprehensive income attributable to non-controlling interests		(867)	(631)
Total comprehensive income attributable to Hydro shareholders		(3,123)	(3,372)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets

Amounts in NOK million, December 31	Notes	2020	2019
Assets			
Cash and cash equivalents	7.2	17,638	12,286
Short-term investments	7.3	4,091	969
Trade and other receivables	6.2	18,364	18,959
Inventories	6.1	19,492	20,816
Other current financial assets	8.2	470	635
Total current assets		60,055	53,665
Property, plant and equipment	2.1	64,245	74,243
Intangible assets	2.2, 2.3	9,357	11,501
Investments accounted for using the equity method	3.1	17,288	11,501
Other non-current assets	2.7, 8.2	4,191	4,817
Prepaid pension	9.5	7,064	6,676
Deferred tax assets	10.1	2,207	1,998
Total non-current assets		104,352	110,736
Total assets		164,408	164,401
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	7.4	4,748	6,157
Trade and other payables	6.3	18,948	18,692
Provisions	4.1	2,935	3,296
Taxes payable		1,434	1,311
Other current financial liabilities	8.2	983	235
Total current liabilities		29,048	29,691
Long-term debt	7.4	24,811	18,858
Provisions	4.1	5,605	6,515
Pension liabilities	9.5	19,167	17,099
Other non-current financial liabilities	8.2	3,293	2,992
Other liabilities		1,980	2,033
Deferred tax liabilities	10.1	3,059	3,132
Total non-current liabilities		57,916	50,629
Total liabilities		86,964	80,320
Share capital	7.6	2,272	2,272
Additional paid-in capital	7.6	29,106	29,123
Treasury shares	7.6	(662)	(711)
Retained earnings		52,028	52,745
Other components of equity	7.6	(8,464)	(3,496)
Equity attributable to Hydro shareholders		74,279	79,932
Non-controlling interests		3,165	4,148
Total equity		77,444	84,081
Total liabilities and equity		164,408	164,401

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

Amounts in NOK million. Years ended December 31	Notes	2020	2019
Operating activities			
Net income (loss)		1,660	(2,370)
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Depreciation, amortization and impairment	2.4, 2.5	12,253	9,485
Share of profit in equity accounted investments		(223)	(241)
Dividends received from equity accounted investments	3.1	979	222
Deferred taxes		(1,156)	(699)
Loss (gain) on sale of non-current assets		(5,239)	85
Net foreign exchange loss	7.5	3,861	1,204
Net sales (purchases) of trading securities		(38)	98
Capitalized interest	7.5	(14)	(44)
<i>Changes in assets and liabilities that provided (used) cash:</i>			
Trade and other receivables		1,091	1,869
Inventories		1,075	5,552
Trade and other payables		253	(1,812)
Derivatives		629	(29)
Other items		(1,616)	(770)
Net cash provided by operating activities	10.3	13,515	12,550
Investing activities			
Purchases of property, plant and equipment		(6,287)	(8,726)
Purchases of other long-term investments		(231)	(698)
Purchases of short-term investments		(6,480)	(52)
Proceeds from sales of property, plant and equipment		261	129
Investment grants received		66	60
Proceeds from sales of other long-term investments		361	96
Proceeds from sales of short-term investments		3,985	18
Net cash used in investing activities		(8,325)	(9,173)
Financing activities			
Loan proceeds		12,060	15,881
Loan repayments		(8,167)	(10,090)
Net decrease in other short-term debt		(221)	(257)
Proceeds from shares issued		25	26
Dividends paid		(2,628)	(2,649)
Net cash provided by financing activities		1,069	2,911
Foreign currency effects on cash		(907)	3
Net increase in cash and cash equivalents		5,352	6,291
Cash and cash equivalents at beginning of year		12,286	5,995
Cash and cash equivalents at end of year		17,638	12,286

The accompanying notes are an integral part of the consolidated statements.

Consolidated statements of changes in equity

Amounts in NOK million	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro share-holders	Non-controlling interests	Total equity
January 1, 2019		2,272	29,126	(756)	57,114	(1,936)	85,820	4,936	90,756
Treasury shares issued to employees	7.6		(3)	45			42		42
Dividends	7.7				(2,558)		(2,558)	(159)	(2,717)
Capital contribution in subsidiaries								2	2
Total comprehensive income for the year					(1,811)	(1,560)	(3,372)	(631)	(4,003)
December 31, 2019		2,272	29,123	(711)	52,745	(3,496)	79,932	4,148	84,081
Treasury shares issued to employees	7.6		(18)	49			32		32
Non-controlling interest in subsidiaries sold								(54)	(54)
Dividends	7.7				(2,561)		(2,561)	(65)	(2,626)
Capital contribution in subsidiaries								2	2
Total comprehensive income for the year					1,845	(4,968)	(3,123)	(867)	(3,990)
December 31, 2020		2,272	29,106	(662)	52,028	(8,464)	74,279	3,165	77,444

The accompanying notes are an integral part of the consolidated statements.

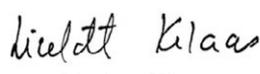
Oslo, March 9, 2021


Dag Mejdell
Chair

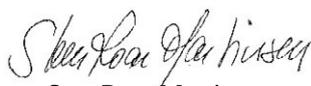

Irene Rummelhoff
Deputy chair

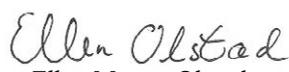

Arve Baade
Board member


Rune Bjerke
Board member


Liselott Kilaas
Board member

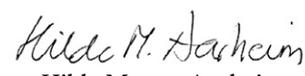

Peter Kukielski
Board member


Sten Roar Martinsen
Board member


Ellen Merete Olstad
Board member


Thomas Schulz
Board member


Marianne Wiinholt
Board member


Hilde Merete Aasheim
President and CEO

Notes to the consolidated financial statements

Section 1 – General information

Note 1.1 Reporting entity, basis of presentation and significant accounting policies

The reporting entity reflected in these financial statements comprises Norsk Hydro ASA and consolidated subsidiaries (Hydro). Hydro is headquartered in Oslo, Norway, and the group employs around 34,000 people in about 40 countries. Hydro is a global supplier of aluminium with operations throughout the industry value chain. Operations include power production, bauxite extraction, alumina refining, aluminium smelting, remelting and recycling, rolling activities, and extruded solutions. The Board of Directors and the President and CEO authorized these financial statements for issue on March 9, 2021. Hydro is listed on the Oslo stock exchange, Oslo Børs.

Basis of presentation

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and Norwegian authorities and effective as of December 31, 2020. Hydro also provides the disclosures as specified under the Norwegian Accounting Act (Regnskapsloven).

The financial statements have been prepared on a historical cost basis except for certain assets, liabilities and financial instruments, which are measured at fair value. Preparation of financial statements including note disclosures requires management to make estimates and assumptions that affect amounts reported. Actual results may differ.

The functional currency of Norsk Hydro ASA is the Norwegian krone (NOK). The Hydro group financial statements are presented in NOK.

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

Interest rates used for calculating net present values are rounded to the nearest 10 basis points for post-employment benefits, to the nearest 25 basis points for other non-financial assets and liabilities.

Significant estimates and judgement

The application of accounting policies requires that management makes estimates and judgements in determining certain revenues, expenses, assets and liabilities. The following areas involve a significant degree of judgement and complexity, and may result in significant variation in amounts.

- Impairment of non-current assets, discussed in note 2.5 Impairment of non-current assets
- Uncertain assets and liabilities, discussed in section 4 Uncertain assets and liabilities
- Uncertain tax positions, discussed in note 10.1 Income taxes
- Business combinations, impacting such items as long-lived assets and uncertain assets and liabilities, discussed in note 1.5 Significant subsidiaries and changes to the consolidated group
- Financial instruments, discussed in section 8 Financial risk and financial instruments
- Employee retirement plans, discussed in note 9.5 Employee retirement plans

Significant accounting policies

The following description of accounting principles applies to Hydro's 2020 financial reporting, including all comparative figures. The relevant accounting policies for relevant items are described in the specific notes in this set of financial statements.

Income statements and statements of comprehensive income

Hydro has elected to present a separate income statement and a separate statement of comprehensive income, rather than a combined statement. Further, Hydro presents an analysis of expenses based on their nature as a common analysis of expenses through Hydro's value chain. Hydro has elected to present a sub-total Earnings before financial items and tax (EBIT). This measure is also used as a segment profit measure. The share of the profit (loss) in equity accounted investments is included in this sub-total because the majority of such investments are operationally integrated with Hydro's businesses. Results from such investments are managed as part of Hydro's operating activities with significant transactions between the majority of these investments and Hydro. Return on other equity investments is not as closely related to the business activities in Hydro, and hence classification as finance income better reflects the way such investments are managed.

Gains and losses on disposal of non-current assets are presented net, as well as expenditures related to provisions that are reimbursed by a third party. However, insurance compensation and government grants are reported on a gross basis.

Statements of cash flows

Hydro uses the indirect method to present cash flows from operating activities. Interest and dividends received as well as interest paid are included in cash flows from operating activities. Dividends paid are included in cash flows from financing activities.

Basis of consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiaries, which are entities in which Hydro has the power to govern the financial and operating policies of the entity (control). Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. Currently, Hydro has more than 50 percent of the voting power in close to all subsidiaries. Subsidiaries are included from the date control commences until the date control ceases.

Intercompany transactions and balances have been eliminated. Profit and loss resulting from intercompany transactions have been eliminated.

Non-controlling interests

Non-controlling interests represent equity interests in subsidiaries held by other owners than Hydro. Non-controlling interests are reported as a separate section of the Group's equity in accordance with IFRS 10 Consolidated Financial Statements. Results attributed to non-controlling interests are based on ownership interest, or other method of allocation if required by contract.

Transactions between non-controlling shareholders and the group

Sales and purchases of equity interests and equity contributions not resulting in Hydro gaining or losing control of a subsidiary are reported as equity transactions in accordance with IFRS 10. No gain, loss or remeasurement of values of recognized assets, liabilities or goodwill are recognized as a result of such transactions.

Assets held for sale and Income from discontinued operations

Assets held for sale are reported separately in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, provided that the sale is highly probable, which includes the criteria that management is committed to the sale, and that the sale will be completed within one year. Assets held for sale are not depreciated but are measured at the lower of carrying value and the fair value less costs to sell for the asset group. Assets are not reclassified in prior period balance sheets. Immaterial disposal groups are not reclassified.

A discontinued operation is a component of Hydro that is held for sale or has been disposed of. A discontinued operation is a separate major line of business or geographical area of operations. Related cash flows, results of operations and gain or loss from disposal are reported separately as Income (loss) from discontinued operations.

Assets held for sale, liabilities in disposal groups and income and expense from discontinued operations are excluded from specifications presented in the notes unless otherwise stated.

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency of the transacting entity by applying the rate of exchange as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Currency gains or losses are included in Finance expense.

Foreign currency translation

For consolidation purposes, the financial statements of subsidiaries with a functional currency other than Norwegian kroner (NOK) are translated into NOK. Assets and liabilities, including investment in associates, joint ventures and goodwill, are translated using the rate of exchange as of the balance sheet date. Income, expenses and cash flows are translated using the average exchange rate for the reported period. Goodwill is recognized in the predominant functional currencies in the acquired businesses. Translation adjustments are recognized in Other comprehensive income and accumulated in Currency translation differences in Other components of equity. On disposal of such subsidiary, joint venture or associate, the cumulative translation adjustment of the disposed entity is recognized in the income statement as part of the gain or loss on disposal.

Note 1.2 Measurement of fair value

Hydro measures certain assets and liabilities at fair value for the purpose of recognition or disclosure. Recurring fair value measurement is used primarily for financial instruments, see section 8 Financial risk and financial instruments. Non-recurring fair value measurement is used for transactions, such as business combinations, divestments with non-cash consideration and certain other non-routine transactions. Fair value is estimated using inputs which are to varying degree objectively observable. Certain items are valued on the basis of quoted prices in active markets for identical assets or liabilities (level 1 valuations), others are valued on the basis of inputs that are derived from observable prices (level 2 valuations), while certain positions are valued on the basis of judgmental assumptions that are to a limited degree or not at all based on observable market data (level 3 valuations).

Financial instruments

The estimated fair value of Hydro's financial instruments is based on market prices and valuation techniques. Valuations are made with the objective to include relevant factors that market participants would consider in setting a price, and to apply accepted economic and financial methodologies for the pricing of financial instruments. References for less active markets are carefully reviewed to establish relevant and comparable data. Extrapolations and other accepted valuation techniques are employed in periods with few or no transactions, such as for long-term commodity contracts in markets with few observations beyond the short or mid-term period.

Hydro's estimated credit spread for similar liabilities is used when determining the fair value of financial instruments where Hydro is net liable. Hydro determines the appropriate discount factor and credit spread for financial assets based on both an individual and on a portfolio assessment.

Equity securities

Fair value for unlisted shares is based on commonly accepted valuation techniques utilizing significant unobservable data, primarily cash flow-based models. To the extent there are transactions in such shares, the transaction price is assessed and, to the extent comparable to rights embodied in the investment held by Hydro, used for reference. For investments where share holdings are associated with offtake rights and/or obligations or other specific clauses, those rights and obligations are included in the valuation of the equity securities. Fair value for listed shares is based on quoted market prices as of the balance sheet date.

Debt instruments

Fair value for unlisted debt instruments is estimated primarily through cash flow models using contractual cash flow where relevant, and discount rates reflecting the perceived credit risk and other relevant risks associated with the instrument. Fair value for listed instruments is based on quoted market prices as of the balance sheet date.

Derivatives

Fair value of financial derivatives with a currency or interest rate as underlying is estimated as the present value of future cash flows, calculated by reference to quoted swap price curves and exchange rates as of the balance sheet date. For derivatives covering a period beyond the liquid period of price curves, the curves are extrapolated using unobservable data.

Fair value of commodity derivatives is measured as the present value of future cash flows, calculated using forward curves and exchange rates as of the balance sheet date. Estimates from brokers and extrapolation techniques are applied for non-quoted products and periods to achieve the most relevant forward curve. In addition, when deemed appropriate, correlation techniques between commodities are applied. Options are revalued using option pricing models, and credit spreads are applied where deemed to be significant. Markets are assessed to determine whether they are active for the relevant instruments. Currency and interest markets are considered liquid for the periods used for price references, and thus applied unadjusted. For aluminium contracts priced to observations at the London Metal Exchange (LME), liquidity is considered good for the first few years, with fewer transactions for longer durations. For electricity contracts priced to the electricity exchange Nasdaq OMX, liquidity is considered good for the first two years. For longer durations there are fewer transactions and higher uncertainty. Similar assessment is made for other markets used for price references. For less liquid periods, adjustments to remove outliers and extrapolation techniques are applied.

Embedded derivatives

Hydro measures embedded forward contracts that are separated from the host contract by comparing the forward curve at contract inception to the forward curve as of the balance sheet date. Changes in the present value of the cash flows related to the embedded derivative are recognized in the balance sheet with changes in the fair value recognized in the income statement. Forward curves are established as described above under Derivatives.

Note 1.3 Significant events

The following significant events have impacted Hydro in 2020, or are expected to impact Hydro in 2021:

The Covid 19 pandemic has impacted our markets, our ability to operate plants as normal and our employees. The uncertainty has been high, and visibility limited. As vaccines started to be rolled out towards the end of the year, the economic recovery is expected to come earlier than anticipated early in the pandemic, however, there is still significant uncertainty related both to the development of the pandemic as such and to market recovery.

A strategic review of Hydro Rolling was initiated in May 2019. As part of the review Hydro has considered future ownership strategies for this business. It has been concluded that the business can better be developed outside Hydro, and an agreement to sell the business to KPS Capital Partners was reached on March 5. The criteria for reporting the business as Held for sale and Discontinued operations, as described in note 1.1 *Reporting entity, basis of presentation and significant accounting policies* was reached short time before the transaction was agreed, and will be reflected in financial reporting for future periods. The sold business comprises the Hydro Rolling segment, and related pension liabilities and certain support functions reported as part of Other activities. The transaction is expected to be completed in the second half of 2021. The review also resulted in rationalization efforts with an estimated cost of NOK 1 billion which was provided for in 2019. Further provisions of about NOK 100 million was recognized in 2020 to cover additional improvement initiatives. A large part of the cost is related to employee compensation for termination of employment and early retirement. A significant share of the cash outflows was made in 2020, and the majority of remaining cash outflows will be made during 2021.

In October 2020 Hydro entered into an agreement with Lyse to combine power production assets. The transaction was completed on December 31, 2020. Hydro contributed its subsidiaries holding the Røldal-Suldal power plants into Lyse Kraft DA, a company owned 25.6 percent by Hydro and 74.4 percent by Lyse. Lyse Kraft DA is a subsidiary of Lyse AS, and an associate for Hydro. The transaction represents sale of subsidiaries and acquisition of an ownership share in an associate. The transaction is accounted for at estimated fair value, resulting in a gross gain of NOK 7.1 billion, of which 25.6 percent was eliminated as unrealized, resulting in a recognized gain of NOK 5.3 billion. Under the agreement, Hydro and Lyse both will receive their relative share of the power produced by Lyse Kraft DA and pay operational expenses incurred by the entity.

Alunorte, an alumina refinery in Brazil which is part of Hydro Bauxite & Alumina was partly curtailed after a court decision in 2018 following an extreme rainfall and alleged harmful spills into surrounding areas. A court decision in March 2018 required Alunorte to limit production to 50 percent of its capacity. In May 2019, the court lifted the embargo, allowing Alunorte to ramp up towards normal production. In September 2019, the court lifted the final embargo related to the new bauxite residue deposit area (DRS2), allowing commissioning activities to resume. The partial embargo significantly impacted alumina production in Hydro Bauxite & Alumina, and also impacted availability and price of alumina in the world market, thus impacted the prices for alumina produced and sold by Hydro Bauxite & Alumina, and the cost for alumina purchased and consumed by Hydro Aluminium Metal. During 2020, ramp-up towards full capacity continued as additional press filter capacity was added, and the production optimization continued. At the end of 2020, Alunorte has reached normal production levels.

Hydro experienced a significant cyber-attack on March 19, 2019. The attack affected the entire organization, with Hydro Extrusions having suffered the most significant operational challenges. The main impact on financial results was lost sales resulting from lost production ability and ability to receive and process sales order mainly in a period in March and April 2019. In addition, costs have been incurred to remediate impacted systems and data. The financial impact is estimated to be around NOK 800 million to NOK 1 billion. Hydro has received a total of NOK 769 million in insurance compensation related to the event, of which NOK 216 million was recognized in 2019 and NOK 553 million was recognized in 2020.

Note 1.4 Operating and geographic segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments, which requires Hydro to identify its segments according to the organization and reporting structure used by management. Operating segments are components of a business that are evaluated regularly by the chief operating decision maker for the purpose of assessing performance and allocating resources. Hydro's chief operating decision maker is the President and CEO. Generally, financial information is required to be disclosed on the same basis that is used by the CEO.

Hydro's operating segments represent separately managed business areas with products serving different markets, or distinct elements of the business separately followed up and reported to the chief operating decision maker. Hydro's reportable segments are the business areas Hydro Bauxite & Alumina, Hydro Aluminium Metal, Hydro Rolling, Hydro Extrusions, and Hydro Energy, as well as the Hydro Metal Markets activities which are managed combined with Hydro Aluminium Metal.

Hydro Bauxite & Alumina activities includes bauxite mining activities, production of alumina and related commercial activities, primarily the sale of alumina.

Hydro Aluminium Metal includes primary aluminium production, remelting and casting activities. The main products are comprised of extrusion ingots, foundry alloys, sheet ingot and standard ingot.

Hydro Metal Markets includes all sales activities relating to products from our primary metal plants and operational responsibility for stand-alone remelters as well as physical and financial metal trading activities.

Hydro Rolling includes Hydro's rolling mills and the dedicated primary metal plant in Neuss, Germany. The main products are comprised of aluminium foil, strip, sheet, and lithographic plate for application in such sectors as packaging, automotive and transport industries, building and general engineering, as well as for offset printing plates.

Hydro Extrusions delivers products within extrusion profiles, building systems and precision tubing, and is present in about 40 countries. The products are delivered to such sectors as construction, automotive and heating, ventilation and air conditioning.

Hydro Energy includes operating and commercial responsibility for Hydro's power stations in Norway, a trading and wholesale business in Brazil, and energy sourcing for Hydro's world-wide operations.

Other consist of Hydro's captive insurance company Industriforsikring, its industry parks, internal service providers, and certain other activities. Unallocated corporate activities are reported as part of Other.

Operating segment information

Hydro uses two measures of segment results, Earnings before financial items and tax - EBIT and EBITDA. EBIT is consistent with the same measure for the group, considering the principles for measuring certain intersegment transactions and contracts described below. Hydro defines EBITDA as Income (loss) before tax, financial income and expense, depreciation, amortization and write-downs, including amortization and impairment of excess values in equity accounted investments, less investment grants. Hydro's definition of EBITDA may be different from other companies. The two measures represent results with and without the charge for historic investments in production capacity and other fixed assets and are considered complementary.

Because Hydro manages long-term debt and taxes on a group basis, Income before tax and Net income is presented only for the group as a whole.

Intersegment sales and transfers reflect arm's length prices as if sold or transferred to third parties at the time of inception of the internal contract, which may cover several years. Transfers of businesses or fixed assets within or between Hydro's segments are reported without recognizing gains or losses. Results of activities not considered part of Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported together with Other under the caption Other and eliminations.

The accounting policies used for segment reporting reflect those used for the group. The following exceptions apply for intersegment transactions: Internal commodity contracts may meet the definition of a financial instrument in IFRS 9 or contain embedded derivatives that are required to be reported separately and valued at fair value under IFRS 9. However, Hydro considers these contracts as sourcing of raw materials or sale of own production, and accounts for such contracts as executory contracts. Certain other internal contracts may contain a lease arrangement. However, the segment reporting reflects the responsibility allocated by Hydro's management for those assets, and no internal embedded lease arrangement is identified. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based either on the premium charged or the estimated service cost. Any difference between these charges and pension expenses measured in accordance with IFRS, as well as pension assets and liabilities are included in Other and eliminations.

The following tables include information about Hydro's operating segments.

Amounts in NOK million	External revenue		Internal revenue		Share of the profit (loss) in equity accounted investments	
	2020	2019	2020	2019	2020	2019
Hydro Bauxite & Alumina	13,381	12,255	9,658	10,550	-	-
Hydro Aluminium Metal	7,039	6,141	27,365	29,035	256	270
Hydro Metal Markets	37,893	40,164	8,972	10,287	-	-
Hydro Rolling	23,989	26,179	(86)	152	-	-
Hydro Extrusions	54,542	62,211	(47)	140	-	18
Hydro Energy	1,261	2,808	5,706	5,414	(39)	(29)
Other and eliminations	13	8	(51,568)	(55,577)	7	(18)
Total	138,118	149,766	-	-	223	241

Amounts in NOK million	Depreciation, amortization and impairment ¹⁾		Earnings before financial items and tax (EBIT) ²⁾		EBITDA	
	2020	2019	2020	2019	2020	2019
Hydro Bauxite & Alumina	2,011	2,509	1,672	749	3,683	3,258
Hydro Aluminium Metal	2,992	3,030	794	(1,838)	3,667	1,081
Hydro Metal Markets	149	129	766	748	913	875
Hydro Rolling	3,097	1,036	(1,965)	(865)	1,132	170
Hydro Extrusions	3,785	2,384	449	1,353	4,225	3,731
Hydro Energy	260	253	6,258	1,291	6,529	1,558
Other and eliminations	(41)	144	(642)	(939)	(683)	(795)
Total	12,253	9,485	7,332	499	19,465	9,878

Amounts in NOK million	Non-current assets		Total assets ³⁾		Investments ⁴⁾	
	2020	2019	2020	2019	2020	2019
Hydro Bauxite & Alumina	23,478	30,565	29,416	37,332	1,685	2,294
Hydro Aluminium Metal	30,249	32,528	42,578	43,756	2,887	4,235
Hydro Metal Markets	1,597	1,413	8,286	7,470	148	173
Hydro Rolling	7,606	9,223	17,138	18,757	851	876
Hydro Extrusions	26,585	28,758	40,558	43,060	1,549	2,914
Hydro Energy	11,815	5,822	12,825	6,975	6,961	313
Other and eliminations	3,023	2,427	13,607	7,051	92	102
Total	104,352	110,736	164,408	164,401	14,174	10,907

1) Amounts include impairment, see note 2.5 Impairment of non-current assets.

2) Total segment Earnings before financial item and tax is the same as Hydro group's total Earnings before financial income and tax. Financial income and financial expenses are not allocated to the segments. There are no reconciling items between segment Earnings before financial items and tax to Hydro Earnings before financial items and tax. Therefore, a separate reconciling table is not presented.

3) Total assets exclude internal cash pool accounts and accounts receivable related to group relief.

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

The identification of assets, non-current assets and investments is based on location of operation. Included in non-current assets are investments in equity accounted investments; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

	Revenue		Non-current assets		Investments ¹⁾	
	2020	2019	2020	2019	2020	2019
Amounts in NOK million						
Norway	2,006	3,694	32,658	26,266	8,974	3,484
Germany	17,652	20,134	9,514	11,053	903	961
France	7,416	8,298	2,571	2,701	79	150
Poland	5,779	6,010	850	875	24	168
Spain	5,564	5,814	835	801	64	98
Italy	4,719	5,080	580	563	35	47
The Netherlands	2,847	3,815	1,318	1,319	157	84
Austria	2,783	2,843	357	378	22	14
Sweden	2,370	2,547	882	826	68	68
Belgium	2,049	1,975	983	1,167	36	73
Denmark	1,640	1,727	978	915	96	137
Czech Republic	1,508	1,691	1	1	-	-
Portugal	1,086	1,128	140	140	-	19
Hungary	977	1,070	1,161	1,090	107	90
Slovakia	892	851	484	938	101	282
Other	2,920	2,531	198	261	26	30
Total EU	60,201	65,513	20,853	23,028	1,718	2,222
United Kingdom	6,003	6,888	1,346	1,473	64	98
Switzerland	4,999	5,000	199	143	1	4
Turkey	2,429	2,188	4	4	-	-
Other Europe	1,380	1,725	-	-	-	-
Total Europe	77,019	85,008	55,059	50,913	10,757	5,808
USA	27,691	33,326	8,689	10,023	768	1,121
Canada	2,315	3,493	1,940	2,116	163	273
Brazil	6,114	6,244	26,044	33,940	2,302	3,044
Mexico	1,610	2,091	205	221	8	9
Other America	285	825	34	41	5	8
Japan	3,538	3,277	10	12	-	-
Singapore	4,741	3,236	6	7	4	-
China	4,411	2,794	696	658	96	46
Qatar	1,857	2,014	10,457	11,439	-	-
South Korea	1,260	1,334	-	-	-	-
India	1,116	955	151	204	4	12
Thailand	664	896	-	-	-	-
Taiwan	955	811	-	-	-	-
Bahrain	1,249	645	458	512	3	535
Other Asia	2,137	1,850	-	16	-	1
Australia and New Zealand	705	600	604	636	63	49
Africa	452	368	-	-	-	-
Total outside Europe	61,100	64,759	49,293	59,823	3,417	5,098
Total	138,118	149,767	104,352	110,736	14,174	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.

Note 1.5 Significant subsidiaries and changes to the group

Accounting policies for business combinations

Business combinations are accounted for using the acquisition method in accordance with IFRS 3 Business Combinations. Consideration is the sum of the fair values, as of the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The fair value of Hydro's pre-existing ownership interest in an acquiree is included in the consideration, with any gain or loss recognized in Other income, net.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized separately at the acquisition date at their fair value irrespective of any non-controlling interest, and goodwill recognized to the extent the consideration exceeds identified net assets.

The interest of non-controlling shareholders in the acquiree is initially measured as the non-controlling interests' proportion of the fair value of the net assets recognized (partial goodwill method, see note 2.3 Goodwill), or as the non-controlling interests' proportion of the fair value of the acquiree (full goodwill method, see note 2.3 Goodwill). Non-controlling interests are subsequently adjusted for changes in equity of the subsidiary after the acquisition date.

Significant judgment in accounting for business combinations

In a business combination, consideration, assets and liabilities are recognized at estimated fair value, and any excess purchase price included in goodwill. Where Hydro had an existing ownership interest in the acquiree, that interest is also reassessed to determine its acquisition date estimated fair value, resulting in an acquisition date gain or loss. In the businesses Hydro operates, fair values of individual assets and liabilities are normally not readily observable in active markets. Estimation of fair values requires the use of valuation models for acquired assets and liabilities as well as ownership interests. Such valuations are subject to numerous assumptions and are thus uncertain. The quality of fair value estimates may impact periodic depreciation and amortization of fixed assets, and assessment of possible impairment of assets and/or goodwill in future periods.

Subsidiaries with significant non-controlling interests

The Hydro group consists of about 165 companies in about 40 countries. Most subsidiaries, including the large operating units in Norway and Germany, are 100 percent owned, directly or indirectly, by Norsk Hydro ASA. A list of significant subsidiaries is included in note 7 to the separate accounts of Norsk Hydro ASA later in this report. Restrictions in the ability to transfer dividend based on reported results and/or equity in the relevant subsidiaries exist in most countries where we operate. In some countries, including Brazil, there are also legal restrictions in our ability to integrate cash holdings in subsidiaries in the group's cash pool. There are non-controlling interests in some subsidiaries. The more significant ones are described below.

Albras

Hydro holds 51 percent of the shares in the Brazilian aluminium smelter Alumínio Brasileiro S.A. (Albras), which is part of Hydro Aluminium Metal. The non-controlling owner has significant influence on certain decisions in the entity, including operational and investment budgets. The non-controlling interests in Albras amounted to NOK 1,687 million as of December 31, 2020 and NOK 2,171 million as of December 31, 2019. Funds held by the entity are not available to the group through cash pool arrangements. Dividends need to be approved by the shareholders jointly. The shareholder agreement supports transfer of dividend to the extent possible under statutory regulations. The smelter produces standard ingots, which are sold to its shareholders, or the entities appointed by the shareholders, in proportion to ownership interest at a price based on prevailing aluminium prices at the London Metal Exchange and product premiums. In response to the regime for sales taxes in Brazil, an increasing share of the production is sold to domestic customers rather than exported.

Slovalco

Hydro holds 55 percent of the total shares and 60 percent of the voting interest in the Slovak smelter Slovalco a.s, which is part of Hydro Aluminium Metal. The non-controlling owner has significant influence on certain decisions in the entity, including operational and investment budgets. The plant is partly written down as impaired, see note 2.5 *Impairment of non-current assets*. The non-controlling interests in Slovalco amounted to NOK 811 million as of December 31, 2020 and NOK 1,015 million as of December 31, 2019. Funds held by the entity are not available to the group through cash pool arrangements. Dividends need to be approved by the shareholders jointly. The shareholder agreement supports transfer of dividend to the extent possible under statutory regulations. The smelter produces metal products, of which the majority is sold to Hydro at a price based on prevailing aluminium prices at the London Metal Exchange and product premiums.

Alunorte

Hydro holds about 92 percent of the shares in the Brazilian alumina refinery Alumina do Norte do Brasil S.A. (Alunorte), which is part of Hydro Bauxite & Alumina. The non-controlling owners have limited influence on the operational decisions. The non-controlling interests in Alunorte amounted to NOK 597 million as of December 31, 2020 and NOK 810 million as of December 31, 2019. Funds held by the entity are not available to the group through cash pool arrangements. Dividends need to be approved by the shareholders jointly. The shareholder agreement supports transfer of dividend to the extent possible under statutory regulations. The refinery produces alumina, which is sold to its shareholders in proportion to ownership interest at a price based on prevailing alumina prices.

The table below summarizes key figures for Albras, the only subsidiary with non-controlling interests considered material, as included in the group financial statements. Fair value adjustments from Hydro's acquisition of the subsidiary are included. Intercompany transactions and balances are included, and any internal profit and loss in inventory and fixed assets purchased from group companies are not eliminated in the numbers below.

	Albras	
	2020	2019
Amounts in NOK million		
Internal revenue	3,381	3,098
External revenue	3,135	2,695
Earnings before financial items and tax	326	(1,062)
Net income	81	(720)
Other comprehensive income	87	19
Total comprehensive income	168	(701)
Net cash flows from operating activities	601	(531)
Net cash flows from investing activities	(579)	(641)
Net cash flows from financing activities	151	1,047
Cash and cash equivalents	382	209
Other current assets	1,916	1,940
Non-current assets	3,500	4,624
Current liabilities	(1,639)	(1,603)
Non-current liabilities	(717)	(742)
Equity attributable to Hydro	(1,754)	(2,257)
Equity attributable to non-controlling interests	(1,687)	(2,171)
Share of net income attributable to non-controlling interest	57	(352)
Dividends paid to non-controlling interests	49	65

Section 2 – Long-lived assets

Note 2.1 Property, plant and equipment

Accounting policies for property, plant and equipment

Property, plant and equipment (PP&E) is recognized at acquisition cost. The carrying value of PP&E is comprised of the historical cost less accumulated depreciation and any accumulated impairment losses. The carrying value also includes the estimated value of the asset retirement obligation upon initial recognition of the liability. Hydro uses the cost model for PP&E and investment properties.

Capitalized maintenance

Expenditures for maintenance and repairs applicable to production facilities are capitalized in accordance with IAS 16 Property, Plant and Equipment when such costs are incurred on a scheduled basis with a time interval of greater than one year. Expenditures that regularly occur at shorter intervals are expensed as incurred. Major replacements and renewals are capitalized and any assets replaced are retired.

Stripping cost

Stripping costs incurred during the mining production phase are allocated between cost of inventory produced and the existing mine asset. Stripping costs are allocated as a component of the mine asset in the event they represent significantly improved access to ore. Stripping costs include such activities as removal of vegetation as well as digging the actual pit for mining the ore.

Capitalized interest

Hydro capitalizes borrowing costs on qualifying assets in accordance with IAS 23 Borrowing Costs. Currency gains or losses related to Hydro's foreign currency denominated borrowings are not capitalized.

The main components of Hydro's property, plant and equipment is production related machinery and buildings in Hydro's more than 100 operating plants. PP&E includes leased assets, see note 2.6 *Leases*.

Amounts in NOK million	Land and buildings	Machinery and equipment	Plant under construction	Total
Cost				
December 31, 2018	36,266	99,132	4,885	140,282
Additions	458	3,729	5,702	9,889
Acquisitions through business combinations	73	(17)	-	56
Disposals	(381)	(2,240)	(20)	(2,640)
Transfers ¹⁾	533	2,966	(3,616)	(117)
Foreign currency translation effect	(329)	(1,048)	(91)	(1,469)
December 31, 2019	36,619	102,522	6,859	146,001
Additions	457	3,181	3,491	7,129
Disposals	(486)	(2,975)	(3)	(3,463)
Companies sold	(1,065)	(1,084)	(27)	(2,177)
Transfers	1,428	4,146	(5,575)	-
Foreign currency translation effect	(1,993)	(5,726)	(343)	(8,062)
December 31, 2020	34,961	100,064	4,402	139,427
Accumulated depreciation and impairment				
December 31, 2018	(13,505)	(52,155)	(252)	(65,912)
Depreciation for the year	(1,517)	(6,514)	-	(8,030)
Impairment losses	(330)	(399)	(30)	(760)
Reversal of impairment losses	9	-	-	10
Disposals	296	1,998	2	2,296
Foreign currency translation effect	120	512	8	640
December 31, 2019	(14,928)	(56,558)	(273)	(71,758)
Depreciation for the year	(1,438)	(6,460)	-	(7,898)
Impairment losses	(280)	(2,593)	(34)	(2,907)
Reversal of impairment losses	160	2	-	161
Disposals	195	2,655	-	2,851
Companies sold	572	592	1	1,165
Transfers	(14)	(8)	23	-
Foreign currency translation effect	721	2,422	60	3,203
December 31, 2020	(15,011)	(59,949)	(222)	(75,182)
Carrying value				
December 31, 2019	21,692	45,964	6,587	74,243
December 31, 2020	19,949	40,116	4,180	64,245

1) Transfer includes reclassification of certain undeveloped mineral rights to intangible assets.

Note 2.2 Intangible assets

Accounting policies for intangible assets

Intangible assets acquired individually or as a group are recognized at cost when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred.

Emission rights

Government granted and purchased CO₂ emission allowances expected to be used towards Hydro's own emissions are recognized as intangible assets at nominal value (cost). The amounts are not amortized but are tested for impairment at least annually. Actual CO₂ emissions which exceed the level covered by emission rights are recognized as a liability. Any sale of excess emission rights is recognized at the time of sale at the transaction price. CO₂ emission allowances purchased for trading are measured and classified as inventory.

Research and development

Research expenditures are expensed as incurred. Development costs are capitalized as intangible assets at cost in accordance with IAS 38 Intangible Assets when the recognition criteria are met, including probable future economic benefit and that the cost can be measured reliably.

Exploration cost

Exploration cost for mineral resources are expensed as incurred. Costs related to acquired exploration rights are allocated to the relevant areas and capitalized. An area represents a unit that may be utilized based on shared infrastructure and may include several licenses. Exploration rights are transferred to mine development cost when development starts. Amortization of transferred mineral rights starts when extraction of the resources starts. Exploration rights related to undeveloped areas remain on the balance sheet as intangible assets (mineral rights) until a development is decided or a decision not to develop the area is made.

Hydro's intangible assets

Hydro holds intangible assets mainly as complementary resources to its physical assets. Waterfall rights are fundamental for production of hydroelectrical power, however, a significant share of such rights was granted to Hydro rather than purchased. A significant share of acquired waterfall rights have indefinite life and are thus not amortized. Mineral rights are undeveloped rights related to Hydro's mining operations in Brazil. Other intangible assets include customer relations, technology and other intangible assets identified in acquisitions, in addition to proprietary technology developed internally, and certain other types of intangible assets.

Amounts in NOK million	Intangible assets under development	Mineral and waterfall rights ¹⁾	Software	Technology	Acquired sourcing contracts	Other intangibles assets	Total
Cost							
December 31, 2018	148	1,020	1,472	2,084	1,030	1,756	7,510
Additions	169	22	77	-	-	74	341
Acquisitions through business combinations	-	-	1	-	-	499	500
Disposals	-	-	-	(79)	-	(389)	(468)
Transfers ³⁾	(102)	117	92	5	-	6	117
Foreign currency translation effect	-	(22)	(21)	(17)	(29)	(6)	(94)
December 31, 2019	215	1,137	1,621	1,993	1,001	1,940	7,906
Additions	97	14	30	-	-	95	236
Disposals	-	-	(88)	-	-	(99)	(187)
Companies sold	-	(44)	(7)	-	-	(25)	(77)
Transfers	(185)	-	123	74	-	(12)	-
Foreign currency translation effect	-	(201)	(4)	17	(240)	31	(397)
December 31, 2020	127	905	1,675	2,084	761	1,930	7,482
Accumulated amortization and impairment							
December 31, 2018	-	(39)	(1,089)	(394)	(540)	(590)	(2,652)
Amortization for the year ²⁾	-	(3)	(212)	(187)	(62)	(141)	(604)
Impairment losses	-	(145)	(4)	-	-	(12)	(161)
Disposals	-	-	4	79	-	334	417
Foreign currency translation effect	-	1	16	4	17	8	45
December 31, 2019	-	(186)	(1,285)	(498)	(585)	(401)	(2,956)
Amortization for the year ²⁾	-	(8)	(116)	(199)	(52)	(153)	(527)
Impairment losses	-	-	(5)	-	-	-	(5)
Disposals	-	-	80	-	-	16	96
Companies sold	-	31	7	-	-	22	59
Transfers	-	-	-	(11)	-	11	-
Foreign currency translation effect	-	35	3	(2)	146	(2)	179
December 31, 2020	-	(129)	(1,316)	(710)	(491)	(507)	(3,154)
Carrying value							
December 31, 2019	215	950	336	1,495	415	1,539	4,951
December 31, 2020	127	776	359	1,374	269	1,423	4,328

1) Some assets previously included in Other intangible assets have been concluded to be closely associated with waterfall rights, and thus moved.

2) Amortization of a sourcing contract is reported as Raw material and energy expense in the income statement.

3) Transfer includes reclassification of certain undeveloped mineral rights from property, plant and equipment.

Note 2.3 Goodwill

Accounting policies for goodwill

Goodwill is recognized as a part of business combinations. Goodwill is initially measured either as the excess of the consideration over Hydro's interest in the fair value of the acquiree's identifiable net assets (partial goodwill), or as the fair value of 100 percent of the acquiree in excess of the acquiree's identifiable net assets (full goodwill). The method is elected on a transaction-by-transaction basis. Hydro has applied the partial goodwill method for all business combinations completed prior to December 31, 2020. Goodwill is not amortized, but is tested for impairment annually, and more frequently if indicators of possible impairment are observed, in accordance with IAS 36 Impairment of Assets. Goodwill is allocated to the cash generating units or groups of cash generating units expected to benefit from the synergies of the combination and that are monitored for internal management purposes.

Hydro's goodwill

Goodwill allocated to Hydro Extrusions was recognized in the acquisition of Sapa AS in 2017. Goodwill allocated to Hydro Bauxite & Alumina was recognized in the acquisition of certain aluminium businesses from Vale S.A. in 2011. Goodwill allocated to Hydro Metal Markets was recognized in acquisitions undertaken more than 15 years ago.

Amounts in NOK million	Hydro Extrusions	Hydro Bauxite & Alumina	Hydro Metal Markets	Total
Cost				
December 31, 2018	3,869	2,312	404	6,584
Acquisitions through business combinations	16	-	-	16
Foreign currency translation effect	12	(65)	3	(50)
December 31, 2019	3,897	2,247	407	6,551
Foreign currency translation effect	35	(538)	(2)	(505)
December 31, 2020	3,932	1,708	405	6,045
Accumulated impairment				
Impairment losses	(1,129)	-	-	(1,129)
Foreign currency translation effect	112	-	-	112
December 31, 2020	(1,017)	-	-	(1,017)
Carrying value				
December 31, 2019	3,897	2,247	407	6,551
December 31, 2020	2,915	1,708	405	5,029

Note 2.4 Depreciation and amortization expense

Accounting policies for depreciation and amortization

Depreciation and amortization expenses are measured on a straight-line basis over the estimated useful life of the asset, commencing when the asset is ready for its intended use. Mine property and development costs in extractive activities are depreciated using the unit-of-production method, using proved and probable reserves. Tangible and intangible assets with an indefinite useful life are not depreciated. Estimated useful life by category is as follows:

- Machinery and equipment, initial investment 4-30 years, for power plants up to 75 years
- Machinery and equipment, capitalized maintenance 1-15 years
- Buildings 20-50 years
- Intangible assets with finite lives 3-10 years, for rights related to hydroelectric power production up to 50 years

A component of an item of property, plant and equipment with a significantly differing useful life and a cost that is significant in relation to the item is depreciated separately. At each financial year-end Hydro reviews the residual value and useful life of its assets, with any estimate changes accounted for prospectively over the remaining useful life of the asset.

Specification of depreciation and amortization by asset category

Amounts in NOK million	2020	2019
Buildings	1,438	1,517
Machinery and equipment	6,460	6,514
Intangible assets	476	542
Depreciation and amortization expense	8,374	8,572

Note 2.5 Impairment of non-current assets

Accounting policies for impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with IAS 36 Impairment of Assets. Goodwill and intangible assets with indefinite life are required to be tested for impairment annually, in addition to any tests required when impairment indicators are determined to be present. Hydro has elected to do the annual impairment test of goodwill in the fourth quarter. Exploration cost for undeveloped mining areas are assessed for impairment under IFRS 6 Exploration for and Evaluation of Mineral Resources.

When a Cash Generating Unit (CGU) or an asset is tested for impairment, the recoverable amount is estimated as the higher of the CGU's fair value less cost of disposal, or its value in use. The carrying amount is not recoverable if it exceeds the recoverable amount. An impairment loss is recognized in the amount that the carrying value exceeds its recoverable amount. Losses are reversed in the event of a subsequent increase in the recoverable amount of an impaired asset, however, impairment of goodwill is not reversed.

Significant judgement in accounting for impairment of non-current assets

IAS 36 requires that Hydro assess conditions that could cause an asset or a CGU to become impaired. The identification of CGUs involves judgment, including assessment of where active markets exist, and the level of interdependency of cash inflows. For Hydro, the CGU is either the individual plant, a group of plants that forms an integrated value chain where no independent prices for the intermediate products exist, a group of plants that are combined and managed to serve a common market, or a group of assets where circumstances otherwise indicate significant interdependencies. Assessing which indicators that may cause a CGU to be impaired includes such conditions as Hydro's market capitalization, significant changes in Hydro's planned use of the assets or a significant adverse change in the expected sales volumes or margins, i.e. the combination of product prices, raw material cost and energy cost.

Directly observable market prices rarely exist for our assets. However, fair value may be estimated based on recent transactions on comparable assets, internal models used by Hydro for transactions involving the same type of assets or other relevant information. Calculation of value in use is a discounted cash flow calculation based on continued use of the assets in its present condition, excluding potential exploitation of improvement or expansion potential.

Determination of the recoverable amount involves management estimates on highly uncertain matters, such as commodity prices and their impact on markets and prices for upgraded products, development in demand, inflation, operating expenses and tax and legal systems. We use internal business plans, quoted market prices and our best estimate of long-term development in commodity prices, currency rates, discount rates and other relevant information. A detailed forecast is developed for a period of three to five years with projections thereafter. Hydro does not include a general growth factor to volumes for the purpose of impairment tests, however, cash flows are generally increased by expected inflation and, where market conditions are depressed, we consider whether full or partial market recovery towards previously observed volumes is justified. Estimated cash flows are discounted with a nominal risk adjusted discount rate.

Uncertainty related to world economic development and its impact on demand and prices for Hydro's key products and input factors has been significant during the year, driven by the Covid-19 pandemic. During the second half of the year, the economic activity has increased, and markets have come back faster than more pessimistic estimates in the beginning of the year. The uncertainty in the world economic development led us to conclude that impairment indicators existed for several of our CGUs as of the end of June 2020.

Tests performed in 2020 and 2019

Tests for impairment have been performed for all CGUs with mandatory annual tests and the CGUs where impairment indicators have been identified. The recoverable amount for these units have been determined estimating the Value in Use (VIU) of the asset and/or, if appropriate, its fair value less cost of disposal (FV), and comparing the highest of the two against the carrying value of the CGUs. The calculation of VIU has been based on management's best estimate, reflecting Hydro's business planning process. The discount rates are derived as the weighted average cost of capital (WACC) for a similar business in the same business environment. For Hydro's businesses the pre-tax nominal discount rate is estimated at between 4.75 percent and 14.25 percent (2019: 5.5-16.5 percent). The higher rates are applicable for assets within the Bauxite & Alumina and Aluminium Metal activities in Brazil, while the lower rates are applicable for assets within Extrusion and Rolling in Europe.

Hydro has incurred the following impairment losses during 2020 and 2019:

Amounts in NOK million	2020	2019
Classification by asset category		
<i>Impairment losses</i>		
Property, plant and equipment	2,907	760
Goodwill	1,129	-
Other intangible assets	5	161
Total impairment of non-current assets	4,040	922
Reversal of impairment non-current assets	(161)	(10)
Total impairment of non-current assets, net	3,879	912

Classification by segment

<i>Impairment losses</i>		
Hydro Bauxite & Alumina	-	152
Hydro Rolling	1,900	-
Hydro Aluminium Metal	513	506
Hydro Extrusions	1,627	255
Other activities	(161)	-
Total impairment of non-current assets, net	3,879	912

Goodwill is allocated to CGUs or groups of CGUs as shown in the following table:

Amounts in NOK million	2020	2019
Extrusion North America (Hydro Extrusions)	1,393	2,469
Extrusion Europe (Hydro Extrusions)	824	769
Building Systems (Hydro Extrusions)	549	514
Precision Tubing (Hydro Extrusions)	149	144
Bauxite & Alumina Operations	1,708	2,247
Recycling (Hydro Metal Markets)	405	407
Total goodwill	5,029	6,551

Annual mandatory impairment tests*Hydro Extrusions*

Goodwill in Hydro Extrusions is allocated to four groups of CGUs reflecting the way the business is managed to serve the relevant markets. The groups of CGUs are as follows:

Extrusion North America covers production plants, marketing and product development in the US and Canada. The operation consists of 21 production plants, recognized intangible assets and goodwill from Hydro's acquisition.

Extrusion Europe covers production plants, marketing and product development in Europe, mainly within the EU. The operation consists of 32 production plants, recognized intangible assets and goodwill from Hydro's acquisition.

Building Systems covers production plants, product warehouses, marketing and product development facilities, mainly in Europe, and sales and marketing offices covering a wider presence. The operation is present at 61 locations in 28 countries. The asset base consists of a limited number of production plants, several warehouses of differing size and complexity, three brands, other intangible assets and goodwill from Hydro's acquisition.

Precision Tubing covers production plants, marketing and product development on four continents. The operation consists of 10 production plants in South America, Asia, Europe and North America, recognized intangible assets and goodwill from Hydro's acquisition.

The impairment tests for all of the groups of CGUs described above are cash flow models expressed in nominal terms using forecasts for the first five years based on internal business plans approved by management. Margins, volumes and investments are considered highly correlated, as high margin above the metal value is achieved through production of more complex products, requiring higher cost and/or more expensive equipment. We have thus not considered development in margins, cost and volume separately. Cash flows have been projected as terminal values beyond the five-year forecast period with a zero

nominal growth assumed. Key assumptions are development in annual net cash flows, comprising volume and cost development in relevant market segments, as well as the discount rate.

The main assumptions and sensitivities are shown in the tables below. The sensitivities represent a stress test, identifying changes in each parameter which would result in a recoverable amount equal to the carrying amount of the CGU, while keeping all other parameters unchanged. The changed parameter is applied for the entire period, including the terminal value. The decrease in annual cash flows does not represent a reasonably possible scenario developed by Hydro, as changes in the market resulting in significantly reduced cash flows for individual plants or the whole business unit is likely to be mitigated with measures to reduce costs, including sale or closure of production lines or plants similar to what is currently ongoing.

Amounts in NOK million	Extrusion North America	Extrusion Europe	Building Systems	Precision Tubing
Carrying value of goodwill	1,393	824	549	149
Carrying value of other assets	6,587	7,663	3,119	2,495
Carrying value of CGU	7,980	8,487	3,668	2,644
Recoverable amount	9,970	19,301	13,922	6,627
Recoverable amount in excess of carrying value	1,991	10,814	10,255	3,984

Key assumptions:

Terminal value growth	0.0%	0.0%	0.0%	0.0%
Discount rate	6.75%	5.25%	5.25%	7.5%

Stress test

Discount rate - % change	23%	117%	247%	124%
Discount rate - % point	8.25%	11.5%	18.25%	16.75%
Annual reduction in net cash flow all years	18%	54%	70%	54%

Hydro Bauxite & Alumina

Goodwill in Hydro Bauxite & Alumina is allocated to a CGU consisting of the Alunorte alumina refinery, the main bauxite source Paragominas and certain related activities.

The recoverable amount has been determined based on a VIU calculation. Alunorte was operating at somewhat lower capacity utilization than the design capacity during 2019 and 2020, partly due to commissioning of the press filters used to prepare residue material for depositing and partly due to extended maintenance for the bauxite slurry pipeline. The plant was operating at nameplate capacity at the end of 2020.

Recoverable amount determined as a VIU calculation amounted to about NOK 19 billion. The value exceeds the carrying value of NOK 17 billion. The calculation used cash flow forecasts in BRL based on internal plans approved by management covering a five-year period. Production volumes have been assumed at a lower level than nameplate capacity reflecting a scenario incorporating the downside risk of production shortfalls. All significant price assumptions are internally derived based on external references. Cash flows have been projected for the following 35 years based on the five-year detailed forecast period using Hydro's long-term assumptions for alumina prices and key raw material prices. The CGU is expected to remain in operation for at least the 40-year period. Improvements expected from certain planned equipment replacements are included. Further improvements are not included in the cash flow forecasts. Cash flows beyond the five-year period are inflated by the expected long-term inflation levels in Brazil and the main western economies.

The main assumptions to which the test is sensitive are shown in the table below:

	Assumptions	
	2021	Long-term
Exchange rate BRL/USD	4.61	
Alumina price, long-term price represent real terms 2020 (USD/mt)	279	330
Production volume alumina (million mt)	6.1	6.1
Discount rate nominal, pre-tax	14.25%	14.25%

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 4.61 for 2021 with a stronger BRL in the period 2022 to 2026, reaching a nominal rate of 4.57 in 2026. For future periods the exchange rate is projected with a rate development reflecting the inflation difference of about 1 percentage point between international inflation and the higher expected Brazil specific inflation.

The parameters presented below represent a stress test, identifying changes in each parameter which would result in a recoverable amount equal to the carrying amount of the CGU, while keeping all other parameters unchanged. The changed parameter is applied for the entire period, including the terminal value. The decrease in annual cash flows does not represent a

reasonably possible scenario developed by Hydro. As the key parameters are interdependent, a change in the range indicated would not be expected to continue for the entire period of operation. If one of the key parameters were changed with no changes to the other assumptions, the estimated recoverable amount for the CGU would equal the carrying amount with the following long-term real 2020 assumptions over the entire 40-year period:

	% change	Value
Exchange rate BRL/USD	2%	
Alumina price, real term 2020(USD/mt)	(1%)	326
Discount rate (% point)	5%	15.0%

Other mandatory tests

For Hydro Metal Markets the impairment test on goodwill has been based on approved business plan for the next year, managements best estimate of cash flows for the following four years and extrapolated to a 15 years cash flow estimate, providing a VIU exceeding the carrying value.

Hydro also has indefinite life intangible assets of NOK 138 million related to the Vigeland power plant in Norway. This CGU is tested for impairment using a FV approach based on observed transaction values for power production assets in the Nordic region. The recoverable amount, estimated as a post-tax fair value, exceeds the carrying amount significantly.

Impairment tests based on indications of loss in value

Hydro Rolling

On March 5, 2021, Hydro agreed to sell the Rolling business, see note 1.3 *Significant events*. The agreed price was below the carrying value of the business to be sold by an estimated amount of NOK 1.9 billion. The amount is not finally determined, as Hydro will incur certain separation and transaction costs which impacts the recoverable amount, measured as fair value less cost of disposal. Future results of the operations, including in the period until completion of the transaction, will not influence the consideration. The shortfall amount is assumed to be related to production equipment in the sold business. Property, plant and equipment in Hydro Rolling, with a carrying value of about NOK 9.1 billion was thus written down as impaired with the shortfall amount.

The CGUs covering the rolling activities in Germany with a combined carrying value of about NOK 8.3 billion were also tested for impairment at the end of the second quarter. 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 dedicated aluminium smelter in Neuss, Germany, which is managed as part of the Hydro Rolling segment, was impacted by the same factors as the Hydro Aluminium Metal plants, discussed below. In addition, the synergies with the rolling mills were determined to be significant, partly offsetting some of the negative effects of the cost level in Germany.

Hydro Extrusions

The uncertainty in the world economic development led us to conclude that impairment indicators existed for several of our Cash Generating Units (CGUs) as of the end of June 2020. As of July 2020, it was highly uncertain when and to what level economic activity would return. About 75 percent of the carrying values in the Hydro Extrusions segment were tested for impairment. A conclusion that a write-down was required was reached for Extrusion North America, where goodwill was partly impaired. The recoverable amount was estimated at NOK 9.1 billion. Assumed sales volumes and the discount rate were less favorable at the end of June compared to the market conditions at the end of the year, reflecting the partial recovery and lower risk spreads observed in the market. 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, three CGUs in Extrusions Europe, and one CGU in Precision Tubing were determined to be impaired. Further, some assets related to one plant in India which was closed in June 2020 and some operations where closure or downsizing was ongoing were written down by a combined amount of about NOK 500 million.

Additional CGUs in Hydro Extrusions with a total carrying amount of about NOK 9 billion were tested for impairment with the conclusion that the recoverable amount exceeded the carrying amount and thus no impairment was present. Although some of these CGUs were experiencing challenging profitability short-term, profitability longer term supported the carrying value. In reaching this conclusion, we assumed several years with negative impact on volumes and/or margins, and for most market segments that sales volumes would reach 2019 levels within a period of about five years. Further, margin pressure was assumed to continue for a significant period. However, we saw that restructuring measures reducing costs which have been implemented during 2019 and 2020 were improving coverage.

During 2019, impairment losses of 255 million were recognized related to announced closure and sale of production facilities in Hydro Extrusions.

Hydro Aluminium Metal

The primary aluminium plant Slovalco, which was partly impaired at the end of 2019, was tested for possible additional impairment in the second quarter of 2020. The recoverable amount was determined as VIU based on Hydro's internal assumptions for production volumes, aluminium prices, raw material prices including energy, currency exchange rates and timing of cash flows. Contract prices are used for raw materials and energy for periods covered by specific contracts with external suppliers. For periods where such consumption is not yet contracted, or where internal supply of such items as alumina is expected, estimated market prices are used. The value in use is calculated as an expected value including a full restart of curtailed capacity, or a partial or full curtailment of the plant for an extended period. 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.

In 2019, Slovalco was written down as impaired with NOK 506 million. The value in use for Slovalco, estimated in the same way as in 2020 with market assumptions as of the end of 2019, including a discount rate of 9.75 percent, resulted in an expected recoverable amount of about NOK 725 million, which was below the carrying value of about NOK 1,225 million.

All other aluminium plants were tested for impairment at the end of June 2020 with the conclusion that the recoverable amount exceeded the carrying amount.

Key assumptions impacting the conclusion of tests during 2020 included the margin on aluminium over key input factors expressed in the functional currency of the smelter. The main elements were the partially mutually dependent assumptions for demand and price for base metals including aluminium, prices on alumina and energy, and currency exchange rates. The main exchange rates impacting relative competitive position for our smelters are the NOK and BRL against USD, which is the currency in which aluminium prices are quoted. We have in our tests assumed that the NOK will remain weak, while the BRL is expected to strengthen somewhat compared to the very weak level observed at the time of testing. We assumed an aluminium price in US-dollars at levels below the nominal prices observed over the last three to five years, and correspondingly lower price levels for such raw materials as alumina and anodes, resulting in a production margin over time reflecting levels somewhat below averages observed over the last ten years. Power prices are set in local, national or regional markets, and may develop differently between regions. Power prices are usually set and denominated in local currencies. In the Nordic region which includes Norway, power prices are quoted in Euro. Where Hydro has contracts for energy supply, contract prices were assumed in the tests for the period covered by contract.

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

Hydro's investment in the joint venture Qatalum was tested for impairment. The assumptions and method used were similar to what was used for Hydro's aluminium 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*. 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 one percentage-point would reduce the recoverable amount by about NOK 1.3 billion.

Hydro Bauxite & Alumina

The CGU consisting of the Alunorte alumina refinery, the main bauxite source Paragominas and certain related activities, including goodwill, was tested for impairment at the end of the second quarter. The test resulted in a marginal coverage over the carrying amount.

In 2019, certain undeveloped bauxite resources held by Bauxite and Alumina was reviewed for possible future development, and one area was concluded not probable to be developed and thus the carrying value of NOK 145 million was written down as impaired.

Reversal of impairment

A previous impairment write-down of NOK 161 million related to an industrial park in Germany was reversed during 2020. The property was classified as investment property and sold in July 2020.

Note 2.6 Leases

Accounting policies for leases

At inception of a contract, Hydro assesses whether a contract is, or contains, a lease. Leased assets with a remaining lease period of less than 12 months at inception are excluded from lease accounting. Further, leases of assets of a low value (small asset leases), mainly such items as PCs, office equipment and similar, are excluded from lease accounting. When measuring leases, Hydro include fixed lease payments for extension periods reasonably certain to be used. As a practical expedient, non-lease components are not separated from lease contracts for most asset classes. For production facilities and transportation assets, such as vessels used for transportation of material, the operating cost is a significant non-lease component, and is excluded from lease accounting. Variable lease payments, including service elements related to leases which are fully variable amounts, are recognized as operating expenses in the periods incurred.

Right-of-use assets are included in property, plant and equipment, see note 2.1 Property, plant and equipment. Lease liabilities are included in debt, see note 7.4 Short and long-term debt.

Significant judgement in accounting for leasing

Significant judgment is required to determine whether some service contracts conveys the right to control an asset to Hydro, and thus is, or contains, a lease. Hydro has a limited number of such contracts; however, they do exist in some arrangements with service providers for maintenance services, transportation services, and some operational subcontractors. In assessing whether such contracts are leases, Hydro assesses both the share of the supplier's capacity for relevant assets that is available for Hydro as well as how decisions are made.

Judgment is also applied in assessing whether renewal options are reasonably certain to be utilized. In assessing such issues, Hydro considers such factors as the level of operational integration and dependency as well as historic practices for renewals.

For some contracts where all, or close to all, produced products are purchased by Hydro with no or very limited fixed payments, the contract may be deemed a lease with fully variable payments. Currently, Hydro has no significant such contracts.

Hydro's leases

Hydro uses lease contracts primarily where lease or rental contracts provide operational benefits or flexibility compared to owning assets. Leased land and buildings are used for warehouses, office space and certain other arrangements where the need for such space is of a temporary nature or where land and/or buildings are not available for purchase. This is the case in some countries, and also in co-locations with certain other businesses such as in port areas. Further, Hydro has a lease arrangement for its head office in Oslo, Norway, and certain other office locations where the location is independent of production facilities. Production equipment is leased or rented where the access to the specific assets is combined with significant services, for instance seaborne transport operated by the supplier/lessor. Operational services in combination with leasing of assets is also used for such services as maintenance activities, earth-moving operations, and certain other non-core services. Leasing or rental is in some instances also used for equipment operated by Hydro, often under contracts significantly shorter than the assets' useful life.

Hydro determines its incremental borrowing rate by obtaining interest rates from various external financing sources, and makes adjustments for currency and duration to reflect the terms of the lease.

Right-of-use assets

Amount in NOK million	Machinery and equipment	Buildings and land	Total
December 31, 2019	1,810	1,410	3,220
Depreciations and impairment loss	(633)	(297)	(931)
Additions	387	160	547
Disposals	(26)	(32)	(58)
Currency translation	(211)	39	(172)
December 31, 2020	1,326	1,281	2,607

Total cash outflows for leases in 2020 was NOK 939 million (2019: NOK 1.314 million).

Interest expense relating to lease recognized in the income statement for 2020 was NOK 175 million (2019: NOK 206 million).

Leases expensed in the period amounts to NOK 282 million (2019: NOK 319 million) and refers to leases of short term, low value or leases with variable payments.

Hydro has a limited amount of lease contracts not accounted for as right-of-use assets and lease liabilities at the balance sheet because they are exempted as small asset leases or short-term leases. Future minimum lease payments due under non-cancellable leases are NOK 82 million (2019: NOK 142 million).

Note 2.7 Other non-current assets

Amounts in NOK million	2020	2019
Equity securities at fair value through other comprehensive income	901	829
Securities at fair value through profit or loss	540	535
Employee loans	10	116
Derivative instruments	120	39
Income taxes, VAT and other sales taxes	1,938	2,535
Other receivables	682	764
Other non-current assets	4,191	4,817

Section 3 – Investments in other companies

Note 3.1 Investments in joint arrangements and associates

Accounting policies for investments in joint arrangements and associates

Investments in associates and joint ventures

A joint arrangement is an entity, asset or operation that is subject to contractually established joint control. Special voting rights may extend control beyond what is conveyed through the owners' proportional ownership interest. Such rights may take the form of a specified number of board representatives, the right of refusal for important decisions, or the requirement of a qualified majority for important decisions which effectively results in joint control with the specific ownership situation. Joint ventures are joint arrangement which represents a residual interest in the arrangement rather than an interest in assets and responsibility for liabilities.

An associate is an equity investment in which Hydro has the ability to exercise significant influence, which is the power to participate in the financial and operating policy decisions of the entity. Significant influence is assumed to exist when Hydro owns between 20 and 50 percent of the voting rights unless other terms and conditions affect Hydro's influence.

Hydro accounts for investments in associates and participation in joint ventures using the equity method. This involves recognizing Hydro's interest based on its proportional share of the entity's equity, including any excess values and goodwill. Hydro recognizes its share of net income, including depreciation and amortization of excess values and any impairment losses, in Share of the profit (loss) in equity accounted investments. Other comprehensive income derived from associates and joint ventures is included in Hydro's Other comprehensive income. Hydro's proportional share of unrealized profits resulting from transactions with associates and joint ventures, including transfer of businesses, is eliminated. Accounting policies used by associates and joint ventures may differ from the accounting policies adopted by Hydro. Differences in recognition or measurement are adjusted for prior to equity accounting.

Investments in associates and joint ventures are tested for impairment when there are indications of a possible loss in value. An impairment loss is recognized if the recoverable amount, estimated as the higher of fair value less cost of disposal or value in use, is below Hydro's carrying value. Impairment losses are reversed if circumstances change and the impairment situation is no longer deemed to exist.

Hydro is involved in one associate for which the results of operations is taxable profit or loss for the owners rather than the associate, a tax transparent company. Hydro provides for deferred tax on temporary differences in the associate to the extent such temporary differences are expected to reverse within the foreseeable future, or such reversal is not controlled by Hydro. Deferred tax on other temporary differences is not recognized.

Loans to associates and joint ventures are measured under IFRS 9 Financial instruments. Loans where contractual cash flows are only payments of principal and interest on specific dates are measured at amortized cost with expected credit losses provided for. Other loan arrangements are measured at fair value. Loans and receivables to associates and joint ventures are presented as part of other similar loans to unrelated parties. Income and expenses related to loans are included in finance income and expense.

Investments in joint operations and jointly owned assets

Joint operations are arrangements under contractually joint control where the joint operators have an interest in the assets; or benefits from the service potential of the assets; as well as have a direct obligation for the liabilities of the joint arrangement. Joint operations can result from the legal form of the arrangement or other facts and circumstances resulting in an interest in the service potential of the asset and obligation for liabilities. Jointly owned assets are arrangements where Hydro and the other partners have a direct ownership in specifically identified assets, but where joint control is not established. Hydro recognizes its share of assets, liabilities, revenues, if any, and expenses of joint operations and jointly owned assets on a line-by-line basis in the group financial statements.

Hydro is engaged in various arrangements on a joint basis with other companies. In assessing whether joint control exists for these arrangements we evaluate the legal framework and contracts governing the arrangement combined with an assessment of which decisions that significantly influence the return from the arrangement. Arrangements owned on a 50/50 basis and/or governed by unanimous decisions constitute the majority of our joint arrangements.

Most of our joint arrangements are joint production facilities supplying metal and other products for Hydro's value chain. Hydro assesses whether joint arrangements are joint operations where Hydro has a direct interest in the assets and direct liability to settle obligations, directly or indirectly, or a joint venture where we have an interest in the net assets of the joint arrangement. In this assessment we evaluate the contracts governing the arrangement and the legal framework for the type of entity in which the arrangement is operated. Hydro is engaged in both joint arrangements that are considered joint ventures, and arrangements that are concluded to be joint operations.

Hydro's joint operations

Of our joint operations, two are classified as joint operations based on the legal form of the operations. These are Tomago, an aluminium smelter in Australia, and Skafså ANS, a power producer in Norway. Another two arrangements are classified as joint operations based on the contractual arrangements whereby all output is sold to the shareholders in proportion to their ownership interest at a cost based price formula. The major or sole sources of cash inflows for the joint arrangements are the owners, who are legally obliged to cover production costs. These are Aluminium Norf GmbH (Alunorf), a large rolling mill in Germany, and Aluminium & Chemie Rotterdam B.V., Aluchemie, an anode producer in the Netherlands.

Hydro's joint ventures

The following joint venture is considered material for Hydro:

Qatar Aluminium Ltd. (Qatalum) is a primary aluminium smelter with a dedicated power plant located in Qatar. Qatalum has an annual production capacity of about 600,000 mt of liquid metal. Qatalum is owned by Hydro and Qatar Aluminium Manufacturing Company Q.P.S.C. (50 percent each). Qatar Petroleum controls Qatar Aluminium Manufacturing Company, which is listed on the Qatar Stock Exchange. Qatalum was at the outset granted a ten-year income tax holiday, expiring in 2020. A tax reform came into effect from 2010, which introduced a generally applicable corporate income tax rate of 10 percent. A tax rate of 35 percent applies to entities with oil and gas operations or where the activities are carried out under an agreement with the government or entities owned by the government, unless such agreement specifies another tax rate. According to the Qatalum joint venture agreement, the generally applicable tax rate will apply after expiry of the tax holiday in 2020. It is Hydro's position that the generally applicable income tax rate, currently at 10 percent, shall apply to Qatalum after the expiry of the tax holiday.

Hydro is committed to sell fixed quantities of alumina and purchase all products from Qatalum at market prices. Purchases of metal from Qatalum amounted to NOK 11,055 million in 2020 and NOK 11,678 million in 2019. Related payables amounted to NOK 921 million in 2020 and NOK 1,199 million at the end of 2019. Sales from Hydro to Qatalum amounted to NOK 1,944 million in 2020 and NOK 2,110 million in 2019, primarily alumina. Related receivables amounted to NOK 73 million and NOK 131 million at the end of the periods. Qatalum is part of Hydro Aluminium Metal.

Hydro's associates

The following associate is considered material for Hydro:

Lyse Kraft DA is a power producer with head office in Stavanger, Norway operating several power plants in the southwest of Norway, and having ownership interests in two other part-owned arrangements in nearby areas. In total Lyse Kraft DA has an annual production of about 9.5 TWh, which is contributed in kind to the owners. The owners are responsible for paying all costs in the partnership, both for operating costs and future investments. The company was established on December 31, 2020 by contribution of power production assets. Hydro owns 25.6 percent of the company, while Lyse AS owns a controlling 74.4 percent.

Hydro contributed the Røldal Suldal assets as a contribution in kind to Lyse Kraft DA on December 31, 2020 and received a 25.6 percent ownership interest in the company as consideration. The gross value of the ownership interest has been valued at NOK 7.8 billion, resulting in a gross gain of NOK 7.1 billion. The valuation includes significant unobservable inputs, i.e. a level 3 valuation. According to Hydro's accounting policy, the relative share of ownership in the acquiring company, Lyse Kraft DA, is eliminated as an unrealized gain. The recognized gain is thus NOK 5,308 million. The carrying value of Hydro's ownership in Lyse Kraft DA is NOK 6,805 million, with a related deferred tax liability of NOK 831 million related to temporary differences for which reversal of the differences are not controlled by Hydro. These temporary differences are mainly related to depreciable assets recognized at estimated fair value.

Key information about significant investments

The table below summarizes key figures for the joint venture Qatalum for 2020 and 2019. The figures are on the same basis as used for inclusion in the group financial statements. Fair value adjustments from Hydro's contribution of assets to the joint venture are included. Intercompany transactions and balances are included, and internal profit and loss in inventory and fixed assets purchased from group companies are not eliminated in the numbers below. All amounts are for the joint venture on 100 percent basis. Balance sheet amounts are at the end of the years 2020 and 2019.

	Qatalum	
	Year/year ended 2020	2019
Amounts in NOK million		
Revenue	11,369	11,971
Depreciation, amortization and impairment	2,282	2,142
Earnings before financial items and tax	1,106	1,094
Financial income (expense), net ¹⁾	(537)	(554)
Income tax expense ²⁾	(59)	-
Net income (loss)	510	540
Other comprehensive income	-	45
Total comprehensive income	510	584
Cash and cash equivalents	1,564	2,401
Other current assets	3,948	4,512
Non-current assets	28,630	30,832
Current financial liabilities	-	1,816
Non-current financial liabilities	11,923	11,453
Other liabilities	1,307	1,649
Net assets	20,912	22,828
Hydro's share of net assets	10,456	11,414
Accumulated elimination of internal gain in inventory	1	25
Carrying value of Hydro's equity investment	10,457	11,439

1) Financial income (expense), net includes interest expense for Qatalum with NOK 290 million and NOK 449 million for 2020 and 2019, respectively.
 2) Tax expense is based on the tax rate recognized by Qatalum. There is currently uncertainty about the tax rate to be applied.

Hydro held an ownership interest in Technal Middle East W.L.L, a joint venture owned 50 percent each by Hydro and Bahrain Aluminium Extrusion Company B.S.C. In May 2019, Hydro acquired the additional 50 percent in Technal Middel East, now a fully owned subsidiary.

Hydro also holds interests in certain associates accounted for using the equity method, of which the most significant is Corvus Energy Holding AS, a company producing battery solutions for ships in Canada and Norway. The following table provides a summary of changes in carrying value for Hydro's joint ventures and associates.

Amounts in NOK million	Qatalum	Other JVs	Lyse Kraft DA	Associates	Total
December 31, 2018	11,276	252		42	11,570
Hydro's share of net income (loss)	270	18		(15)	274
Hydro's share of other comprehensive income	22				22
Dividends and other payments received by Hydro	(193)	(29)			(222)
Companies acquired/(sold), net				49	49
Amortization		(1)		(14)	(14)
Changes elimination of internal gain in inventory	(39)				(39)
Derecognized at acquisition of control		(232)			(232)
Foreign currency translation and other	104	(8)		(3)	93
December 31, 2019	11,440	1		60	11,501
Hydro's share of net income (loss)	255			(27)	228
Dividends and other payments received by Hydro	(979)				(979)
Companies acquired/(sold), net			6,805	4	6,808
Amortization				(11)	(11)
Changes elimination of internal gain in inventory	(24)				(24)
Foreign currency translation and other	(234)	(1)		1	(234)
December 31, 2020	10,457	-	6,805	27	17,288

Section 4 – Uncertain assets and liabilities

Note 4.1 Uncertain assets and liabilities

Accounting policies for uncertain liabilities resulting in provisions, contingent liabilities

Provisions are recognized when Hydro has a present obligation (legal or constructive) as a result of a past event and it is probable (more likely than not) that Hydro will be required to settle the obligation. Uncertain outcomes are measured as the expected value of reasonably possible outcomes. The provision is measured as the present value of the cash flows estimated to settle the obligation. Expected cash flows are discounted with a risk-free interest rate, usually a government bond rate for the duration to expected settlement.

A contingent liability is a possible obligation that arises from a past event, with the resolution of the contingency dependent on uncertain future events, or a present obligation where no outflow is probable. Contingent liabilities are not recognized on the balance sheet, the existence of such contingent liabilities and, if estimable the approximate size, are disclosed unless the possibility of an outflow of economic resources is remote.

Asset retirement obligations

Hydro recognizes liabilities for the estimated fair value of asset retirement obligations (ARO) relating to assets where such obligations exist, in the period incurred in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The provision is estimated as the present value of costs relating to the restoration or rehabilitation of industrial or mining sites and/or dismantlement or removal of buildings or other assets. The liability is recognized when an asset is constructed and ready for use or when the obligation is incurred if imposed at a later date. Related asset retirement costs are capitalized and depreciated over the useful life of the asset. Accretion expense is recognized for the change in the present value of the liability and classified as part of Financial expense. Other changes to estimated fair value of ARO are recognized when identified. The increase or reduction to the liability is recognized as an increase or reduction of the value of the asset unless the asset is no longer in use, in which case the change is recognized in operating expenses. Liabilities that are conditional on a future event (e.g. the timing or method of settlement) are recognized when the value of the liability can be reasonably estimated.

Exit and disposal costs

Hydro recognizes a provision in the amount of the direct costs associated with an exit and/or disposal activity when a formal commitment to a detailed exit plan is made and communicated to those affected. A provision for termination benefits to employees is recognized as of the date of notification to individual employees or their representatives.

Accounting policies for uncertain assets

Assets where the existence of an asset or Hydro's control with the resources is less than virtually certain are contingent assets. Contingent assets are not recognized.

Significant judgment in accounting for contingent assets and liabilities, uncertain assets and liabilities

Evaluation of uncertain liabilities and contingent liabilities and assets requires judgment and assumptions regarding the probability of realization and the timing and amount, or range of amounts, that may ultimately be incurred. Such estimates may vary from the ultimate outcome as a result of differing interpretations of laws and facts.

The main judgmental assessment falls into two categories; whether a liability exists, and the amount of a possible liability. The existence or non-existence of a liability is a legal and/or factual assessment. The measurement of a possible liability is more challenging for requirements to remediate or rectify alleged wrong-doing than for monetary claims of compensation. In relation to perceived non-compliance with laws and regulations, authorities, non-governmental organizations, or others may claim that Hydro is responsible for mitigating actions and compensation. The legal basis for such claims as well as cost calculation and other aspects can be difficult to assess.

Hydro's industrial and mining activities are subject to a wide range of environmental laws and regulations, including end-of-life remediation regulations. The extent of site and off-site contamination, the remediation methods and requirements that relevant environmental authorities may impose, are uncertain. The long-term use of sites, with increasing awareness of effects of contamination in society, and generally lower acceptance of contamination in communities over time impacts the content of legal standards and the responsibility of companies involved in such activities. Hydro has started the process of assessing whether the newly issued Global Industry Standard on Tailings Management (GISTM), issued by ICMM⁴, PRI⁵ and UNEP⁶, will require additional effort and costs. Currently, no significant additional liabilities have been identified. Further, changes in remediation methods and requirements and the uncertainty of cost levels for actions to be performed years and decades into the future contribute to the uncertainty in assessing and measuring such obligations. Remediation and closure activities

⁴ International Council on Mining and Metals

⁵ Principles for Responsible Investment

⁶ UN environment programme

expected to be conducted far into the future are less accurately measured than near-term planned activities. Consequently, there is significant uncertainty inherent in the estimates.

Indirect tax regimes are complex in many jurisdictions and cross-border. Basis for such taxes may differ from actual transaction prices. In some jurisdictions, including Brazil, significant credit amounts are generated for use against future indirect and/or income tax payments. Repayment in cash is made subject to a set of conditions, including availability of funds at the tax authorities, and cannot be expected on a regular basis. The value of such credits depends on future generation of taxes. Economic conditions and tax regulations may change and lead to a different conclusion regarding recoverability. Tax authorities may challenge Hydro's calculation of taxes and credits from prior periods. Such processes may lead to changes to prior periods' operating or financial expenses to be recognized in the period of change.

Provisions

Amounts in NOK million	2020			2019		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Environmental clean-up and asset retirement obligations (ARO)	695	3,767	4,461	702	4,110	4,813
Employee benefits	1,056	685	1,741	1,142	708	1,851
Indirect taxes	8	249	257	99	379	478
Rationalization and closure cost	511	329	840	705	495	1,200
Other	665	576	1,242	647	822	1,470
Total provisions	2,935	5,605	8,541	3,296	6,515	9,811

The following table includes a specification of changes to provisions for the year ending December 31, 2020.

Amounts in NOK million	Environmental clean-up and ARO	Employee benefits	Indirect taxes	Rationalization and closure cost	Other	Total
<i>Specification of change in provisions</i>						
December 31, 2019	4,813	1,851	478	1,200	1,470	9,811
Additions	538	1,282	18	250	635	2,723
Used during the year	(686)	(1,225)	(7)	(648)	(411)	(2,977)
Reversal of unused provisions	(55)	(213)	(154)	(54)	(246)	(722)
Accretion expense and effect of change in discount rate	108	12	-	-	-	120
Foreign currency translation	(256)	35	(78)	92	(206)	(413)
December 31, 2020	4,461	1,741	257	840	1,242	8,541

Provisions for environmental clean-up and asset retirement obligations relate to production facilities currently in operation and facilities that are closed. The obligations relate to such actions as restoration or rehabilitation of industrial or mining sites, disposal of contaminated material and related activities. Hydro has provided for demolition of buildings and installations only where there is a legal or contractual obligation, or a specific decision to demolish, which is the case for few sites. The provision represents the present value of expected outflows at the times of expected payments. There is significant uncertainty both in the timing and amount of these remediation actions, as they are linked to future business decisions as well as decisions and approval by authorities in the jurisdictions we operate. Provisions are based on the current legal framework and remediation standards, where the newly issued Global Industry Standard on Tailings Management (GISTM) may not be fully reflected. No significant changes in cost estimates have been identified.

The most significant provisions relate to the following sites and issues. For Hydro Bauxite & Alumina's mine in Brazil we have obligations to remediate the tailing areas and mining sites, including reforestation of the area and monitoring and maintenance of the site after initial remediation. The process for depositing of mining tailings have been changed during 2020. Such tailings are now brought back to the mine and permanently deposited rather than remaining in dedicated tailing areas. The new method is intended to reduce the cost and risks associated with care and maintenance after the mining activity. For Hydro Bauxite & Alumina's alumina refinery in Brazil we have obligations to remediate bauxite residue deposits, including monitoring the contamination levels and other aspects after initial remediation. Some activities related to these obligations are currently ongoing as integrated processes with ongoing deposit of residues produced in the alumina production. For Hydro Aluminium Metal's closed Kurri Kurri smelter site in Australia we have obligations to remediate certain contaminated areas at the site as well as securing appropriate deposit of spent pot lining and certain other waste material, which is currently ongoing. The plan for remediation has been approved by the authorities. Further, Hydro has provided for various remediation obligations in Hydro Extrusions related to both closed sites, whether previously operated or not, and for some currently active sites. Hydro also has obligations for remediation of contamination on site and in related areas related to historic industrial

activities in Germany and Norway, reported in Other and eliminations. The more significant of these sites are the sites in Schwandorf in Germany and the Grenland area in Norway. The GISTM will impact remediation requirements for some of these sites. For many of these provisions, there are no standard remediation methods available and cost is therefore uncertain. The provision also includes remediation of spent pot lining in all active smelters, site clearance for certain leased land as well as certain liabilities related to Norwegian power plant concessions to be reverted to the Norwegian Government.

Provisions for employee benefits relate to expected short-term performance bonus payments and short and long-term provisions for expected bonus payments that are based on the number of years of service, primarily for our European operations. Such bonuses are expected to be paid in periods between 10 to 50 years of service, or upon termination of employment.

Indirect taxes include taxes not related to taxable income, such as value added taxes, duties and property taxes. Provision for indirect taxes is mainly related to indirect taxes in Brazil.

Rationalization and closure cost include provisions for the improvement program in Hydro Rolling aiming at significant efficiency gains and cost reductions. The main costs with this project are related to employee reductions. About NOK 430 million of severance payments and related costs have been paid related to the about 550 persons who have left the company in 2020. Further, Hydro Extrusions has provided for costs related to plant closures and employee reductions to reduce their footprint in response to challenging market conditions.

Other includes insurance provisions related to insurance contracts issued by Hydro's captive insurance company, Industriforsikring AS, to external parties including associates and joint arrangements, provisions for legal and other disputes, certain liabilities related to representation and warranty provisions related to sale of businesses.

In 2018, Hydro entered into agreements with authorities in Pará, Brazil, in relation to the operations of the alumina refinery, Alunorte. The contracts regulate certain technical studies and improvements of operational security, audits, fines and payments for food cards to families living in the hydrographic area of the Murucupi River. In addition, Hydro has committed to additional efforts and investments related to local societies close to the plant and to the social development of communities in Barcarena. Total remaining provisions related to these obligations are about NOK 420 million as of December 31, 2020.

Contingent liabilities and contingent assets

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Where Hydro considers an obligation to be possible, i.e. not probable yet not remote, it is disclosed as a contingent liability.

Hydro is involved in a significant number of tax cases related to various types of taxes. Hydro's businesses in Brazil have a large portfolio of cases disputed by tax authorities, of which the majority relates to indirect taxes. This includes cases in the administrative and legal dispute systems with various background and risk of loss. In total known cases amount to about NOK 3 billion, of which about NOK 2.3 billion is considered possible. A significant share of those amounts is covered by tax indemnifications from acquisition. The final outcome of these cases is not expected until several years into the future, and is highly uncertain. Additional cases may be raised by tax authorities based on tax declarations for periods not yet assessed, or when interpretation of tax regulations change. Hydro has provided for individual tax cases where the risk of loss is considered above 50 percent. Provisions for indirect taxes are included in provisions disclosed above, while provisions for income tax expenses are included in Taxes payable.

Hydro has environmental liabilities related to several sites and issues. Where remediation is acknowledged as Hydro's responsibility or a legal obligation is deemed to exist, a provision for the best estimate of costs to be incurred is established. For many of our industrial sites, in particular sites where operation is expected to continue indefinitely, remediation costs are difficult to assess. The precise need for remediation actions, their timing and cost has not yet been planned, and is thus uncertain. For some sites, the exact level of pollution may also be uncertain as ground and water are not sampled where no indication of contamination is identified. Obligations for historic contamination of sites and surrounding areas in addition to areas provided for may be identified and deemed Hydro's responsibility, whether related to currently owned or used sites, or sites we previously have owned and/or used. The cost of remediation of any additional contamination deemed Hydro's responsibility is uncertain.

Authorities and non-governmental organizations have filed several lawsuits related to the Alunorte incident, claiming a combination of mitigating actions and financial compensation. The argumentation, cost calculation and legal basis for these claims is still highly uncertain. Further claims may still be received. Given the limited information about claimed physical and moral damages to be compensated, and the extent and cost of mitigating actions claimed, or the extent or content of other potential claims and lawsuits, it is not possible at this time to provide a range of possible outcomes or a reliable estimate of potential future exposure for Hydro. It is further not possible to estimate the timing of when such claims may be determined or when any payments may arise.

Hydro is also exposed to increased product warranty and product liability responsibilities, both as result of contractual commitments and caused by liability under background law. Product warranty and product liability may impose significant costs depending amongst other things on the application of the product sold. Similarly, disputes over whether failure to

deliver products under contract are related to force majeure or not occur from time to time, both for Hydro's delivery obligations and rights. Such disputes may involve significant amounts and outcomes may be difficult to assess.

Hydro is exposed to legal cases based on contractual or other basis, including related to contract delivery or purchase obligations or warranties and representations given in relation to sale of businesses. Where a payment is probable, a provision for the likely amount is recognized.

Section 5 – Income and expenses

Note 5.1 Revenue from contracts with customers

Accounting policies for revenue recognition

Hydro accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers.

IFRS 15 requires us to, for each contract with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to performance obligations to the extent the contract covers more than one performance obligation, determine whether revenue should be recognized over time or at a point in time, and, finally, recognize revenue when or as performance obligations are satisfied.

A performance obligation is satisfied when or as the customer obtains control with the goods or services delivered.

Revenue from sale of physical products are recognized when control is transferred to the customer, which usually occurs at delivery.

A contract for sale of electricity is considered one performance obligation and recognized as electricity is delivered to customers through the relevant grid.

Margins related to the trading of derivative commodity instruments, including instruments used for risk management purposes, purchase or delivery of physical commodities on a commodity exchange, and physical commodity purchases and sales agreed in combination with a single counterpart, are presented on a net basis in the income statement with trading margins included in revenues.

Significant judgment in accounting for revenue

The significant judgment in applying IFRS 15 for Hydro is related to which contracts that qualify for recognition over time, versus recognition at a point in time; at delivery to customer.

Hydro's main performance obligations can be described as follows:

- sale of products, produced independent of customer orders
- sale of products, produced to customer order
- sale of products made to customer specifications and order
- sale of electricity

For products which are not made to the customer's specification, performance obligations are either the individual product, the delivery in total, or an agreed volume of products delivered in more than one delivery. Contracts covering a fixed, committed volume at fixed or determinable prices are relevant for this assessment. Delivery period for such contracts can cover a period of a few weeks, and up to one year. Some contracts cover more than one year, however, these are a declining number. Prices are usually a combination of fixed elements and market references such as the aluminium price at the London Metal Exchange or other market references, at, or prior to, delivery. Revenue related to products that are not made to the customers' specification is recognized at delivery of products to customers. Such contracts accounts for the majority of sales in the segments Hydro Bauxite & Alumina, Hydro Aluminium Metal, Hydro Metal Markets and Hydro Rolling, and a significant share of sales in Hydro Extrusions. Some of these contracts include an element of freight services, which is considered a separate performance obligation under IFRS 15, and related revenue is recognized over the time of journey.

For products made to customer specifications and orders, we have assessed whether the finished product has an alternative use to Hydro, and whether Hydro at all times has an enforceable right to payment for performance completed to date. For contracts where both of these conditions are fulfilled, revenue shall be recognized over time from commencement of production of the specialized product until completion of delivery to the customer. For Hydro's products, the alternative use of customer designed products would, in most cases, be as an input to the production of other products rather than for sale of the product unchanged. We have assessed whether Hydro has an enforceable right to payment for performance completed to date, including a reasonable margin, throughout the production period. The assessment is primarily related to the segment Hydro Extrusions. The main assessment is related to which compensation Hydro would be entitled to in a situation where firm orders are canceled or amended by the customer. Our conclusion is that for close to all contracts we do not have an enforceable right to payment as described in IFRS 15, and revenue is thus recognized at a point in time. However, as our conclusions depends both on legal assessment of a large number of contracts in many countries, and on the understanding of what constitutes an enforceable right to payment under IFRS 15, we might reach a different conclusion in the future for some contracts, or for new contracts covering similar products and customer segments entered into in the future. Also for these contracts, prices are fixed at the time of delivery.

Payment and warranty terms

Payment terms for products vary between customer segments and regions. The predominant terms vary between 30 to 60 days, and up to 200 days in some markets.

Hydro's warranty terms vary by product and business segment. Generally, Hydro provides warranty that product complies with specification, and offer repair, replacement or refund of consideration paid for breaches. Such warranties are limited in time, for most products not exceeding 12 months. Individual contracts may include more extensive warranty clauses where Hydro takes responsibility also for some consequential damages, mainly related to more complex products such as certain automotive parts. Warranty liability is to some degree influenced by legal requirements, which may extend the time period for Hydro's liability.

Other information

Sale of electricity, primarily from the Hydro Energy segment, is recognized as electricity is delivered to customers through the relevant grid. Sale of energy from other segments represent excess energy purchased under contracts exceeding the operational needs, and relate to periodic maintenance stops or curtailment. In 2020 and 2019, power sale from other segments than Hydro Energy is related to reduced production in Hydro Aluminium Metal's Albras plant for parts of the years, caused by curtailment in 2019 and a fire in 2020. The power sale amounts to NOK 161 million for 2020 and NOK 337 million for 2019. Revenue from sale of energy includes the revenue from sale of concession power, a legal requirement to deliver a certain part of volume produced in Norway to local authorities at a reduced price. Revenue from concession power amounted to NOK 75 million and NOK 73 million in 2020 and 2019, respectively.

Realized and unrealized changes in fair value of commodity derivatives are also presented as part of revenue. These amounts are measured at fair value as required by IFRS 9 Financial Instruments. The instruments are mainly aluminium and power contracts used for risk management purposes, and are included in Other revenue in the table below.

Hydro's revenue divided by segment and geographic location of the customer is shown in note 1.4 Operating and geographic segment information. Revenue divided by product type for the main product groups sold are as follows:

Amounts in NOK million	2020	2019
Extruded solutions	51,848	58,555
Rolled products	23,642	25,768
Standard ingots	11,808	9,872
Extrusion ingots	18,398	20,118
Other casthouse products	15,037	16,791
Alumina	11,968	10,037
Power	1,230	3,018
Other goods and services ¹⁾	4,254	5,170
Total revenue from contracts with customers	138,186	149,328
Other revenue	(68)	438
Total revenue	138,118	149,766

1) Includes sale of bauxite and revenue from allocated freight

Note 5.2 Other income

Accounting policies for Other income, net

Transactions resulting in income from activities other than normal production and sales operations are classified as Other income, net. This includes gains and losses resulting from the disposal of PP&E and intangible assets, investments in subsidiaries, associates or joint ventures as well as government grants, insurance compensation, and rental revenue. Other income, net also includes revenue from utilities, which is revenue from contracts with customers accounted for in accordance with IFRS 15.

Government grants

Government grants are recognized in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. Grants are recognized when there is a reasonable assurance that Hydro will comply with relevant conditions and that the grants will be received. Government grants are deferred in Other non-current liabilities until the associated activity is performed or expenses recognized. Investment grants are recognized over the period the associated asset is depreciated. All government grants are recognized in Other income, net. Investment grants are included in Investing activities in the statement of cash flows.

Amounts in NOK million	2020	2019
Gain on sale of property, plant and equipment and intangible assets	187	99
Net gain (loss) on sale of subsidiaries, associates and joint ventures ¹⁾	5,360	43
Revenue from utilities ²⁾	63	67
Government grants ³⁾	670	329
Other ⁴⁾	1,238	461
Other income, net	7,519	1,000

1) Recognized gain of NOK 5,308 million relates to the establishment of Lyse Kraft DA, the transaction is described in note 3.1 Investments in joint arrangements and associates.

2) Revenue from utilities includes quay structures, pipe network, tank terminal, process water and grid rental.

3) Government grants includes export grants in Brazil, CO2 compensation and investment grants related to Hydro's pilot facility on Karmøy. About NOK 240 million of government grants relates to Covid 19, mainly in Europe and North America.

4) Other includes insurance compensations.

Note 5.3 Raw material and energy expense

Amounts in NOK million	2020	2019
Raw material expense and production related cost	84,410	95,729
Change in inventories own production	182	1,745
Raw material and energy expense	84,592	97,474

Raw material expense and production related cost include effect of commodity derivative instruments. See note 8.3 Derivative instruments and hedge accounting.

Section 6 – Specification of operating capital elements

Note 6.1 Inventories

Accounting policies for inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and selling costs. Inventory cost includes direct materials, direct labor and a portion of production overhead (manufactured goods) or the purchase price of the inventory. Abnormal amounts of idle facility expense, freight, handling costs, and wasted materials are recognized as expense in the current period. Inventory write-downs to net realizable value occurs when the cost of the inventory is not recoverable, and is reversed in later periods if there is clear evidence of an increase in the net realizable value.

Amounts in NOK million	2020	2019
Spare parts and raw materials	5,995	5,540
Work in progress	4,062	4,257
Alumina	1,349	1,385
Aluminium casthouse products	4,771	5,776
Fabricated products	3,315	3,858
Inventories	19,492	20,816

Raw materials include purchased raw materials such as bauxite, caustic soda, oil, coal and other input factors used in the production; however, excluding alumina and aluminium intended for use in Hydro's production of other products. All amounts are net of any write-downs.

Note 6.2 Trade and other receivables

Accounting policies for trade receivables

Trade receivables are initially recognized at transaction price, subsequently accounted for at amortized cost and are reviewed for impairment on an ongoing basis. Individual accounts are assessed for impairment taking into consideration indicators of financial difficulty and management assessment. Portfolios of trade receivables where expected losses are more than insignificant are reduced for those expected losses. Discounting generally does not have a material effect on trade receivables, however, in special cases discounting may be applied. Hydro's business model for most trade receivable is to hold the receivables to collect the contractual cash flows. For some portfolios of trade receivables, factoring is applied.

Amounts in NOK million	2020	2019
Trade receivables	15,753	15,225
VAT and other sales taxes	723	1,486
Other current receivables	2,367	2,642
Allowance for credit losses	(478)	(394)
Trade and other receivables	18,364	18,959

Of total trade receivables at year end 2020, about 9 percent were past due, with the majority within 30 days. The Hydro Extrusions segment have the majority of overdue receivables.

Note 6.3 Trade and other payables

Amounts in NOK million	2020	2019
Accounts payable	14,456	14,432
Payroll and value added taxes	3,499	3,151
Accrued liabilities and other payables	992	1,109
Trade and other payables	18,948	18,692

Section 7 – Capital management and cash management

Note 7.1 Capital management

Hydro's capital management policy is to maximize value creation over time, while maintaining a strong financial position and an investment grade credit rating. During 2020 net cash provided by operating activities exceeded net cash used in investing activities plus dividends paid.

Credit rating

To secure access to capital markets at attractive terms and remain financially solid, Hydro aims to maintain an investment grade credit rating from the leading agencies, S&P Global (current rating BBB, stable outlook) and Moody's (current rating Baa3, stable outlook). Hydro's key targets for financial solidity are described below.

Funding

Hydro manages its funding requirements centrally to cover group operating requirements and long-term capital needs. Hydro has an ambition to access national and international capital markets as primary sources for external long-term funding. Hydro has a syndicated USD 1,600 million revolving credit facility maturing in December 2025. The facility was extended one year in 2020 and has one further one-year extension option. The facility was undrawn per year-end 2020.

Funding of subsidiaries, associates and jointly controlled entities

Normally the parent company, Norsk Hydro ASA, extends loans or equity to wholly-owned subsidiaries to fund capital requirements. All financing is executed on an arm's length basis. To the extent Hydro offers loans to part-owned subsidiaries and investments in associates and joint arrangements, the policy is to participate according to Hydro's ownership share, on equal terms with the other owners. Project financing is used for certain funding requirements mainly to mitigate risk while also considering partnership and other relevant factors.

Trade finance products such as factoring and reverse factoring are used to some extent by subsidiaries, mainly to facilitate risk mitigation in specific trade relations or markets. Hydro has internal guidelines limiting the use of such instruments to where it adds commercial value, as these instruments should not be used as a source for funding. Hydro has set a total limit for such arrangements including any type of sales of receivables. The limit is currently NOK 5 billion, but it is not fully utilized.

Shareholder return

Long-term return to shareholders should reflect the value created by Hydro, and consists of dividends and share price development. Hydro aims to provide its shareholders with a competitive return compared with alternative investments in similar companies. Hydro's ambition during 2020 was, in the long term, to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. The dividend policy has a floor of an annual dividend of NOK 1.25 per share. This ambition has increased to, in the long term, to pay out, on average, 50 percent of underlying net income as ordinary dividend over the cycle, with the dividend floor unchanged at NOK 1.25 per share. Dividends for a particular year are based on expected future earnings and cash flow, future investment opportunities, the outlook for world markets and Hydro's current financial position. Share buybacks or extraordinary dividends may be used to supplement ordinary dividends during periods of strong financial results after considering the status of the business cycle and capital requirements for future growth.

Hydro's capital management measures in 2020

Hydro's management used the Adjusted net cash (debt) to Equity ratio to assess the group's financial solidity and ability to absorb volatility in the markets. Net cash (debt) is defined as Hydro's cash and cash equivalents plus short-term investments, less short- and long-term interest-bearing debt. Adjusted net cash (debt) is adjusted for net cash (debt) positions regarded as unavailable for servicing debt and includes pension liabilities and other obligations which are considered debt-like in nature.

The ability to generate cash compared to financial liabilities is another important measure of risk exposure and financial solidity. Hydro's management used Funds from operations and the ratio Funds from operations to average Adjusted net cash (debt) as capital management measures. Funds from operations reflects the cash generation from Hydro's wholly and partly owned operating entities before changes in net operating capital, including the contribution from equity accounted investments, and after current tax expense.

Both financial ratio calculations include adjustments for the indebtedness of Hydro's equity accounted investments. Though Hydro has no financial obligations towards the lenders of its equity accounted investments, the adjustments were considered relevant as the debt and cash flow level in these entities affect Hydro's overall cash generation and financial risk profile.

Review of key financial metrics

During 2020, Hydro reviewed the key financial metrics used for managing capital. The goals were to achieve clear communication aligned with industry and peer practice, simplify where possible, and through that support a correct valuation of the Hydro share and debt.

The review included the key financial solidity ratios used. Management has decided to replace average Adjusted net cash (debt) to Equity and Funds from operations to average Adjusted net cash (debt) with average Adjusted net cash (debt) to underlying EBITDA, which is a more broadly used metric in the industry as well as consistent with the increased focus on EBITDA. Hydro targets, over the business cycle, a ratio of average Adjusted net cash (debt) to underlying EBITDA below 2.

The key financial metrics mentioned above are presented in the following tables.

Adjusted net cash (debt)

Amounts in NOK million	Dec 31 2020	Sep 30 2020	Jun 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	Jun 30 2019	Mar 31 2019
Cash and cash equivalents	17,638	17,495	15,385	12,160	12,286	10,581	10,590	6,099
Short-term investments	4,091	5,399	5,110	1,641	969	929	1,090	1,274
Bank loans and other interest-bearing short-term debt	(4,748)	(6,915)	(7,094)	(7,728)	(6,157)	(6,074)	(8,177)	(8,913)
Long-term debt	(24,811)	(25,873)	(26,595)	(21,290)	(18,858)	(19,985)	(18,620)	(10,559)
Net cash (debt)	(7,830)	(9,894)	(13,194)	(15,217)	(11,760)	(14,549)	(15,117)	(12,099)
Cash and cash equivalents and short-term investments in captive insurance company ¹⁾	(956)	(915)	(898)	(897)	(876)	(899)	(944)	(879)
Net pension obligation at fair value, net of expected income tax benefit ²⁾	(9,868)	(11,569)	(11,127)	(12,385)	(8,601)	(10,282)	(8,757)	(8,414)
Short- and long-term provisions net of expected income tax benefit, and other liabilities ³⁾	(3,966)	(3,712)	(3,865)	(4,328)	(4,209)	(3,876)	(3,087)	(3,001)
Adjusted net cash (debt)	(22,620)	(26,089)	(29,084)	(32,827)	(25,447)	(29,606)	(27,905)	(24,394)

Adjusted net cash (debt) including net debt equity accounted investments (EAI)

Adjusted net cash (debt)	(22,620)	(26,089)	(29,084)	(32,827)	(25,447)	(29,606)	(27,905)	(24,394)
Net debt in EAI ⁴⁾	(5,286)	(5,542)	(5,564)	(6,488)	(5,537)	(5,376)	(5,386)	(5,737)
Adjusted net cash (debt) including EAI	(27,905)	(31,631)	(34,648)	(39,316)	(30,984)	(34,982)	(33,291)	(30,131)

1) 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 cash (debt).

2) The expected income tax benefit related to the net pension liability is NOK 2,236 million and NOK 1,821 million, respectively, for 2020 and 2019.

3) 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.

4) 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 positions, 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. The adjustments are related to Qatalum.

Adjusted net cash (debt) including EAI / Equity

Amounts in NOK million, except ratio	2020	2019
Adjusted net cash (debt) including net debt EAI	(27,905)	(30,984)
Total Equity	(77,444)	(84,081)
Adjusted net cash (debt) including net debt EAI / Equity	0.36	0.37

Funds from operations / average Adjusted net cash (debt) including EAI

Amounts in NOK million, except ratio	2020	2019
Net income (loss)	1,660	(2,370)
Depreciation, amortization and impairment	12,253	9,485
Deferred taxes	(1,156)	(699)
Loss (gain) on sale of non-current assets	(5,239)	85
Net foreign exchange (gain) loss	3,861	1,204
Capitalized interest	(14)	(44)
Derivatives	629	(29)
Hydro's share of depreciation, amortization and impairment in EAI	1,141	1,071
Funds from operations	13,135	8,703
Average Adjusted net cash (debt) including EAI	(33,375)	(32,347)
Funds from operations / average Adjusted net cash (debt) including EAI	0.39	0.27

Average Adjusted net cash (debt) / underlying EBITDA

Amounts in NOK million, except ratio	2020	2019
Average Adjusted net cash (debt)	(27,655)	(26,838)
Underlying EBITDA	14,316	11,832
Average Adjusted net cash (debt) / underlying EBITDA	1.93	2.27

Note 7.2 Cash and cash equivalents**Accounting policies for cash and cash equivalents**

Cash and cash equivalents in the balance sheet includes cash, bank deposits and all other monetary instruments with a maturity of less than three months from the date of acquisition and are measured at nominal value.

Liquidity management

Hydro manages its liquidity requirements centrally to cover group operating requirements. Hydro operates cash pools in several currencies where wholly owned subsidiaries participate, to the extent permitted by country legislation. Such cash pool arrangements facilitate netting of cash positions within the group, thereby reducing the requirement for external financing, and centralizing management of aggregated positions. At the end of 2020, NOK 3.9 billion of Hydro's cash position of NOK 17.6 billion was outside such group arrangements, mainly in Brazil.

Note 7.3 Short-term investments

Amounts in NOK million	2020	2019
Equity securities	324	293
Debt securities	589	529
Time deposits ¹⁾	2,500	35
Collateral accounts and other	677	112
Total short-term investments	4,091	969

1) Time deposits in banks with a maturity of three months or more at inception. Short-term bank deposits are normally available at short notice.

Note 7.4 Short and long-term debt

Amounts in NOK million	2020	2019
Bank loans and overdraft facilities	1,589	3,560
Other interest-bearing short-term debt	-	248
Current portion of long-term debt	3,159	2,349
Bank loans and other interest-bearing short-term debt	4,748	6,157

Amounts in NOK million	2020	2019
EUR	8,380	7,816
USD	5,308	4,723
NOK	9,983	2,998
SEK	1,047	1,885
Other	13	1
Total unsecured loans	24,730	17,423
Lease liabilities	3,240	3,784
Outstanding debt	27,970	21,207
Less: Current portion	(3,159)	(2,349)
Total long-term debt	24,811	18,858

Long-term debt includes seven bonds in NOK and SEK listed on the Oslo Stock Exchange and two bonds in EUR listed on the Irish Stock Exchange (Euronext Dublin). As of December 31, 2020, the market value of these bonds is approximately NOK 1,000 million higher than the carrying value which is the nominal value.

Reconciliation of liabilities arising from financing activities

Amounts in NOK million	Long-term debt	Bank loans and other interest-bearing short-term debt	Total liabilities from financing activities
December 31, 2018	9,342	9,373	18,716
Cash flows	11,089	(5,556)	5,533
Non-cash changes:			
Net change in current balance	(2,324)	2,324	-
New leases	519	-	519
Lease debt cancellations	(27)	-	(27)
Business combinations	11	12	23
Amortizations	13	-	13
Foreign currency effects	233	5	238
December 31, 2019	18,858	6,157	25,015
Cash flows	7,943	(4,271)	3,672
Non-cash changes:			
Net change in current balance	(3,431)	3,431	-
New leases	543	-	543
Lease debt cancellations	(53)	-	(53)
Divestments	(5)	(5)	(10)
Amortizations	18	-	18
Term extension	452	(452)	-
Foreign currency effects	485	(112)	373
December 31, 2020	24,811	4,748	29,559

Note 7.5 Finance income and expense

Amounts in NOK million	2020	2019
Interest income (amortized cost)	191	295
Dividends received and net gain (loss) on securities	99	70
Finance income	290	365
Interest expense (amortized cost)	(1,013)	(893)
Capitalized interest	14	44
Net foreign exchange gain (loss)	(3,861)	(1,204)
Accretion	(219)	(309)
Other	66	(58)
Finance expense	(5,013)	(2,420)
Finance income (expense), net	(4,723)	(2,055)

Accretion represent the period's interest component for pension obligations, asset retirement obligations and other liabilities measured as present value of future expected payments.

Note 7.6 Shareholders' equity

Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
December 31, 2018	2,068,998,276	(22,695,479)	2,046,302,797
Treasury shares issued to employees		1,345,993	1,345,993
December 31, 2019	2,068,998,276	(21,349,486)	2,047,648,790
Treasury shares issued to employees		1,475,928	1,475,928
December 31, 2020	2,068,998,276	(19,873,558)	2,049,124,718

The share capital of Norsk Hydro ASA as of December 31, 2020 and 2019 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at par value of NOK 1.098 per share. All shares have equal rights and are freely transferable.

Treasury shares

The treasury shares may, pursuant to the decision of the General Meeting at the time these shares were acquired, be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors.

The treasury shares amount per December 31, 2020 of NOK 662 million was comprised of NOK 22 million share capital and NOK 640 million retained earnings.

Change in Other components of equity

The table below specifies the changes in Other components of equity for 2020 and 2019.

Amounts in NOK million	2020	2019
Items that will not be reclassified to income statement:		
Remeasurement postemployment benefits		
January 1	(388)	55
Remeasurement postemployment benefits during the year	(1,015)	(128)
Deferred tax offset	89	(315)
December 31	(1,314)	(388)
Unrealized gain (loss) on assets measured at FVOCI		
January 1	(509)	155
Period unrealized gain (loss) on FVOCI securities	(156)	(664)
December 31	(665)	(509)
Items that will be reclassified to income statement:		
Currency translation differences		
January 1	(4,471)	(3,895)
Currency translation differences during the year	(4,667)	(576)
Reclassified to Net income on sale of foreign operation	(22)	-
December 31	(9,160)	(4,471)
Cash flow hedges - See note 8.3 Derivative instruments and hedge accounting		
January 1	(30)	(49)
Period gain recognized in Other comprehensive income	90	(108)
Reclassification of hedging gain (loss) to Net income	38	132
Tax expense	(8)	(5)
December 31	90	(30)
Other components of equity in equity accounted investments		
January 1	137	105
Period gain (loss) recognized in Other comprehensive income	-	22
Reclassified to Net income on divestment of equity accounted investments	-	9
December 31	137	137
Total other components of equity attributable to Hydro shareholders as of December 31	(8,464)	(3,496)
Total other components of equity attributable to non-controlling interests as of December 31	(2,447)	(1,765)

Earnings per share

Basic and diluted earnings per share is computed using Net income attributable to Hydro shareholders and the weighted average number of outstanding shares in each year. There are no significant diluting elements. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 2,048,705,656 for 2020 and 2,047,057,976 for 2019.

Hydro's outstanding founder certificates and subscription certificates entitle the holders to participate in any share capital increase, provided that the capital increase is not made in order to allot shares to third parties as compensation for their transfer of assets to Hydro. These certificates represent dilutive elements for the earnings per share computation.

Note 7.7 Dividends

Hydro's Board of Directors normally proposes a dividend per share in connection with the fourth quarter results that are published in February each year. The Annual General Meeting considers this proposal, normally in May, and the approved dividend is then paid to the shareholders. Dividends are paid once each calendar year, generally occurring in May. For non-Norwegian shareholders, Norwegian withholding tax will be deducted at source in accordance with the applicable Norwegian tax regulations.

For fiscal year 2020 the Board of Directors has proposed a dividend of NOK 1.25 per share to be paid in May 2021. The Annual General Meeting, scheduled to be held May 6, 2021, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 2,561 million. In accordance with IFRS, the fiscal year 2020 proposed dividend is not recognized as a liability in the 2020 financial statements.

Dividends declared and paid in 2020 and 2019 for the prior fiscal year, respectively, are as follows:

	Paid in 2020 for fiscal year 2019	Paid in 2019 for fiscal year 2018
Dividend per share paid, NOK	1.25	1.25
Total dividends paid, NOK million	2,561	2,558
Date proposed	February 6, 2020	February 7, 2019
Date approved	November 12, 2020	May 7, 2019
Dividend payment date	November 25, 2020	May 16, 2019

Dividends to non-controlling shareholders in Hydro's subsidiaries are reported as dividends in Consolidated statements of changes in equity.

Section 8 – Financial risk and financial instruments

Note 8.1 Financial and commercial risk management

Hydro is exposed to market risks both in our upstream segments producing bauxite, alumina and aluminium as well as electricity, and in our downstream segments producing mainly rolled and extruded products. The upstream segments Hydro Bauxite & Alumina and Hydro Aluminium Metal are more exposed to risk from fluctuations in the price of commodities bought and sold as well as prices of other raw materials, than our other segments. All segments and the company as a whole are exposed to currency exchange rates and interest rates. Price volatility, which may be significant, can have a substantial impact on Hydro's results. Market risk exposures are evaluated based on a holistic approach in order to take advantage of offsetting positions across the value chain and to manage risk on a net exposure basis. Natural hedging positions are established where possible and economically viable.

Hydro uses financial derivatives and various price clauses in commercial contracts, including fixed prices over longer periods and price links to relevant commodities, to manage financial and commercial risk exposures. Hydro's main policy to manage market volatility is to keep a strong financial position. During 2020, Hydro has reviewed the risk management policy for use of derivative and non-derivative instruments to manage price exposure. Such instruments may be used to a larger extent and over longer time horizons than the practice in recent years, mainly in the upstream segments.

Commodity price risk exposure

Aluminium

Hydro produces primary aluminium and aluminium casthouse products, both based on primary aluminium and recycled aluminium, and fabricated aluminium products. Hydro also engages in sourcing and trading activities to procure raw materials and primary aluminium for internal use and for resale to customers. These activities serve to optimize capacity utilization, reduce logistical costs and strengthen the market positions. Hydro also participates in trading activities within strict volume and risk limits.

Hydro enters into future contracts on the London Metal Exchange (LME) with a maturity of mainly one to three months, primarily for two purposes. The first is to achieve an average LME aluminium price on smelter production. Second, because Hydro's downstream businesses, recycling, and the sale of third-party products are based on margins above the LME price, Hydro seeks to offset the metal price exposure when entering into customer and supplier contracts with corresponding physical or derivative future contracts at fixed prices (back-to-back hedging). Hydro manages these exposures on a portfolio basis, taking LME positions based upon net exposures within given limits. In addition, Hydro enters into derivative forward sale contracts both on the LME and with banks to secure prices on parts of the planned aluminium production for longer periods when considered beneficial, whether based on the market situation or to secure cash flow or margins for specific projects. In these cases, hedge accounting has in some instances been applied when available.

Aluminium price volatility can result in significant fluctuations in earnings as the derivative positions are marked to their market value with changes to market value recognized in the income statement, while any underlying physical metal transactions normally are not marked-to-market, except for those included in trading portfolios.

Hydro's sales of primary aluminium and aluminium casthouse products include a premium above the LME aluminium price. The pricing of these premiums can be volatile, and is related to physical demand and supply, with regional and product-related differences. There are limited possibilities for hedging future premiums, except for standard ingot premiums, for which a forward market exists. Hydro has from time to time entered into contracts for standard ingot premiums to mitigate risk in sales contracts.

Bauxite and alumina

Hydro's production of alumina normally exceeds the alumina consumption in its primary aluminium production. In addition, Hydro has entered into long-term agreements to purchase alumina from third parties. During 2019 and parts of 2020, Hydro's production at Alunorte was limited by production issues and regulatory limitations, leading to temporarily increased external sourcing in the spot market. The majority of purchase and sale contracts are priced with reference to alumina spot price indexes. Alumina forward markets are considered to have limited liquidity.

Hydro is a producer and consumer of bauxite. Hydro's need for bauxite is secured through own production as well as by long-term contracts. The purchasing contracts have links to the LME aluminium price and to the alumina spot price development with a certain time-lag. Hydro has from time to time a limited volume of excess bauxite from long-term sourcing contracts, which is sold under medium and short-term contracts with prices linked to an alumina price index or open price negotiations.

Electricity

Hydro is a large power consumer in several countries and with significant power production in Norway. Hydro's consumption is mainly secured through long-term contracts with power suppliers and through Hydro's own production. Hydro's own production is influenced by hydrological conditions which can vary significantly. The net power position in Norway is

balanced out in the Nordic power market. In order to manage and mitigate risks related to price and volume fluctuations, Hydro utilizes physical contracts and derivatives including future contracts, forwards and options. Hydro also participates in trading activities within strict volume and risk limits.

The longer duration of fixed or linked contracts for purchase of electricity compared to other input factors and sale of products influences the margin risk.

A part of Hydro's power purchase contracts is linked to aluminium prices in order to mitigate market price risk related to the sales of its aluminium products. These contract elements are separated from their host contracts and accounted for as derivatives. Power contracts in Norway are predominantly priced in Euro. There is no consensus that the Euro is a commonly used currency in the relevant market, the Euro price clauses with Norwegian counterparts are thus accounted for separately as currency forwards.

Other raw materials

Hydro is party to both long-term and short-term sourcing agreements for a range of raw materials and services with both fixed and variable prices. Such agreements include pitch, petroleum coke, caustic soda, natural gas, coal, fuel oil and freight. The number of purchasing agreements with prices linked to the price of other commodities such as aluminium is limited and the fair value exposure is considered to be immaterial, however, differences in price development in the markets for such input factors compared to prices for Hydro's main products impacts the margin risk.

Foreign currency risk exposure

The prices of Hydro's upstream products bauxite, alumina and primary aluminium, are mainly denominated in US dollars. Margins for mid- and downstream products are mainly priced in US dollars and Euro. Further, the prices of major raw materials used in Hydro's production processes, are quoted in US dollars in the international commodity markets, while power is predominantly priced in Euro in Europe, including Norway. Hydro also incurs significant local costs related to the production, distribution and marketing of products in a number of different currencies, mainly Norwegian Krone, Brazilian Real, Euro and US dollar.

Hydro's primary operational foreign currency risk is consequently linked to fluctuations in the value of the US dollar and Euro versus the currencies in which significant costs are incurred. In addition, Hydro's results and equity are influenced by value changes for the functional currencies of the individual entities and the Norwegian Krone as the Group's presentation currency.

To mitigate the impact of exchange rate fluctuations, long-term debt is mainly maintained in currencies reflecting underlying exposures, liquidity management and cash generation, while considering attractiveness in main financial markets. To reduce the effects of fluctuations in the US dollar and other exchange rates, Hydro also uses foreign currency swaps and forward currency contracts from time to time.

Foreign currency risk exposure in financial instruments

Short-term receivables and payables are often held in currencies other than the functional currency of the unit. Fluctuations between the functional currency and the currency in which the receivable or payable is denominated are reported in Financial expense.

Borrowings and deposits may be denominated in other currencies than the functional currency of the unit. Fluctuations between the functional currency and the instrument's currencies, both short and long term, impact the recognized value of the liability or asset, and are reported in Financial expense. The majority of exposure in financing arrangements exists in the parent company in Norway and in the part-owned subsidiaries in Brazil.

Embedded currency derivatives in non-financial contracts, including the Euro priced electricity contracts discussed above, contains a currency exposure with changes to the fair value of the embedded derivative included in Financial expenses.

Investments in equity instruments of other entities are often impacted by changes in currency exchange rates. As such investments are carried at fair value, the currency changes are included in the changes of fair value and reported as an integral part of such changes.

Interest rate exposure

Hydro is exposed to changes in interest rates, primarily as a result of financing its business operations and managing its liquidity in different currencies. Cash and other liquid resources, as well as debt, are currently mainly held in Norwegian Krone, Euro, US dollars and Brazilian real. The corresponding interest rate exposures are consequently related to Norwegian Krone, Euro, US dollar and Brazilian real short-term rates.

Financial instruments and provisions, including pension obligations, are also exposed to changes in interest rates in connection with discounting of positions to present value.

Credit risk management

Hydro manages credit risk by setting counterparty risk limits and establishing procedures for monitoring exposures and timely settlement of customer accounts. Credit risk is further limited through use of credit insurance, and, in some markets,

sale of receivables to banks. Prepayments or guarantees are required where credit risk is outside the limits set for the relevant counterpart. Hydro is also monitoring the financial performance of key suppliers in order to reduce the risk of default on operations and key projects. Our overall credit risk exposure is reduced due to a diversified customer base representing various industries and geographic areas. Enforceable netting agreements, guarantees, and credit insurance, also contribute to a lower credit risk.

Credit risk arising from derivatives is generally limited to net exposures. Exposure limits are established for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to commodity derivatives is limited by settlement through commodity exchanges such as the London Metal Exchange, Nasdaq OMX, Intercontinental Exchange, and banks. Current counterparty risk related to the use of derivative instruments and financial operations is considered moderate.

Liquidity risk

Volatile commodity prices and exchange rates as well as fluctuating business volumes and inventory levels can have a substantial effect on Hydro's cash positions and borrowing requirements.

To fund cash deficits of a more permanent nature Hydro will normally raise equity, long-term bond or bank debt in available markets. Some suppliers have access to supply chain finance facilities, which allows those suppliers to benefit from Hydro's credit profile. The use of such products is limited and does not extend Hydro's credit period beyond normal commercial terms. Further, all other financial liabilities, such as trade payables, with the exception of derivatives, have a final maturity date within one year.

A summary of Hydro's total contractual obligations and commercial commitments to make future payments is presented below:

Amounts in NOK million	Less than 1 year	1-3 years	3-5 years	Thereafter	Total
Long-term debt including interest (note 7.4)	3,789	10,110	7,505	9,628	31,032
Unconditional purchase obligations ¹⁾	40,373	49,178	45,502	169,988	305,041
Contractual commitments for PP&E	3,099	568	85	-	3,753
Total contractual and non-contractual obligations, undiscounted	47,261	59,856	53,092	179,616	339,826
Present value of short-term and long-term provisions (note 4.1)	2,935	2,038	749	2,819	8,541

1) Unconditional purchase obligations include long-term contracts with equity accounted investees.

Hydro has long-term contractual commitments for the purchase of aluminium, raw materials, electricity, and transportation in addition to long-term sales commitments. The future non-cancellable fixed and determinable obligations under purchase commitments as of December 31, 2020 are shown in the following table:

Amounts in NOK million	Bauxite, alumina and aluminium	Energy related	Other
2021	22,881	13,991	3,501
2022	15,579	6,917	2,236
2023	16,035	6,879	1,532
2024	16,654	6,773	1,082
2025	15,718	4,446	828
Thereafter	123,219	39,812	6,957
Total	210,085	78,818	16,137

Amounts relating to contracts which are entirely or partly linked to market prices such as LME are based on the spot price at the balance sheet date.

The following table specifies Hydro's payment obligations related to investments:

Amounts in NOK million	Total
Contract commitments for investments in property, plant and equipment	1,883
Additional authorized future investments in property, plant and equipment	1,795
Contract commitments for other future investments	49
Total	3,727

Additional authorized future investments include projects formally approved for development by the Board of Directors or management. General investment frames are excluded from these amounts.

An overview of estimated gross cash flows from derivatives accounted for as liabilities and assets is presented below. Many of these assets and liabilities are offset by cash flows from contracts not accounted for as derivatives.

Risk of significant cash payments or margin calls related to derivative instruments is limited due to strict volume limits, value-at-risk and tenor limits for relevant trading activities.

Expected gross cash flows from derivatives accounted for as financial liabilities and financial assets, respectively, as of end of year:

Amounts in NOK million	December 31, 2020		December 31, 2019	
	Liabilities	Assets	Liabilities	Assets
2020			(78)	279
2021	(538)	79	(1)	1
2022	(6)	6		
Total	(544)	85	(79)	281

The cash flows above are to a large extent subject to enforceable netting agreements reducing Hydro's exposure substantially.

For additional information on contracts accounted for at fair value, see note 8.3 *Derivative instruments and hedge accounting*.

Note 8.2 Financial instruments

Accounting policies for financial instruments

Financial assets

Financial assets represent a contractual right by Hydro to receive cash or another financial asset in the future. Financial assets include financial derivatives and commodity derivative contracts, receivables and equity interests, as well as financial instruments used for cash-flow hedges.

Financial assets are recognized in accordance with IFRS 9 Financial Instruments. On initial recognition, a financial asset is classified as measured at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL). Classification depends on the business model and, for some instruments, the company's choice. Financial assets are derecognized when the rights to receive cash from the asset have expired or when Hydro has transferred the asset.

Trade receivables

Trade receivables are initially recognized at transaction price, subsequently accounted for at amortized cost and are reviewed for impairment on an ongoing basis. Individual accounts are assessed for impairment taking into consideration indicators of financial difficulty and management assessment. Portfolios of trade receivable where expected losses are more than insignificant are reduced for those expected losses. Discounting generally does not have a material effect on accounts receivable, however, in special cases discounting may be applied. Hydro's business model for most trade receivable is to hold the receivables to collect the contractual cash flows. For some portfolios of trade receivables, factoring is applied.

Debt instruments

Debt instruments other than trade receivables include bank deposits and all other monetary instruments with a maturity above three months at the date of purchase, investments in debt securities, and certain other receivables. These instruments are measured at amortized costs, with the exception of instruments where cash flows are not contractually fixed and thus required to be measured at FVTPL.

Short-term debt instruments are included in Short-term investments. Long-term debt instruments are included in Other non-current assets.

Equity instruments

Hydro's portfolio of trading securities is measured at FVTPL, and included in Short-term investments. Other equity investments that are not consolidated or accounted for using the equity method are classified as either FVTPL or FVOCI on an individual investment basis. Hydro classifies investments in other entities with strategic or operational purposes, such as getting access to raw materials or in other ways cooperating with those entities, primarily as FVOCI, as Hydro considers this classification to be more relevant. Any dividend received from such investment is recognized in Finance income. On disposal of these investments, no gain or loss will be recognized in the income statement, however, any related accumulated value change will be reclassified from Other components of equity to Retained earnings.

Financial liabilities

Financial liabilities represent a contractual obligation by Hydro to deliver cash in the future, and are classified as either short- or long-term. Financial liabilities include financial derivatives, commodity derivative contracts and other financial liabilities as well as financial instruments used for cash-flow hedges. Financial liabilities, with the exception of derivatives, are initially recognized at fair value, including transaction costs directly attributable to the transaction, and are subsequently measured at amortized cost. Financial liabilities are derecognized when the obligation is discharged through payment or when Hydro is legally released from the primary responsibility for the liability.

Derivative instruments

Derivative instruments are marked-to-market with the resulting gain or loss reflected in the income statement, except when the instruments meet the criteria for cash flow hedge accounting and are designated as hedge instruments. Derivatives, including hedging instruments and embedded derivatives with expected cash flows within twelve months from the balance sheet date, or held solely for trading, are classified as short-term. Instruments with expected cash flows more than 12 months after the balance sheet date are classified as short and long-term based on the timing of the estimated cash flows.

Derivative contracts are presented gross on the balance sheet unless contract terms include the possibility to settle the contracts on a net basis and Hydro has the intention and ability to do so. The ability to settle net is conditional on simultaneous offsetting cash-flows.

Physical contracts for commodities that are readily convertible to cash are evaluated on a portfolio basis. Portfolios are defined based on business purpose, internal mandates and internal responsibilities. If a portfolio of contracts contains contracts of a similar nature that are settled net in cash, or the underlying products are not intended for own use, the entire portfolio of contracts is recognized at fair value and classified as derivatives. Physical commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with Hydro's expected purchase, sale or usage requirements (own use) are not accounted for at fair value. Commodity purchase contracts are generally considered to be the primary source for usage requirements. Hydro's own production of such commodities, for instance electricity, alumina and primary aluminium, is considered to be available for use or sale at Hydro's discretion unless relevant concessions contains restrictions for use.

Derivative commodity instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in revenue and/or raw material cost. Forward currency contracts and currency options are recognized in the balance sheet and measured at fair value at each balance sheet date with the resulting gain or loss recorded in Finance expense. Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract.

Hedge accounting is applied when specific hedge criteria are met, including documentation of the hedge relationship. The changes in fair value of the hedging instruments are offset in part or in full by the corresponding changes in the fair value or cash flows of the underlying hedged exposures. Gains and losses on cash flow hedging instruments are recognized in Other comprehensive income and deferred in the Hedging reserve in Other components of equity until the underlying transaction is recognized in the income statement. Deferred gains and losses relating to forecasted hedged transactions that are no longer expected to occur are immediately recognized in the income statement. Any amounts resulting from hedge ineffectiveness are recognized in the current period's income statement.

An embedded derivative is accounted for as a separate financial instrument, provided that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the host contract is not accounted for at fair value. Embedded derivatives are classified both in the income statement and on the balance sheet based on the risks in the derivatives' underlying.

Financial instruments

Certain commodity contracts are deemed to be financial instruments under IFRS 9 or to contain embedded derivatives which are required to be recognized at fair value, with subsequent changes in fair value impacting the income statement. Determining whether contracts qualify as financial instruments at fair value involves evaluation of markets, Hydro's use of those instruments and historic or planned use of physically delivered products under such contracts. Determining whether

embedded derivatives are required to be separated and accounted for at fair value involves assessing price correlations and normal market pricing mechanisms for relevant products and marketplaces. Where no directly observable market prices exist, fair value is estimated through valuation models which rely on internal assumptions as well as observable market information such as forward curves, yield curves and interest rates. Market stability impacts the reliability of observed prices and other market information, and consequently, the extent of judgment necessary to estimate appropriate market prices for valuation purposes. Volatility also impacts the magnitude of changes in estimated fair value, which can be substantial, in particular on long-term contracts. Historically, financial and commodity markets have been highly volatile.

Financial instruments, and contracts accounted for as such, are in the balance sheet included in several line items and classified in categories for accounting treatment.

The below specification relates to financial statement line items containing financial instruments. Information is classified and measured in accordance with IFRS 9.

Amounts in NOK million	Derivatives at FVTPL ¹⁾	Derivatives identified as hedging instruments	Debt instruments at amortized cost	Financial instruments at FVTPL ²⁾	Equity instruments at FVOCI	Financial liabilities at amortized cost	Non-financial assets and liabilities ³⁾	Total
2020								
Assets - current								
Cash and cash equivalents	-	-	17,638	-	-	-	-	17,638
Short-term investments	-	-	3,177	913	-	-	-	4,091
Trade and other receivables	-	-	16,621	-	-	-	1,744	18,364
Other current financial assets	200	75	-	-	-	-	195	470
Assets - non-current								
Investments accounted for using the equity method	-	-	-	-	-	-	17,288	17,288
Other non-current assets	60	60	692	540	901	-	1,938	4,191
Liabilities - current								
Bank loans and other interest-bearing short-term debt	-	-	-	-	-	4,748	-	4,748
Trade and other payables	-	-	-	-	-	10,827	8,121	18,948
Other current financial liabilities	727	-	-	-	-	256	-	983
Liabilities - non-current								
Long-term debt	-	-	-	-	-	24,811	-	24,811
Other non-current financial liabilities	3,293	-	-	-	-	-	-	3,293
2019								
Assets - current								
Cash and cash equivalents	-	-	12,286	-	-	-	-	12,286
Short-term investments	-	-	147	822	-	-	-	969
Trade and other receivables	-	-	15,804	-	-	-	3,155	18,959
Other current financial assets	444	-	-	-	-	-	190	634
Assets - non-current								
Investments accounted for using the equity method	-	-	3	-	-	-	11,497	11,501
Other non-current assets	39	-	880	535	829	-	2,535	4,817
Liabilities - current								
Bank loans and other interest-bearing short-term debt	-	-	-	-	-	6,157	-	6,157
Trade and other payables	-	-	-	-	-	10,740	7,952	18,692
Other current financial liabilities	196	38	-	-	-	1	-	235
Liabilities - non-current								
Long-term debt	-	-	-	-	-	18,858	-	18,858
Other non-current financial liabilities	2,992	-	-	-	-	-	-	2,992

1) FVTPL is financial instruments at fair value through profit or loss. FVOCI is financial instruments at fair value through other comprehensive income.

2) Financial Instruments at Fair Value Through Profit or Loss (FVTPL) are instruments required by IFRS 9 to be at FVTPL.

3) Includes items that are excluded from the scope of IFRS 7, such as investments accounted for using the equity method, except loans to such entities.

Financial assets, classified as current and non-current, represent the maximum exposure Hydro has towards credit risk as at the reporting date.

Collateral or margin calls are required for some financial liabilities, primarily related to derivative transactions. Such collaterals for financial instruments are reported as part of Short-term investments and Other non-current assets. Margin calls may to a larger extent have longer maturities as derivative instruments may be used over longer time horizons than the practice in recent years.

Impairment of receivables are disclosed in note 6.2 *Trade and other receivables*. No other financial assets are currently impaired based on credit losses.

Gains and losses

Realized and unrealized gains and losses from financial instruments and contracts accounted for as financial instruments are included in several line items in the income statement. Below is a reconciliation of the effects from Hydro's financial instruments in the income statements:

Amounts in NOK million	Derivatives at FVTPL	Derivatives identified as hedging instruments	Debt instruments at amortized cost	Financial instruments at FVTPL	Equity instruments at FVOCI	Financial liabilities at amortized cost	Non-financial assets and liabilities	Total ¹⁾
2020								
Income statement line item								
Revenue	141	-	-	-	-	-	-	141
Raw material and energy expense	158	(209)	-	-	-	-	-	(51)
Financial income	-	-	-	(74)	(25)	-	-	(99)
Financial expense	379	-	-	-	-	-	-	379
Gain/loss in Other comprehensive income								
Recognized in Other comprehensive income (before tax)					156			
Removed from Other components of equity and recognized in the income statement					-			
2019								
Income statement line item								
Revenue	(402)	-	-	-	-	-	-	(402)
Raw material and energy expense	10	(91)	-	-	-	-	-	(82)
Financial income	-	-	-	(70)	-	-	-	(70)
Financial expense	808	-	-	-	-	-	-	808
Gain/loss in Other comprehensive income								
Recognized in Other comprehensive income (before tax)					664			
Removed from Other components of equity and recognized in the income statement					-			

1) Amounts indicates the total gains and losses to financial instruments for each specific income statement line.

Currency effects, with the exception of currency derivatives, are not included above. Negative amounts indicate a gain.

Sensitivity analysis

In accordance with IFRS, Hydro has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of derivative financial instruments and other financial instruments and derivative commodity instruments through sensitivity analysis disclosures. The sensitivity analysis depicted in the tables below reflects the hypothetical gain/loss in fair values that would occur assuming a 10 percent increase in rates or prices and no changes in the portfolio of instruments as of December 31, 2020 and December 31, 2019. Effects shown below are largely also representative of reductions in rates or prices by 10 percent, but with the opposite sign convention. Only effects that would ultimately be accounted for in the income statement, or equity, as a result of a change in rates or prices, are included. All changes are before tax.

Amounts in NOK million	Fair value as of December 31 ¹⁾	Gain (loss) from 10 percent increase in Foreign currency exchange rates			Commodity prices		Interest-rates	
		USD	EUR	Other	Aluminium	Other	Interest-rates	Other
2020								
Derivative financial instruments ²⁾	(3,337)	(202)	(2,839)	107	-	-	51	-
Other financial instruments ³⁾	(1,065)	(410)	(537)	32	-	-	1	32
Derivative commodity instruments ⁴⁾	(423)	49	(4)	-	(844)	43	-	(1)
Financial instruments at FVOCI ⁵⁾	1,040	149	-	1	-	-	(86)	90
2019								
Derivative financial instruments ²⁾	(2,957)	-	(2,659)	-	-	-	85	-
Other financial instruments ³⁾	(5,277)	(575)	(485)	(80)	-	-	2	29
Derivative commodity instruments ⁴⁾	246	18	12	-	(347)	27	(1)	(2)
Financial instruments at FVOCI ⁵⁾	791	-	(4)	1	-	9	(85)	78

1) The change in fair value due to price changes is calculated based on pricing formulas for certain derivatives, the Black-Scholes/Turnbull-Wakeman models for options and the net present value of cash flows for certain financial instruments or derivatives. Discount rates vary as appropriate for the individual instruments.

2) Includes forward currency contracts and embedded currency derivatives.

3) Includes cash and cash equivalents, investments in securities, bank loans and other interest-bearing short-term debt and long-term debt. Trade payables and trade receivables are also included.

4) Includes all contracts with commodities as underlying, both financial and physical contracts, such as LME contracts and NASDAQ Nordic Power contracts, which are accounted for at fair value.

5) Includes hedging derivatives.

The above sensitivity analysis reflects sensitivities for the instruments held at the balance sheet dates only. Related offsetting physical positions, contracts, and anticipated transactions are not reflected. The calculations do not take into consideration any adjustments for potential correlations between the risk exposure categories, such as the effect of a change in a foreign exchange rate on a commodity price.

The above discussion about Hydro's risk management policies and the estimated amounts included in the sensitivity analysis relates to the balance sheet position as of December 31. Outcomes at other dates could differ materially based on actual developments in the global markets and Hydro's positions. The methods used by Hydro to analyze risks discussed above should not be considered as projections of future events, gains or losses.

The following is an overview of fair value measurements categorized on the basis of observability of significant measurement inputs. Certain items are valued on the basis of quoted prices in active markets for identical assets or liabilities (level 1 inputs), others are valued on the basis of inputs that are derived from observable prices (level 2 inputs), while certain positions are valued on the basis of judgmental assumptions that are to a limited degree or not at all based on observable market data (level 3 inputs). The level in this fair value hierarchy within which measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

Amounts in NOK million	2020	Level 1	Level 2	Level 3	2019	Level 1	Level 2	Level 3
Assets								
Commodity derivatives	229	60	155	14	462	223	70	170
Currency derivatives	31	-	31	-	21	21	-	-
Cash flow hedges	135	-	135	-	-	-	-	-
Financial assets at FVTPL	1,453	328	589	535	1,357	293	529	535
Financial assets at FVOCI	901	-	-	901	829	-	-	829
Total	2,750	388	911	1,450	2,669	536	599	1,534
Liabilities								
Commodity derivatives	(652)	(503)	(42)	(107)	(211)	(43)	(55)	(112)
Currency derivatives	(3,368)	-	(3,368)	-	(2,977)	(81)	(2,897)	-
Cash flow hedges	-	-	-	-	(38)	-	-	(38)
Total	(4,020)	(503)	(3,410)	(107)	(3,227)	(124)	(2,952)	(151)

The following is an overview in which changes in level 3 measurements are specified:

Amounts in NOK million	Commodity derivatives		Currency derivatives	Cash flow hedges	Financial instruments at FVTPL	Equity instruments at FVOCI
	Assets	Liabilities	Liabilities			
December 31, 2018	270	(325)	-	(62)	535	1,405
Total gains (losses)						
in Income statement	(104)	134	-	-	-	-
in Other comprehensive income	-	-	-	(108)	-	(664)
Purchases	-	-	-	-	-	97
Settlements	-	82	-	132	-	-
Currency translation difference	2	(3)	-	-	-	(8)
December 31, 2019	169	(111)	-	(38)	535	830
Total gains (losses)						
in Income statement	(3)	(30)	-	-	-	-
in Other comprehensive income	-	-	-	38	-	(156)
Purchases	-	-	-	-	-	1
Settlements	(171)	62	-	-	-	-
Currency translation difference	18	(27)	-	-	-	227
December 31, 2020	14	(107)	-	-	535	901
Total gains (losses) for the period	(3)	(30)	-	38	-	(156)
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	(3)	(30)	-	-	-	-

Gains or losses relating to level 3 commodity derivatives appearing in the table above are included in the income statement in Raw material and energy expense. Changes in fair value for embedded derivatives are reported as gains or losses for the period. Changes in fair value for hedge instruments are reported in Other comprehensive income. Dividends received for equity instruments at fair value through other comprehensive income are included in Financial income.

Exposure to level 3 commodity derivatives is decreasing and the sensitivities relating to commodity derivatives are insignificant as of December 31, 2020.

Note 8.3 Derivative instruments and hedge accounting

Derivative instruments, whether physically or financially settled, are accounted for under IFRS 9. All derivative instruments are accounted for at fair value with changes in the fair value recognized in the income statement, unless the instrument is designated as a hedge instrument. Some of Hydro's commodity contracts are deemed to be derivatives under IFRS.

Embedded derivatives

Some contracts contain pricing links that affect cash flows in a manner different than the underlying commodity or financial instrument in the contract. For accounting purposes, these embedded derivatives are in some circumstances separated from the host contract and recognized at fair value. Hydro has separated and recognized at fair value embedded derivatives related to currency, aluminium, inflation and coal links from the underlying contracts.

Commodity derivatives

The following types of commodity derivatives were recorded at fair value on the balance sheet as of December 31, 2020 and December 31, 2019. Contracts that are designated as hedge instruments in cash flow hedges are not included. The presentation of fair values for electricity and aluminium contracts shown in the table below includes the fair value of traditional derivative instruments such as futures, forwards and swaps, physical contracts accounted for at fair value, as well as embedded derivatives.

Amounts in NOK million	2020	2019
Assets		
Electricity contracts	25	222
Aluminium futures, forwards and options	203	253
Other	-	51
Netting	-	(64)
Total	229	462
Liabilities		
Electricity contracts	(34)	(52)
Coal forwards	-	(140)
Aluminium futures, forwards and options	(613)	(82)
Other	(5)	-
Netting	-	64
Total	(652)	(211)

Embedded derivatives are classified based on the underlying in the contract feature constituting a separable embedded derivative in the table above. Where there is more than one embedded derivative in the same host contract, those embedded derivatives are offset in settlement and thus presented net on the balance sheet.

Changes in the fair value of commodity derivatives are included in operating revenues or cost of goods sold based on classification of host contract for embedded derivatives and on the purpose of the instrument for freestanding derivatives.

Cash flow hedges

Hydro has to a limited extent used cash flow hedge accounting for its risk management positions. Gains and losses on the hedge derivatives are recognized in Other comprehensive income, and accumulated in the hedging reserve in equity and reclassified into operating revenues or cost when the corresponding forecasted sale or consumption is recognized. In 2012 Hydro entered into a hedge arrangement for parts of the power consumption in the Rheinwerk smelter in Germany. The price differential between the German and the Nordic power market was secured through derivative contracts for 150 MW for the period 2013 to 2020. In 2020, Hydro entered into a hedge arrangement for currency in the Alunorte plant in Brazil, to secure the exchange rate between Brazilian Real and US dollar for the period 2021 to 2022. In total, USD 383 million is sold forward for 2021 and 2022 at an average rate of 5.53 Brazilian Real to US dollar.

No ineffectiveness was recognized in the income statement in 2020 or 2019.

The table below gives aggregated numbers related to the cash flow hedges for 2020 and 2019.

Amounts in NOK million	2021	2020	2019
Expected to be reclassified to the income statement during the year (NOK million)	75	(38)	(65)
Reclassified to the income statement from Other components of equity (NOK million) ¹⁾		(38)	(132)

1) Deviates from expected reclassifications due to change in market prices throughout the year. Negative amounts indicate a loss.

An asset of NOK 135 million and a liability of NOK 38 million were recognized as the fair value of cash flow hedging instruments for December 31, 2020 and 2019, respectively.

Hydro performs trading operations to reduce currency exposures on commodity positions. The effect of such operations is recognized as a part of Financial expense in the income statement.

For the after tax movement in Hydro's equity relating to cash-flow hedges for 2020 and 2019, please see note 7.6 *Shareholders' equity*.

Fair Value of Derivative Instruments

The fair value of derivative financial instruments such as currency forwards and swaps are based on quoted market prices. The fair market value of aluminium and electricity futures/forwards and option contracts is based on quoted market prices obtained from the London Metals Exchange and NASDAQ Nordic Power/EEX (European Energy Exchange) respectively. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with IFRS 9, such fair market values are based on quoted forward prices in the market, and assumptions of forward prices and margins where market prices are not available. Hydro takes credit-spread into consideration when valuating positions when necessary.

For further information on fair values, see note 1.2 *Measurement of fair value*. See note 8.2 *Financial instruments* for a specification of the classification of derivative positions according to a fair value hierarchy.

Section 9 – Related parties and remuneration

Note 9.1 Board of Directors' statement on executive management remuneration

The board's statement on executive management remuneration (the "statement") has been prepared in accordance with the provisions of the Norwegian Public Limited Liability Companies Act, the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. Previous statements have been divided into two sections:

- key principles for determining remuneration in the coming financial year, and
- the executive management remuneration policy in the previous financial year

Following amendments to the Public Limited Liability Companies Act, i.e. amendment of section 6-16 (a), addition of a new section 6-16 (b), and associated new regulations, the statement is now subject to new and more detailed requirements for determining salaries and other remuneration. From 1 January 2021, the board is required to prepare both guidelines for such determination (section 6-16 (a)) and a report that provides an overview of paid and outstanding remuneration (section 6-16 (b)). The guidelines will be forward-looking and will be adopted by the Annual General Meeting through a binding vote, while the report will be retrospective and will be subject to an advisory vote at the Annual General Meeting. The deadline for adoption of the new guidelines for the company is 1 October 2021, while the deadline for the first presentation of the report is the Annual General Meeting in 2022.

Hydro's board has prepared proposed guidelines for the company's executive remuneration policy in accordance with the provision in the new section 6-16 (a). The proposed guidelines, which provide a broader and deeper introduction to the principles for remuneration to executive management in Hydro, replace the section in the statement concerning the key principles for determining remuneration in the coming financial year, i.e. from 2021 onwards. The new guidelines will be presented to the Annual General Meeting in 2021, where a binding vote on these will be held in accordance with the new regulations. The guidelines will then be available on Hydro's website.

The executive management remuneration report in accordance with the new regulations will be prepared for the first time for the Annual General Meeting in 2022 and will have effect for the financial year 2021. For this reason, the section in the previous statement concerning remuneration policy in the previous financial year is continued by providing information in this note related to the executive management remuneration policy in 2020.

Executive management remuneration policy in 2020

The remuneration policy has been implemented in accordance with the guidelines adopted in 2020, pursuant to Note 9.1 *Board of Directors' statement on executive management remuneration* to the financial statements for 2019, with the following remarks:

- Members of the Corporate Management Board (CMB) collectively waived their salary adjustments and ordinary bonus earnings (STI and LTI) for the financial year 2020. Executive vice president of the Hydro Rolling business area, Einar Glomnes, was nevertheless awarded STI for 2020 based on his extraordinary and decisive efforts in leading and carrying out the turnaround operation related to the business area.
- Executive vice president of the Hydro Bauxite & Alumina business area, John Thuestad, retains his individual retention bonus related to the position in Brazil that he has held since assuming the position in 2018. Thuestad has a net salary contract based on his posting from Norway to Brazil.
- Executive vice president of the Hydro Rolling business area, Einar Glomnes, was granted a retention bonus in 2020 related to the restructuring and potential sale of the business area. Glomnes has a net salary contract based on his posting from Norway to Germany.
- Executive vice president of the Hydro Extrusions business area, Egil Hogna, resigned his position as of 30 November 2020. In accordance with the regulations for the CMB's share-based LTI scheme, Hogna has repaid the company for LTI shares that were subject to the lock-in obligation as of the date of resignation.
- Paul Warton was hired as the new executive vice president of Hydro Extrusions. Warton, who assumed the position on 1 February 2021, is a British citizen and is employed on a British net salary contract based on his posting from the UK to Norway. The agreed terms are mainly based on the market situation for positions at this level in the UK, including his STI potential payment of 75 percent of base salary. Warton also received compensation for the loss of bonus from his previous employer.
- Helena Nonka was hired in January 2021 as the new executive vice president of the Corporate Development area. She assumes the position on 1 April 2021. Nonka, who is a Canadian and British citizen, is resident in Switzerland and will for a period work from Switzerland based on a Swiss net salary contract based on her posting from Switzerland to Norway. She will then move to Norway, and the employment relationship will then be based on a Norwegian employment agreement. Nonka will receive compensation for loss of bonus from her current employer, and Hydro will also compensate for tuition fees for her children when she moves to Norway.

- Until Helena Nonka assumes the position of executive vice president of Corporate Development, Arvid Moss will continue to fill this role in addition to his ordinary duties as executive vice president of the Hydro Energy business area. Moss receives special compensation for this additional responsibility.

With the exception of salary adjustments and bonuses (STI and LTI) which were waived for 2020, remuneration to the CEO and other members of the CMB for the financial year 2020 is in accordance with the guidelines adopted for 2020.

Note 9.2 Management remuneration

Corporate management board members' salaries and other benefits, number of LTI-shares allocated, as well as Hydro share ownership as of December 31, 2020 and 2019 are presented in the table below. Amounts presented for individuals appointed to, or stepping down from, a position in the Corporate Management Board from or to another position in Hydro, includes fixed compensation for the whole year. Unless otherwise stated, Hydro did not have any loans to or guarantees made on behalf of any of the corporate management board members in 2020 and 2019.

Name	Base salary ^{(1), (2)}	Maximum bonus potential ^{(1), (2)}	Salary paid ^{(1), (3)}	Other benefits paid ^{(1), (3)}	Compensation pension paid ^{(1), (3)}	Bonus earned ^{(1), (3)}	Long-term incentive (LTI) earned ^{(1), (3)}	Pension benefits ^{(1), (4)}	LTI-shares allocated ⁽³⁾	Hydro share ownership ⁽⁵⁾
2020										
Hilde Merete Aasheim	6,710	3,355	6,696	211	-	-	-	2,236	7,363	119,946
Pål Kildemo	2,900	1,160	2,884	262	405	-	-	175	1,436	13,060
John Thuestad ⁽⁶⁾	6,810	2,231	8,253	517	564	-	-	306	7,419	58,043
Eivind Kallevik	3,685	1,474	3,750	264	51	-	-	1,622	4,783	72,849
Einar Glomnes ⁽⁷⁾	4,011	1,418	4,125	406	510	868	-	667	2,814	17,692
Egil Hogna ⁽⁸⁾	5,533	2,029	5,671	245	1,044	-	-	270	7,306	63,470
Arvid Moss ⁽⁹⁾	3,267	1,307	4,127	193	-	-	-	(1,008)	4,313	173,043
Anne-Lene Midseim	2,614	1,046	2,652	268	115	-	-	984	3,451	33,735
Inger Sethov	2,397	959	2,445	261	153	-	-	949	3,165	38,125
Hilde Vestheim Nordh	2,400	960	2,392	457	317	-	-	282	1,188	25,204
2019										
Hilde Merete Aasheim ⁽¹⁰⁾	6,710	2,664	5,699	224	-	1,589	407	(6,869)	4,711	94,161
Svein Richard Brandtzæg ⁽¹¹⁾	6,710	1,188	6,838	261	-	562	-	581	9,198	253,323
Pål Kildemo ⁽¹²⁾	2,900	435	2,319	219	150	280	79	245	-	2,202
John Thuestad ⁽⁶⁾	6,384	2,115	7,738	1,220	511	1,351	370	395	4,398	25,202
Eivind Kallevik	3,685	1,449	3,816	275	50	801	264	1,708	4,811	62,644
Einar Glomnes ⁽¹³⁾	4,047	908	3,828	481	343	553	155	1,567	-	4,456
Egil Hogna	5,533	2,213	5,689	286	1,112	1,361	404	609	7,430	50,742
Arvid Moss ⁽⁹⁾	3,267	1,307	3,457	253	-	772	238	3,268	4,384	158,308
Anne-Lene Midseim	2,614	1,046	2,668	273	112	548	191	1,095	3,506	29,862
Inger Sethov	2,397	959	2,458	273	149	502	175	1,057	3,214	27,538
Hilde Vestheim Nordh ⁽¹⁴⁾	2,400	897	2,292	273	130	459	66	1,389	-	16,753
Kjetil Ebbesberg ⁽¹⁵⁾	3,866	490	2,938	544	111	-	-	1,410	4,311	58,437

1) Amounts in NOK thousand. Amounts paid by subsidiaries outside Norway have been translated to NOK at average rates for each year.

2) Annual base salary per December 31, or per the date of stepping down from the Corporate Management Board. Maximum bonus potential is for the year presented, and for the period as corporate management board member.

3) Salary is the amount paid to the individual during the year presented, and includes vacation pay. Other benefits is the total of all other cash and non-cash related benefits received by the individual during the year presented and includes such items as the taxable portion of insurance premiums, car and mileage allowances and electronic communication items. For most individuals, compensation pension is the amount paid to compensate for future pension shortfall estimated at the time of transition from Hydro's defined benefit pension plans to the defined contribution plan in line with an arrangement applicable to all affected employees in Norway. For John Thuestad and Egil Hogna, compensation pension is the amount paid to compensate for lower pension benefits in Hydro compared to those of former employer Sapa AS (now Hydro Extruded Solutions AS). Bonus is the amount earned in the year presented, including vacation pay, based on performance achieved as corporate management board member. The LTI plan benefit reflects gross (pre-tax) amounts earned in the year presented, and results in LTI shares allocated in the following year. For corporate management board members on net salary employment contracts, benefits have been converted to estimated gross (pre-tax) amounts.

4) Pension benefits include the estimated change in the value of defined pension benefits, and reflects both the effect of earning an additional year's pension benefit and the adjustment to present value of previously earned pension rights (interest element). It is calculated as the increase in the Defined Benefit Obligations (DBO) calculated with stable assumptions. Pension benefits also include contributions to defined contribution plans.

5) Hydro share ownership is the number of shares held directly by the corporate management board member and any shares held by close family members and controlled entities. Hydro share ownership is as of December 31, or per the date of stepping down from the Corporate Management Board.

6) John Thuestad became member of the Corporate Management Board as of June 1, 2018. From this date, Thuestad has a retention agreement that vests progressively over a 60-month period. Thuestad earned an estimated NOK 1,427 thousand and NOK 1,354 thousand under this agreement in 2020 and 2019, respectively. These amounts are included in column Salary paid in the table above.

7) On November 20, 2020, Einar Glomnes entered into a retention agreement related to the restructuring of the Hydro Rolling business area, and that vests on the date falling 3 months after the closure of the restructuring. Glomnes earned an estimated NOK 114 thousand under this agreement in 2020. This amount is included in column Salary paid in the table above.

- 8) Egil Hogna stepped down from the Corporate Management Board and left Hydro as of November 30, 2020. Hogna was required to make payment to Hydro for non-vested LTI shares at termination of employment amounting to NOK 618 thousand. This amount is not included in the table above.
- 9) From November 1, 2019, Arvid Moss was appointed interim EVP and Head of Corporate Development, for which he received an extra remuneration of NOK 900 thousand and NOK 150 thousand in 2020 and 2019, respectively. These amounts are included in column Salary paid in the table above. Moss remains in his position as EVP and Head of Hydro Energy business area. Moss has not used his right to retire from age 62, contributing to a net negative change in pension benefits for 2020.
- 10) Effective May 8, 2019, Hilde Merete Aasheim superceded Svein Richard Brandtzæg as President and CEO. Amended terms for Aasheim's early retirement agreement in the age interval 62-65 have resulted in a net negative change in pension benefits for 2019.
- 11) Effective May 8, 2019, Svein Richard Brandtzæg resigned as President and CEO and stepped down from the Corporate Management Board. Brandtzæg retired at the end of 2019. In addition to the benefits included in the table above, Brandtzæg received vacation pay in 2020 amounting to NOK 862 thousand.
- 12) Pål Kildemo became member of the Corporate Management Board as of August 15, 2019. From May 8 until August 15, 2019, Kildemo was appointed interim EVP and Head of Hydro Aluminium Metal business area, for which he received an extra remuneration of NOK 323 thousand that is included in column Salary paid in the table above.
- 13) Einar Glomnes became member of the Corporate Management Board as of May 8, 2019.
- 14) Hilde Vestheim Nordh became member of the Corporate Management Board as of August 15, 2019. From January 8 until August 15, 2019, Nordh was appointed interim EVP and Head of People and HSE.
- 15) Kjetil Ebbesberg stepped down from the Corporate Management Board as of May 8, 2019, and left Hydro as of September 30, 2019. In addition to the benefits included in the table above, Ebbesberg received salary and other benefits during a 6 month notice period that started October 1, 2019, amounting to NOK 2,027 thousand. Ebbesberg had no work obligations or permissions in Hydro during this period. Further, from April 1, 2020, Ebbesberg received severance pay for a period of 6 months, amounting to NOK 1,731 thousand. In addition, Ebbesberg received vacation pay in 2020 amounting to NOK 139 thousand. Ebbesberg was not required to make any payments to Hydro for non-vested LTI shares at termination of employment.

In the period December 1, 2020 until January 31, 2021, Head of Precision Tubing Hydro Extrusions Erik Fossum was also assigned as acting Executive Vice President Hydro Extrusions for which he received an additional allowance of NOK 112 thousand per month.

Note 9.3 Employee remuneration

Accounting policies for employee remuneration

Share-based compensation

Hydro accounts for share-based compensation in accordance with IFRS 2 Share-based Payment. Share-based compensation expense is measured at fair value over the service period and includes social security taxes that will be paid by Hydro at the settlement date. All changes in fair value are recognized in the income statement.

Employee benefits

Payments to employees, such as wages, salaries, social security contributions, paid annual leave and bonus agreements are accrued in the period in which the associated services are rendered by the employee.

Employee share purchase plan

Hydro has established a share purchase plan for employees in Norway. The plan payout is based on whether the share price (adjusted for dividend paid) increases with at least 12 percent or not during the performance period. Employees are eligible to receive an offer to purchase shares under this plan if they were 1) employed by Norsk Hydro ASA or a more than 90 percent owned Norwegian subsidiary, and 2) employed as of December 31 through the final acceptance date of the share purchase offer. Employees are invited to purchase shares with a rebate of 50 percent for a value of NOK 15,000 (2019: NOK 12,500) or NOK 30,000 (2019: NOK 25,000), depending on shareholder return. The share purchase is financed through a non-interest bearing loan from the company with a repayment period of 12 months.

Compensation expense related to the 2019 performance measurement period was accrued and recognized over the service period of December 31, 2019 through March 31, 2020, the final acceptance date of the offer. In 2020 and 2019 the participation rates of eligible employees in the employee share purchase plan were 83 and 89 percent, respectively. Details related to the employee share purchase plan are provided in the table below.

Performance measurement period	2020	2019	2018
Total shareholder return performance target achieved	≥12%	<12%	<12%
Employee rebate offered, NOK	15,000	6,250	6,250

Share purchase plan compensation	2020	2019
Award share price, NOK	21.10	30.92
Number of shares issued, per employee	422	361
Total number of shares issued to employees	1,432,690	1,296,351
Compensation expense related to the award, NOK thousand	9,012	17,682

Employee benefit expense

The average number of employees in Hydro for 2020 and 2019 was 34,896 and 36,487, respectively. As of year-end 2020 and 2019, Hydro employed 34,240 and 36,310 people, respectively. Employees in joint operations are not included. The specification of employee benefit expenses, including employee benefits in joint operations, is given in the table below.

Amounts in NOK million	2020	2019
Salary	18,627	19,802
Social security costs	2,919	2,936
Other benefits	1,093	1,086
Pension expense (note 9.5)	1,129	1,047
Total	23,767	24,871

Note 9.4 Board of Directors and Corporate Assembly

Board of Directors' remuneration and share ownership

Total board fees and individual board member fees for 2020 and 2019, and board member share ownership as of December 31, 2020 and 2019, are presented in the tables below.

Amounts in NOK thousand	2020	2019
Fees and other remuneration - normal board activities	4,079	4,423
Fees - audit committee	591	617
Fees - compensation committee	302	302
Total fees for board services provided to Hydro during the year	4,971	5,342

Board member / observer	Board fees ¹⁾		Number of shares ²⁾	
	2020	2019	2020	2019
Dag Mejdell ³⁾	807	807	45,000	35,000
Irene Rummelhoff ⁴⁾	504	504	5,000	5,000
Marianne Wiinholt ⁵⁾	560	613	-	-
Thomas Schulz	385	477	-	-
Liselott Kilaas ⁶⁾	498	498	-	-
Peter Kukielski ⁷⁾	385	326	-	-
Rune Bjerke ⁸⁾	267	-	15,000	-
Ellen Merete Olstad ⁹⁾ 10)	136	-	4,903	-
Arve Baade ¹⁰⁾	362	362	5,130	4,708
Sten Roar Martinsen ¹⁰⁾ 11)	453	453	6,869	6,447
Finn Jebsen ¹²⁾	238	571	53,406	53,406
Roelof Ijsbrand Baan ¹³⁾	30	234	-	-
Svein Kåre Sund ¹⁰⁾ 14)	347	498	6,434	6,012
Tor Egil Skulstad ¹⁰⁾ 15)	-	-	1,226	804
Total	4,971	5,342	142,968	111,377

1) Amounts in NOK thousand.

2) Number of shares owned as of December 31, 2020 and 2019 for board members as of December 31, 2020 and 2019; otherwise it is the number of shares owned as of the date the individual stepped down from the Board of Directors. Shareholdings disclosed include shares held by close members of family and controlled entities, in addition to shares held directly by the board member.

3) Chairperson of the board and chairperson of the board compensation committee.

4) Deputy chairperson of the board and member of the board compensation committee.

5) Member of the board audit committee until June 17, 2020, and chairperson of the board audit committee as of June 17, 2020.

6) Member of the board audit committee.

7) Member of the board as of May 29, 2019.

8) Member of the board and the board audit committee as of June 17, 2020.

9) Member of the board as of September 10, 2020 and member of the board audit committee as of October 22, 2020.

10) Employee representative on the board elected by the employees in accordance with Norwegian Company Laws. As such, these individuals are also paid regular salary, remuneration in kind and pension benefits that are not included in the table above.

11) Member of the board compensation committee.

12) Member of the board and chairperson of the board audit committee until May 20, 2020.

13) Member of the board as of May 29, 2019 until February 5, 2020.

14) Member of the board and the board audit committee until September 10, 2020.

15) Observer on the board until April 30, 2020.

The remuneration to the Board of Directors consists of the payment of fees and travel compensation. Travel compensation is paid to members living outside Norway who attend meetings in person, with an amount of NOK 23,000 (2019: NOK 23,000) per meeting. Board members do not have any incentive or share-based compensation. Hydro has not provided any loans to, or made any guarantees on behalf of, any of the board members.

Fees are based on the position of the board members and board committee assignments. Annual fees for 2020 for the chairperson of the board, deputy chairperson and directors are NOK 686,000 (2019: NOK 686,000), NOK 413,000 (2019: NOK 413,000) and NOK 362,000 (2019: NOK 362,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 209,000 (2019: NOK 209,000) and NOK 120,500 (2019: NOK 120,500) annually in fees, respectively, and audit and compensation committee members receive NOK 136,000 (2019: NOK 136,000) and NOK 90,500 (2019: NOK 90,500) annually, respectively, for their participation on these committees. No fees are paid to the board observer.

Corporate Assembly

Corporate Assembly members owned 71,139 shares as of December 31, 2020. Hydro has not provided any loans to members of the Corporate Assembly as of December 31, 2020.

Note 9.5 Employee retirement plans

Accounting policies for post-employment benefits

Post-employment benefits are recognized in accordance with IAS 19 Employee Benefits. The cost of providing pension benefits under a defined benefit plan is determined separately for each plan using the projected unit credit method. Past service costs are recognized immediately in the income statement. The interest component of the periodic cost is included in Finance expense. Remeasurement gains and losses are recognized in Other comprehensive income.

Contributions to defined contribution plans are recognized in the income statement in the period in which they accrue. Multiemployer defined benefit plans where available information is insufficient to use defined benefit accounting are accounted for as if the plan were a defined contribution plan.

Significant judgement in accounting for post-employment benefits

Measurement of pension expense and obligations under defined benefit plans requires numerous assumptions and estimates that can have a significant impact on the recognized pension cost and obligation, such as discount rates, turnover rate and mortality, as well as future pension increases and salary levels.

Employee retirement plans in Hydro

Hydro provides post-employment benefits covering a substantial portion of employees. Plans and benefit levels vary between companies and countries. In recent years, there has been a shift from traditional final salary defined benefit plans to defined contribution and contribution-oriented plans. Many defined benefit plans have been closed for new entrants, and in some defined benefit plans, large groups of employees have converted to defined contribution arrangements. Still, a number of employees continues to earn benefits under defined benefit plans, but many of these plans are heavily impacted by deferred members and pensioners.

Pension expense

Amounts in NOK million	2020				2019			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Defined benefit plans	117	162	63	342	129	198	(11)	317
Defined contribution plans	196	-	330	525	196	-	278	474
Multiemployer plans	54	-	4	58	53	-	2	55
Termination benefits and other	48	14	56	118	62	(1)	56	117
Social security cost	52	-	34	86	63	-	21	84
Pension expense	466	176	487	1,129	503	197	347	1,047
Interest expense (income)	(30)	128	20	117	3	164	12	180
Remeasurement (gain) loss in other comprehensive income	71	747	198	1,015	(1,340)	1,234	233	128

Recognized defined benefit asset and liability

Amounts in NOK million	2020				2019			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Defined benefit obligation major plans	(13,348)	(11,848)	(5,869)	(31,065)	(12,689)	(10,401)	(5,176)	(28,265)
Plan assets	14,927	-	5,420	20,347	14,161	-	4,904	19,066
Reimbursement rights	306	-	-	306	301	-	-	301
Liability other plans	(56)	(143)	(748)	(947)	(54)	(131)	(661)	(845)
Social security cost	(655)	-	(90)	(745)	(602)	-	(77)	(679)
Net defined benefit asset (liability)	1,174	(11,991)	(1,287)	(12,104)	1,118	(10,531)	(1,009)	(10,423)
Recognized prepaid pension	6,474	47	543	7,064	5,997	45	635	6,676
Recognized pension liability	(5,300)	(12,038)	(1,830)	(19,167)	(4,879)	(10,576)	(1,644)	(17,099)
Net amount recognized	1,174	(11,991)	(1,287)	(12,104)	1,118	(10,531)	(1,009)	(10,423)

Other plans include some minor plans in various entities and countries. These plans may be funded or unfunded. None of these plans are considered material, neither individually nor combined.

Change in defined benefit obligation (DBO)

Amounts in NOK million	2020				2019			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Opening Balance	(12,689)	(10,401)	(5,176)	(28,265)	(12,904)	(9,240)	(5,165)	(27,310)
Current service cost	(112)	(259)	(36)	(407)	(124)	(199)	(28)	(351)
Past service cost and curtailment gain (loss)	-	96	(6)	90	-	-	-	-
Interest expense	(285)	(127)	(111)	(523)	(315)	(162)	(144)	(621)
Actuarial gain (loss) demographic assumptions	-	-	(13)	(13)	-	-	4	4
Actuarial gain (loss) economic assumptions	(971)	(954)	(718)	(2,643)	99	(1,257)	(682)	(1,840)
Experience gain (loss)	123	208	55	385	(16)	39	(41)	(19)
Benefit payments	635	326	233	1,193	609	285	252	1,146
Termination benefits	(48)	-	-	(48)	(36)	-	-	(36)
Settlements	-	-	-	-	-	-	789	789
Foreign currency translation	-	(737)	(97)	(833)	-	134	(161)	(27)
Closing Balance	(13,348)	(11,848)	(5,869)	(31,065)	(12,689)	(10,401)	(5,176)	(28,265)

Change in pension plan assets

Amounts in NOK million	2020				2019			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Opening Balance	14,161	-	4,904	19,066	12,899	-	4,950	17,849
Interest income	322	-	115	437	319	-	149	468
Return on plan assets above (below) interest income	809	-	559	1,368	1,244	-	552	1,796
Company contributions	70	-	3	73	135	-	7	142
Benefit payments	(435)	-	(198)	(633)	(435)	-	(228)	(663)
Settlements	-	-	-	-	-	-	(727)	(727)
Foreign currency translation	-	-	36	36	-	-	201	201
Closing Balance	14,927	-	5,420	20,347	14,161	-	4,904	19,066

Analysis of the defined benefit obligation (DBO)

Amounts in NOK million	2020				2019			
	Norway	Germany	Other	Total	Norway	Germany	Other	Total
Active members	(3,131)	(5,569)	(776)	(9,476)	(3,250)	(5,389)	(697)	(9,336)
Deferred members	(949)	(1,564)	(2,325)	(4,838)	(814)	(870)	(2,195)	(3,879)
Pensioners	(9,268)	(4,714)	(2,768)	(16,751)	(8,625)	(4,142)	(2,283)	(15,051)
Defined benefit obligation	(13,348)	(11,848)	(5,869)	(31,065)	(12,689)	(10,401)	(5,176)	(28,265)
Weighted average duration (years)	12.8	20.0			12.6	19.5		

Contributions to pension plans, benefit payments from unfunded pension plans, and social security tax imposed on such contributions and payments amounted to a cash outflow of about NOK 1,400 million for 2020 and about NOK 1,250 million for 2019. Hydro's cash impact is expected to be at the same level in the coming year.

Hydro's main pension plans are offered in Norway and Germany. The plans are described below:

Norway

Hydro has closed the main defined benefit plans for new members, and the majority of employees are now covered by defined contribution plans. The defined benefit plans are both funded and unfunded. The main funded plan is managed by Norsk Hydros Pensjonskasse, a separate, regulated legal entity. Hydro's pension plans complement the public pension schemes in Norway.

Hydro participates in a tariff-based pension plan that entitles the majority of its Norwegian employees life-long supplementary benefits. The benefits are financed through a pooled arrangement by private sector employers (avtalefestet pensjon, AFP) where also the Norwegian state contributes. The plan is a defined benefit plan with limited funding and where plan assets are not segregated. The information required to calculate the share of the plan and account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The employer contributions are included in Multiemployer plans.

Significant actuarial assumptions for the main Norwegian defined benefit plans include:

Assumptions	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
	2020	2020	2019	2019
Discount rate	1.7%	2.3%	2.30%	2.5%
Expected salary increase	2.0%	2.0%	2.0%	2.5%
Expected pension increase	1.25%	1.25%	1.25%	1.5%
Mortality basis	K2013	K2013	K2013	K2013

The discount rate is based on the yield on covered bonds (debt securities backed by cash flows from mortgages) issued in Norway. The market for covered bonds has developed in size and liquidity, and we deem this market to be sufficiently deep to serve as reference for the discount rate for our post-employment benefit plans in Norway.

The sensitivities shown in the table below have been calculated for the main Norwegian plans illustrating the effects of changing one assumption while keeping the other assumptions unchanged. Possible correlation between assumptions is not reflected in the calculations.

Sensitivities decrease (increase) benefit obligation year end

Amounts in NOK million, except percent

Discount rate increase 0.5% point	6.3%	844
Salary increase 0.5% point	(0.5%)	(69)
Pension increase 0.5% point	(6.0%)	(804)
One year longer life all members	(4.5%)	(595)

The plan assets in the funded plans provided through Norsk Hydros Pensjonskasse were invested as follows at the end of 2020 and 2019:

Amounts in NOK million, except percent	2020	2020	2019	2019
Cash and cash equivalents	4.8%	700	4.7%	654
Equity instruments Norway	20.8%	3,057	21.9%	3,052
Equity instruments other countries	22.3%	3,282	20.6%	2,865
Debt instruments	27.6%	4,051	29.3%	4,073
Investment funds	8.2%	1,198	6.1%	844
Real estate	16.4%	2,410	17.5%	2,432
Total	100.0%	14,698	100.0%	13,920

Real estate consists of office buildings in the Oslo area. A share of the buildings are leased and occupied by Hydro. Investment funds are primarily private equity funds investing in unlisted companies across various industries in Europe, the US and Asia, and infrastructure funds investing in the UK, continental Europe and the US. Equity instruments are held through liquid funds invested in listed companies in Norway and globally. Debt instruments are mainly bond issues with maturities up to 10 years and investment grade rating.

Germany

In Germany, the majority of plan members are covered by defined benefit plans that offer benefits based on final salary level and the number of years in service. The main plans are unfunded. Hydro's main plans are closed for new entrants, and all new employees are now offered benefits under defined contribution-oriented plans. These plans are unfunded and treated as defined benefit plans for financial reporting purposes.

Significant actuarial assumptions for the main German plans include:

Weighted-average assumptions	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
	2020	2020	2019	2019
Discount rate	0.6%	1.1%	1.1%	1.8%
Expected salary increase	2.5%	2.4%	2.4%	2.4%
Expected pension increase	1.5%	1.5%	1.5%	1.5%
Mortality basis	RT 2018 G	RT 2018 G	RT 2018 G	RT 2018 G

The sensitivities shown in the table below have been calculated for the main German plans illustrating the effects of changing one assumption while keeping the other assumptions unchanged. Possible correlation between assumptions is not reflected in the calculations.

Sensitivities decrease (increase) benefit obligation year end

Amounts in NOK million, except percent

Discount rate increase 0.5% point	9.2%	1,088
Salary increase 0.5% point	(2.1%)	(255)
Pension increase 0.5% point	(7.6%)	(896)
One year longer life all members	(5.8%)	(689)

Other

Other includes Hydro's post-employment benefits outside Norway and Germany. Most employees affected are covered by defined contribution plans. Defined benefit plans relate largely to the UK and the US, where the majority of the benefit obligation is financed and administered through independent pension trusts. Pension expense for 2019 includes a gain of NOK 62 million resulting from settlements of certain benefit obligations in the US. These settlements reduced defined benefit obligations and plan assets with NOK 789 million and NOK 727 million, respectively.

Note 9.6 Other related party information

As of December 31, 2020, The Norwegian state had ownership interests of 34.6 percent of total shares outstanding (2019: 34.6 percent) in Hydro through the Ministry of Trade, Industry and Fisheries. In addition, Folketrygdfondet, which manages the Government Pension Fund – Norway⁷ held 7.8 percent (2019: 5.4 percent). There are no preferential voting rights associated with the shares held by the Norwegian State. Hydro has concluded that the Norwegian state's shareholding represents a significant interest in Hydro, and that the State thus is a related party.

The Norwegian state has ownership interests in a substantial number of companies. The ownership interests in 74 companies are managed by the ministries and covered by public information from the Ministry of Trade, Industry and Fisheries⁸. We have not assessed which of these companies that are controlled by the State. Hydro has business transactions with a number of these companies, including purchase of power from Statkraft SF and bank services from DNB ASA. Generally, transactions are agreed independently of the possible control exercised by the State.

A significant share of Hydro's defined benefit post-employment plans is managed by the independent pension trust, Norsk Hydros Pensjonskasse. Employees managing and operating the pension trust are employees of Norsk Hydro ASA. Their salaries and other benefits are reimbursed by the pension trust on a monthly basis, in total NOK 10 million for 2020 and NOK 9 million for 2019. Further, the pension trust is located in Hydro's head office. Office costs, including heating and administrative services, are charged with a total of NOK 1 million for 2020 and 2019.

The pension trust owns some of the office buildings rented by Hydro. The current rental arrangement was entered into in 2015 representing a partial continuation of a rental agreement from 2006, and priced based on market price benchmarks at the time of the agreement in 2006. Hydro has paid a rental of NOK 67 million and NOK 71 million for 2020 and 2019, respectively. The current term of the rental contract expires in February 2022 after exercise of a one-year extension option. The contract includes an extension option for an additional five-year period. In addition, compensation related to cancellation of a previous contract was paid with NOK 87 million and NOK 86 million for 2020 and 2019, respectively. The compensation arrangement expires in 2021. The remaining provision for the compensation arrangement as of December 31, 2020 was NOK 13 million. As of the end of 2020, Hydro's outstanding payables to Norsk Hydros Pensjonskasse was NOK 16 million, receivables amounted to NOK 1 million, all settled during January and February 2021.

The members of Hydro's board of directors during 2020 and 2019 are stated in note 9.4 *Board of Directors and Corporate Assembly*, where their remuneration and share ownership is outlined. Some of the board members or their close members of family serve as board members or executive directors in other companies. In addition, some members of Hydro's corporate management board or their close members of family serve as board members in other companies. Hydro has transactions with some of those companies; however, have not identified any transactions where the relationship is known to have influenced the transaction. Some close family members of members of Hydro's management are employed in non-executive positions in Hydro.

Hydro's significant joint arrangements and associates; and transactions with those entities are described in note 3.1 *Investments in joint arrangements and associates*. Hydro's relationship with partners in joint arrangements are generally limited to a combined effort within a limited area. Hydro considers the joint venture partners as competitors in other business transactions, and do not see these relationships as related party relationships.

Transactions with related parties are at arm's length principles.

⁷ Shareholding is based on information from the Norwegian Central Securities Depository (VPS) as of December 31, 2020 and 2019. Due to lending of shares, an investor's holdings registered in its VPS account may vary.

⁸ According to information on the Government web site www.regjeringen.no, state ownership.

Section 10 – Other information

Note 10.1 Income taxes

Accounting policies for income taxes, current and deferred

Taxes payable is based on taxable profit for the year, which excludes items of income or expense that are taxable or deductible in other years. Taxable profit also excludes items that are never taxable or deductible. Hydro's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred income tax expense is calculated using the liability method in accordance with IAS 12 Income Taxes. Deferred tax assets and liabilities are classified as non-current in the balance sheet and are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. For items recognized as an asset and a liability at inception, such as an asset retirement obligation or a lease, temporary differences related to the asset and liability are considered in combination, and deferred tax assets and liabilities are recognized on changes to the temporary differences through the life of the items. Temporary differences related to intercompany profits are deferred using the buyer's tax rate. Deferred tax assets are reviewed for recoverability every balance sheet date, and the amount probable of recovery is recognized.

Deferred income tax expense represents the change in deferred tax asset and liability balances during the year, except for the deferred tax related to items recognized in Other comprehensive income or resulting from a business combination or disposal. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective or are substantively enacted. Uncertain tax positions are recognized in the financial statements based on management's expectations.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are not provided on undistributed earnings of subsidiaries when the timing of the reversal of this temporary difference is controlled by Hydro and is not expected to happen in the foreseeable future. This is applicable for the majority of Hydro's subsidiaries.

Significant judgment in accounting for income taxes

Hydro is involved in a significant number of tax cases related to various types of taxes. Hydro's widespread business operations expose us to several tax regimes and their interaction. We see that tax authorities challenge transfer prices to an increasing degree. Although Hydro currently has no significant transfer price disputes with tax authorities, the long value chain with a large number of internal transactions and business operations covering multiple tax jurisdictions expose us to such disputes, both related to prior and future transactions.

Valuation of deferred tax assets is dependent on management's assessment of future recoverability of the deferred benefit. Expected recoverability may result from expected taxable income in the future, planned transactions or planned tax optimizing measures, all of which may be uncertain. Economic conditions may change and lead to a different conclusion regarding recoverability. Tax authorities in different jurisdictions may challenge Hydro's calculation of taxes payable from prior periods. Such processes may lead to changes to prior periods' taxable income, resulting in changes to income tax expense in the period of change, as well as interest and fines.

Amounts in NOK million	2020	2019
<i>Income (loss) before tax</i>		
Norway	4,938	(1,471)
Other countries	(2,329)	(85)
Total	2,609	(1,556)
<i>Current taxes</i>		
Norway	758	665
Other countries	1,347	848
Current income tax expense	2,105	1,512
<i>Deferred taxes</i>		
Norway	(119)	(57)
Other countries	(1,037)	(642)
Deferred tax expense (benefit)	(1,156)	(699)
Total income tax expense (benefit)	950	813

Components of deferred taxes

Amounts in NOK million	2020	2019
Origination and reversal of temporary differences	(1,617)	(770)
Change in deferred tax asset from tax loss carryforwards	(388)	(430)
Effect of tax rate changes	(31)	(41)
Net change in unrecognized deferred tax assets	846	863
Tax (expense) benefit allocated to Other comprehensive income	34	(320)
Deferred tax expense (benefit)	(1,156)	(699)

Reconciliation of tax expense to Norwegian nominal statutory tax rate

Amounts in NOK million	2020	2019
Expected income taxes at statutory tax rate ¹⁾	574	(342)
Hydro-electric power surtax ²⁾	713	749
Equity accounted investments	(49)	(57)
Foreign tax rate differences	23	(91)
Tax free income ³⁾	(1,182)	(33)
Deferred tax asset not recognized and expired tax loss carryforwards ⁴⁾	509	409
Withholding tax and capital taxes	52	45
Other tax benefits and deductions with no tax benefits, net ⁵⁾	310	134
Income tax expense (benefit)	950	813

1) Norwegian nominal statutory tax rate is 22 percent.

2) A surtax of 37 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation.

3) Tax free income in 2020 includes tax effect on gain related to establishment of Lyse Kraft DA, amounting to NOK 1,168 million.

4) Deferred tax asset not recognized and expired tax loss carryforwards include write off of deferred tax asset in Germany amounting to NOK 473 million in 2020 and NOK 239 million in 2019.

5) The tax effect of impairment of goodwill not deductible for tax purposes, amounts to NOK 239 million in 2020 and 0 in 2019. The amounts are included in Other tax benefits and deductions with no tax benefits, net.

Tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities

Amounts in NOK million	Assets		Liabilities	
	2020	2020	2019	2019
Inventory valuation	389	(352)	411	(441)
Accrued expenses	1,649	(343)	1,761	(344)
Property, plant and equipment	10,237	(15,044)	10,174	(16,369)
Intangible assets	1,494	(2,184)	1,550	(2,319)
Pensions	3,757	(1,521)	3,233	(1,412)
Derivatives	843	(67)	707	(106)
Other	682	(1,528)	955	(1,115)
Tax loss carryforwards	5,439		5,502	
Subtotal	24,490	(21,040)	24,291	(22,105)
Of which not recognized as tax asset	(4,301)		(3,320)	
Gross deferred tax assets (liabilities)	20,188	(21,040)	20,971	(22,105)
Net deferred tax assets (liabilities)		(851)		(1,134)
Reconciliation to balance sheets		2020		2019
Deferred tax assets		2,207		1,998
Deferred tax liabilities		3,059		3,132
Net deferred tax assets (liabilities)		(851)		(1,134)

Recognition of net deferred tax asset is based on expected taxable income in the future.

At the end of 2020, Hydro had tax loss carryforwards of NOK 18,951 million, mainly in Brazil, Spain, Australia, Italy and Germany. Of the total, NOK 15,903 million is without expiration. The majority of the tax loss carryforwards with an expiry date expire after 2025. Tax assets are recognized for about 50 percent of the tax losses.

Note 10.2 Research and development

Accounting principles for research and development

Research expenditures are expensed as incurred. Development costs are capitalized as intangible assets at cost in accordance with IAS 38 Intangible Assets when the recognition criteria are met, including probable future economic benefit and that the cost can be measured reliably.

To the extent development costs are directly contributing to the construction of a fixed asset, the development costs are capitalized as part of the asset provided all criteria for capitalizing the cost are met. Costs incurred during the preliminary project stage, as well as maintenance costs, are expensed as incurred.

Research and development in 2020 and 2019

Total expensed research and development cost was NOK 633 million in 2020 and NOK 625 million in 2019. The objective of research and development activities is to facilitate more efficient production of aluminium including further improvement of the operational and environmental performance of Hydro's electrolysis technology. A significant share of research and development funding is also used for further developing the production processes and products within casting and alloy technology as well as extruded products, rolled products and alumina.

The capitalized development costs were NOK 10 million in 2020 and NOK 19 million in 2019.

Note 10.3 Cash flow information

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	2020	2019
Income taxes paid	1,588	2,981
Interest paid	890	829
Interest received	208	295
Dividends received	25	-

In 2020 and 2019, non-cash investing activities for asset retirement costs amounted to NOK 402 million and NOK 580 million, respectively.

Note 10.4 Auditor's remuneration

KPMG is the Group auditor of Norsk Hydro ASA. The following table shows fees to the appointed auditors for 2020 and 2019. For all categories the reported fee is the recognized expense for the year.

Amounts in NOK million	Audit ¹⁾	Audit related services ²⁾	Other services ³⁾	Tax related services	Total
2020					
Norway	10	4	2	-	15
Outside Norway	36	1	2	4	43
Total	46	4	4	4	58
2019					
Norway	10	1	2	-	14
Outside Norway	39	1	1	5	47
Total	49	3	3	5	60

1) Audit fees of NOK 46 million (2019: NOK 49 million) reflect audit fees from KPMG in the amount of NOK 43 million (2019: NOK 45 million)

2) Audit related fees of NOK 4 million in 2020 were fees to KPMG

3) Other services mainly include KPMG's review of viability performance

Note 10.5 Changes in accounting principles and new pronouncements

Changes in accounting principles

Hydro has not implemented any new accounting standards or otherwise made any significant changes to accounting policies during 2020.

New pronouncements

None of the issued, not yet effective, accounting standards or amendments to such standards are expected to have significant effects for Hydro's financial reporting. Further, none of the recently issued IFRS Interpretations Committee agenda decisions are expected to significantly change Hydro's accounting policies or practices.

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2020	2019
Gain (loss) on sale of subsidiaries, net		11	-
Other income	14	789	227
Total operating income		799	227
Employee benefit expense	2, 3	762	739
Depreciation	4	80	71
Other expenses	14	626	98
Total operating expenses		1,468	908
Operating loss		(669)	(681)
Financial income, net	5	118	5,369
Income before tax		(551)	4,688
Income taxes	6	83	(19)
Net income		(467)	4,668
<i>Appropriation of net income and equity transfers</i>			
Dividend proposed		2,561	2,560
Retained earnings		(3,029)	2,109
Total appropriation		(467)	4,668

Statements of comprehensive income

Amounts in NOK million	Notes	2020	2019
Net income		(467)	4,668
<i>Other comprehensive income</i>			
<i>Items that will not be reclassified to income statement</i>			
Remeasurement postemployment benefits, net of tax		112	478
Other comprehensive income		112	478
Total comprehensive income	13	(356)	5,146

Balance sheets

Amounts in NOK million, December 31	Notes	2020	2019
Assets			
Property, plant and equipment and intangible assets	4	583	565
Shares in subsidiaries	7	57,052	57,052
Receivables from subsidiaries	8, 10	14,740	15,813
Prepaid pension, investments and other non-current assets	2, 9	5,897	5,527
Total financial non-current assets		77,689	78,392
Receivables from subsidiaries		6,800	6,305
Prepaid expenses and other current assets	10	72	253
Short-term investments		2,500	-
Cash and cash equivalents		13,779	8,355
Total current assets		23,151	14,914
Total assets		101,422	93,870
Equity and liabilities			
Paid-in capital			
Share capital	13	2,272	2,272
Treasury shares	13	(22)	(23)
Paid-in premium	13	28,987	28,987
Other paid-in capital	13	118	136
Retained earnings			
Retained earnings	13	28,290	31,209
Treasury shares	13	(640)	(688)
Equity	13	59,005	61,893
Long-term provisions	2, 9	3,550	3,478
Long-term debt	12	19,630	12,027
Payables to subsidiaries		6	-
Other long-term liabilities		19,636	12,027
Bank loans and other interest-bearing short-term debt		47	1,538
Dividends payable		2,561	2,560
Payables to subsidiaries		15,706	11,843
Other current liabilities		917	531
Total current liabilities		19,230	16,472
Total equity and liabilities		101,422	93,870

Statements of cash flows

Amounts in NOK million	2020	2019
Net income	(467)	4,668
Depreciation	80	71
Net foreign exchange loss	542	42
Changes in receivables and payables, and other items	(39)	586
Net cash provided by operating activities	116	5,367
Purchases of short-term investments	(6,480)	-
Proceeds from sales of short-term investments	3,985	-
Net purchases of other investments	(132)	(28)
Net cash used in investing activities	(2,627)	(28)
Dividends paid	(2,561)	(2,558)
Proceeds from shares issued	23	24
Other financing activities, net	10,403	2,463
Net cash provided by (used in) financing activities	7,865	(71)
Foreign currency effects on cash	69	103
Net increase in cash and cash equivalents	5,424	5,371
Cash and cash equivalents at beginning of year	8,355	2,984
Cash and cash equivalents at end of year	13,779	8,355

Notes to the financial statements Norsk Hydro ASA

Note 1 Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with the Norwegian accounting act and regulation on simplified application of international accounting standards (forskrift om forenklet anvendelse av internasjonale regnskapsstandarder – simplified IFRS).

Financial statement preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates. Interest rates used for calculating net present values are rounded to the nearest 10 basis points for post employment benefits, to the nearest 25 basis points for other non-financial assets and liabilities. As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

Shares in subsidiaries, associates and joint ventures

Shares in subsidiaries, associates and joint ventures are presented according to the cost method. Group relief received is included in dividends from subsidiaries. Dividend from subsidiaries is recognized in the year for which it is proposed by the subsidiary to the extent Norsk Hydro ASA can control the decision of the subsidiary through its share holdings. Shares in subsidiaries, associates and joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the investment. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

Employee retirement plans

Norsk Hydro ASA accounts for employee retirement plans are measured in accordance with IAS 19, see note 9.5 Employee retirement plans to the consolidated financial statements for additional information.

Foreign currency

The functional currency of the company is the Norwegian krone, NOK. Realized and unrealized currency gains or losses on transactions denominated in other currencies than NOK, as well as currency gains or losses on assets and liabilities denominated in a currency other than NOK, are included in Financial income, net.

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Short-term investments

Short-term investments include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and current listed equity and debt securities held for trading and valued at fair value. The resulting unrealized holding gains and losses are included in Financial income, net. Investment income is recognized when earned.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation and impairment losses. According to IAS 36 Impairment of Assets, such assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment of long-lived assets is recognized when the recoverable amount determined as the higher of fair value less cost to sell or value in use of the asset or group of assets is less than the carrying value. The amount of the impairment is the difference between the carrying value and the recoverable amount. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

Leased assets

Leased assets are recognized as right-of-use assets in accordance with IFRS 16 Leases, with contractually fixed future payments recognized as lease liabilities. When measuring leases, fixed lease payments for extension periods reasonably certain to be used are included. As a practical expedient, non-lease components are not separated from lease contracts. Leases of assets of a low value, mainly such items as PCs, office equipment and similar, are excluded from lease accounting. See note 2.6 Leases to the consolidated financial statements for additional information.

Intangible assets

Intangible assets acquired individually or as a group are recognized at fair value when acquired, in accordance with IAS 38 Intangible Assets. Intangible assets are amortized on a straight-line basis over their useful life and tested for impairment whenever indications of impairment are present.

Norsk Hydro ASA accounts for CO₂ emission allowances at cost as an intangible asset. The emission rights are not amortized, impairment testing is done on an annual basis. Sale of CO₂ emission rights is recognized at the time of sale at the transaction price.

Derivative instruments

Forward contracts and options for purchase or sale of currency or commodities that are considered readily convertible to cash are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in Financial income, net.

Norsk Hydro ASA has decided to utilize the option in the regulation to exclude embedded derivatives and contracts deemed to be derivatives based on the underlying product being readily convertible to cash and not for own use when the contract is with a subsidiary.

Provisions

Provisions are recognized when Norsk Hydro ASA has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that Norsk Hydro ASA will be required to settle the obligation, and a reliable estimate can be made of the amount, taking into account the risks and uncertainties. The provision is measured at the present value of the cash flows estimated to settle the obligation. Uncertain outcomes are measured as the expected value of reasonably possible outcomes.

Contingencies and guarantees

Norsk Hydro ASA recognizes a liability for the fair value of obligations it has undertaken in issuing guarantees. Contingencies are recognized in the financial statements when probable of occurrence and reliably estimable.

Share-based compensation

Norsk Hydro ASA accounts for share-based payment in accordance with IFRS 2 Share-Based Payment. See note 9.3 Employee remuneration to the consolidated financial statements for additional information.

Risk management

For information about risk management in Norsk Hydro ASA see note 8.1 Financial and commercial risk management to the consolidated financial statements.

Income taxes

Deferred income tax expense is calculated in accordance with IAS 12 Income Taxes. Under IAS 12, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. Deferred income tax related to remeasurements of pension obligations are recognized through Other comprehensive income. The tax effect of equity transactions, excluded transfers to owners, is recognized as a part of the equity transaction and do not affect the income tax expense. Other changes in deferred income tax asset and liability balances during the year represent the deferred income tax expense. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates are enacted.

Note 2 Employee retirement plans

Norsk Hydro ASA has closed the main defined benefit plans for new members, and the majority of employees are now covered by a defined contribution plan that is based on salaries up to a maximum level subject to tax deduction. For additional salaries, employees earn retirement benefits in an unfunded contribution based plan. The remaining employees are covered by defined benefit plans that offer benefits based on final salary level and the number of years in service, and include benefits for dependents. The plan providing benefits based on salaries up to a maximum level is funded; all vested benefits are required by law to be funded for such plans. Benefits based on salaries above this level are covered by unfunded plans. The main funded plan is managed by Norsk Hydros Pensjonskasse, an independent pension trust. Hydro's pension plans supplement the public pension schemes in Norway. The plans comply with legal requirements for pension plans in Norway. Plans providing benefits for salary levels above the tax deductible level have been closed for new members from January 1, 2017.

Norsk Hydro ASA participates in a pension plan that entitles the majority of its employees life-long benefits in addition to other pension benefits. The benefits are financed through a pooled arrangement by private sector employers (avtalefestet pensjon, AFP) where also the Norwegian state contributes. The plan is a defined benefit plan with limited funding and where plan assets are not segregated. The information required to calculate the share of the plan and account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The employer contributions are included in Multiemployer plans.

Pension cost

Amounts in NOK million	2020	2019
Defined benefit plans	35	36
Defined contribution plans	34	24
Multiemployer plans	6	4
Termination benefits and other	-	1
Social security cost	11	11
Pension expense	86	76
Interest expense (income)	(51)	(36)
Remeasurement (gain) loss in other comprehensive income	(143)	(613)

Recognized defined benefit assets and liability

Amounts in NOK million	2020	2019
Defined benefit obligation major plans	(5,465)	(5,230)
Plan assets	7,919	7,373
Reimbursement rights	306	301
Liability other plans	(3)	(3)
Social security cost	(361)	(336)
Net defined benefit asset	2,396	2,105
Recognized prepaid pension	5,319	4,826
Recognized pension liability	(2,923)	(2,721)
Net amount recognized	2,396	2,105

Change in defined benefit obligation (DBO)

Amounts in NOK million	2020	2019
Opening Balance	(5,230)	(5,306)
Current service cost	(34)	(35)
Interest expense	(117)	(129)
Actuarial gain (loss) economic assumptions	(374)	33
Experience gain (loss)	(21)	(94)
Benefit payments	312	302
Terminations benefits	-	(1)
Closing Balance	(5,465)	(5,230)

Change in pension plan assets

Amounts in NOK million	2020	2019
Opening Balance	7,373	6,699
Interest income	168	166
Return on plan assets above (below) interest income	548	676
Contributions to plans	17	25
Benefit payments	(188)	(193)
Closing Balance	7,919	7,373

Analysis of the defined benefit obligation (DBO)

Amounts in NOK million	2020	2019
Active members	(1,033)	(1,129)
Deferred members	(543)	(476)
Pensioners	(3,889)	(3,625)
Defined benefit obligation	(5,465)	(5,230)

Assumptions	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
	2020	2020	2019	2019
Discount rate	1.70%	2.30%	2.30%	2.50%
Expected salary increase	2.00%	2.00%	2.00%	2.50%
Expected pension increase	1.25%	1.25%	1.25%	1.50%
Mortality basis	K2013	K2013	K2013	K2013

See note 9.5 *Employee retirement plans* in notes to the consolidated financial statements for information about sensitivities.

Note 3 Management remuneration, employee costs and auditor fees

See note 9.2 Management remuneration in the notes to the consolidated financial statements for information and details related to the Corporate Management Board remuneration. Costs for some corporate management board members employed by subsidiaries are charged to Norsk Hydro ASA for services rendered as members of the Corporate Management Board.

See note 9.4 Board of Directors and Corporate Assembly in the notes to the consolidated financial statements for information and details related to the Board of Directors' remuneration.

See note 9.3 Employee remuneration in the notes to the consolidated financial statements for information on the employee share purchase plan.

Partners and employees of Hydro's appointed auditors, KPMG, own no shares in Norsk Hydro ASA or any of its subsidiaries. Audit fees were NOK 5 million and NOK 6 million in 2020 and 2019, respectively. Fees for audit related services were NOK 3 million in 2020. Fees for other services were NOK 2 million in both 2020 and 2019.

The average number of employees in Norsk Hydro ASA was 394 in 2020 as compared to 303 in 2019. As of year-end 2020 and 2019, Norsk Hydro ASA employed 394 and 319 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of December 31, 2020 were NOK 7 million, consisting of unsecured loans related to the employee share purchase plan.

Payroll related expenses are presented in the table below.

Amounts in NOK million	2020	2019
Employee benefit expense:		
Salaries	598	593
Social security costs	78	65
Other benefits	1	5
Pension expense (note 2)	86	76
Total	762	739

Note 4 Property, plant and equipment and intangible asset

Leases expensed in the period amounts to NOK 23 million and refers to leases of short term, low value or leases with variable payments.

Amounts in NOK million	Property, plant and equipment	Intangible assets	Total
Cost December 31, 2019	779	72	851
Additions at cost	29	100	129
Disposals at cost	(27)	(14)	(41)
Accumulated depreciation and impairment December 31, 2020	(298)	(58)	(356)
Carrying value December 31, 2020	483	100	583
Depreciation and impairment in 2020	(60)	(20)	(80)

Intangible assets mainly consist of software.

Note 5 Finance income and expense

Amounts in NOK million	2020	2019
Dividends from subsidiaries	551	5,158
Interest from group companies	433	549
Other interest income	84	87
Interest paid to group companies	(33)	(136)
Other interest expense	(441)	(290)
Net foreign exchange gain (loss)	(542)	(42)
Other, net	67	43
Financial income (expense), net	118	5,369

Note 6 Income taxes

The tax effect of temporary differences resulting in deferred tax assets (liabilities) are:

Amounts in NOK million	Temporary differences	
	2020	2019
	Tax effect	
Short-term items	22	10
Long-term receivables from subsidiaries	-	(143)
Pensions ¹⁾	(527)	(463)
Long-term debt	57	132
Other long-term items	(45)	(65)
Tax loss carryforwards	52	-
Deferred tax assets (liabilities)	(441)	(529)

1) Includes NOK (31) million and NOK (135) million of tax benefit (expense) allocated to equity in 2020 and 2019 respectively.

Taxable temporary differences and deductible temporary differences, which reverse or may reverse in the same period, are netted.

Reconciliation of tax expense

Amounts in NOK million	2020	2019
Income (loss) before taxes	(551)	4,688
Expected income taxes at statutory tax rate	(121)	1,031
Dividend exclusion	-	(1,034)
Permanent differences and other, net	38	22
Income tax expense (benefit)	(83)	19
Components of income taxes		
Current income taxes	36	19
Change in deferred taxes	(119)	-
Income tax expense (benefit)	(83)	19

See note 10.1 Income taxes in the consolidated financial statements for further information.

Taxes payable were NOK 55 million per December 31, 2020 and NOK 46 million per December 31, 2019.

Note 7 Shares in subsidiaries

The following shares in subsidiaries are directly owned by Norsk Hydro ASA.

Company name	Country	Location	Percentage of shares owned by Norsk Hydro ASA	Book value (NOK million)
Hydro Aluminium AS	Norway	Oslo	100.00	51,293
Hydro Energi AS	Norway	Oslo	100.00	5,643
Hydro Aluminium Deutschland GmbH ¹⁾	Germany	Grevenbroich	25.04	92
Industriforsikring AS	Norway	Oslo	100.00	20
Hydro Kapitalforvaltning AS	Norway	Oslo	100.00	4
Total				57,052

1) The company is owned 74.96 percent by Hydro Aluminium AS, and 25.04 percent by Norsk Hydro ASA.

Percentage of shares owned equals percentage of voting shares owned. Several of the above-mentioned companies also own shares in other companies.

In addition to the directly owned subsidiaries listed above, Norsk Hydro ASA has the following subsidiaries with significant operational activities. Sales offices, companies mainly serving as holding companies, and dormant companies, as well as companies holding smaller operational activities are not included in the list below. A full list of subsidiaries is available in Hydro's country by country reporting and at www.hydro.com. The companies are listed by the business area in which the majority of their activities are managed.

Company name	Country	Ownership
Hydro Bauxite & Alumina		
ALUNORTE - Alumina do Norte do Brasil S.A.	Brazil	92.13%
Mineração Paragominas SA	Brazil	100.00%
Hydro Rolling		
Hydro Aluminium Rolled Products GmbH	Germany	100.00%
Hydro Aluminium Rolled Products AS	Norway	100.00%
Hydro Aluminium Metal		
Hydro Aluminium Australia Pty Limited	Australia	100.00%
ALBRAS - Alumínio Brasileiro SA	Brazil	51.00%
Sør-Norge Aluminium AS	Norway	100.00%
Slovalco a.s.	Slovakia	55.30%
Hydro Metal Markets		
Extrusion Services S.a.r.l	France	100.00%
Hydro Aluminium Gießerei Rackwitz GmbH	Germany	100.00%
Hydro Aluminium Clervaux S.A.	Luxembourg	100.00%
Hydro Aluminium Iberia S.A.U	Spain	100.00%
Hydro Aluminium Deeside Ltd.	United Kingdom	100.00%
Hydro Aluminium Metals USA, LLC	United States	100.00%
Hydro Extrusions		
Hydro Extrusion Nenzing GmbH	Austria	100.00%
Hydro Building Systems Belgium NV	Belgium	100.00%
Hydro Extrusion Lichtervelde NV	Belgium	100.00%
Hydro Extrusion Raeren SA	Belgium	100.00%
Hydro Precision Tubing Lichtervelde NV	Belgium	100.00%
Hydro Extrusion Brasil S.A.	Brazil	100.00%
Hydro Extrusion Canada Inc.	Canada	100.00%
Hydro Precision Tubing (Suzhou) Co. Ltd.	China	100.00%
Hydro Extrusion Denmark A/S	Denmark	100.00%
Hydro Precision Tubing Tønder A/S	Denmark	100.00%
Hydro Building Systems France Sarl	France	100.00%
Hydro Extrusion Albi SAS	France	100.00%
Hydro Extrusion Lucé/Chateauroux SAS	France	100.00%
Hydro Extrusion Puget SAS	France	100.00%
Hydro Building Systems Germany GmbH	Germany	100.00%
Hydro Extrusion Deutschland GmbH	Germany	100.00%
Hydro Extrusion Offenburg GmbH	Germany	100.00%
Hydro Extrusion Hungary Kft	Hungary	100.00%
Hydro Building Systems Italy S.P.A.	Italy	100.00%
Hydro Extrusion Italy S.r.l.	Italy	100.00%
Hydro Building Systems Atessa s.r.l.	Italy	100.00%
Hydro Extrusion Drunen B.V.	Netherlands	100.00%
Hydro Extrusion Hoogezand B.V.	Netherlands	100.00%
Hydro Extrusion Poland Sp. z.o.o	Poland	100.00%
Hydro Extrusion Slovakia a.s.	Slovakia	100.00%
Hydro Building Systems Spain S.L.U.	Spain	100.00%
Hydro Extrusion Spain S.A.U.	Spain	100.00%
Hydro Extrusion Sweden AB	Sweden	100.00%
Hydro Building Systems UK Ltd.	United Kingdom	100.00%
Hydro Aluminium UK Ltd.	United Kingdom	100.00%
Hydro Extrusion Portland Inc	United States	100.00%
Hydro Extrusion USA LLC	United States	100.00%
Hydro Precision Tubing USA LLC	United States	100.00%

Note 8 Related party information

Norsk Hydro ASA operates the cash pooling arrangements in Hydro. Further, Norsk Hydro ASA extends loans to subsidiaries, associates and jointly controlled entities at terms and conditions reflecting prevailing market conditions for corresponding services, allowing for a margin to cover administration and risk. See note 5 *Financial income and expense* for information on interest paid to and received from group companies.

Norsk Hydro ASA allocates costs for corporate staff services and shared services to subsidiaries. The total amount allocated was NOK 161 million in 2020 and NOK 138 million in 2019. Receivables related to such costs amounted to NOK 92 million and NOK 107 million per December 31, 2020 and 2019, respectively.

For information on transactions with employees and management, see Note 3 *Management remuneration, employee costs and auditor fees* and note 9.2 *Management remuneration* in the notes to the consolidated financial statements. For information on transactions with Board of Directors and Corporate Assembly see note 9.4 *Board of Directors and Corporate Assembly* in the notes to the consolidated financial statements. See note 9.6 *Other related party information* in the notes to the consolidated financial statements for identification of related parties and primary relationships with those parties. See note 11 *Guarantees* for information on guarantees provided on behalf of subsidiaries and jointly controlled entities.

Note 9 Specification of balance sheet items

Amounts in NOK million	2020	2019
Securities	535	535
Prepaid pension	5,319	4,826
Other non-current assets	43	165
Total prepaid pension, investments and other non-current assets	5,897	5,527
Pension liability	2,923	2,721
Deferred tax liabilities	441	529
Other long-term provisions	186	229
Total long-term provisions	3,550	3,478

Other long-term provisions include an onerous contract of office space, see note 9.6 Other related party information in the notes to the consolidated financial statements.

Note 10 Financial instruments

Norsk Hydro ASA offers currency derivatives to subsidiaries using such instruments for risk management. Contracts are recognized at estimated market value, determined by calculating the contractual cash flows using currency rates at the balance sheet date and discounting those cash flows to a present value. At the end of 2020 and 2019, the value of currency forward contracts outstanding with subsidiaries were as follows:

Amounts in NOK million	2020	2019
Currency forward contracts, short-term	(15)	(5)
Currency forward contracts, long-term	(2)	34
Financial income, net	(17)	29

The contracts represent exposure mainly in Euro and US dollars. In addition, there are some contracts with exposure to British pounds, Swiss franc, Danish krone, Swedish krone and Japanese yen, representing lower amounts. The contracts mature no later than 2024.

Note 11 Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. All commercial guarantees are on behalf of subsidiaries.

Amounts in NOK million	2020	2019
Commercial guarantees	3,491	3,390
Total guarantees not recognized	3,491	3,390

Note 12 Long-term debt

Amounts in NOK million	2020	2019
EUR	8,369	7,801
NOK	9,983	2,998
SEK	1,047	1,885
USD	-	298
Total unsecured loans	19,398	12,982
Lease liabilities	279	337
Outstanding debt	19,677	13,319
Less: Current portion	(47)	(1,292)
Total long-term debt	19,630	12,027

As of December 31, 2020, long-term debt that falls due after 2025 amounted to NOK 7,972 million. See note 7.4 Short and long-term debt in notes to the consolidated financial statements for further information.

Note 13 Number of shares outstanding, shareholders and equity reconciliation

The share capital of Norsk Hydro ASA as of December 31, 2020 was NOK 2,271,760,107 consisting of 2,068,998,276 ordinary shares at NOK 1.098 per share. As of December 31, 2020, Norsk Hydro ASA had purchased 19,873,558 treasury shares at a cost of NOK 662 million. See Consolidated statements of changes in equity and note 7.6 Shareholders' equity for additional information.

The table shows shareholders holding one percent or more of the total 2,049,124,718 shares outstanding as of December 31, 2020, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

Name	Number of shares
The Ministry of Trade, Industry and Fisheries of Norway	708,865,253
Folketrygdfondet	160,035,514
State Street Bank and Trust Comp ¹⁾	56,643,925
Banque Pictet & Cie SA ¹⁾	33,369,205
HSBC Bank PLC ¹⁾	27,083,316
Euroclear Bank S.A./N.V. ¹⁾	24,654,703
JPMorgan Chase Bank, N.A., London ¹⁾	23,250,688
State Street Bank and Trust Comp ¹⁾	21,532,708
Clearstream Banking S.A. ¹⁾	20,902,158

1) Nominee accounts.

Changes in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
December 31, 2019	31,372	30,521	61,893
Total Comprehensive Income		(356)	(356)
Dividend paid in 2019 not accrued ¹⁾		(2)	(2)
Dividend proposed		(2,561)	(2,561)
Treasury shares	(16)	48	31
December 31, 2020	31,355	27,650	59,005

Note 14 Other income

Other income in Norsk Hydro ASA includes significant insurance compensation both in 2020 and 2019, mainly related to the cyber-attack in 2019. As the majority of the losses were incurred by subsidiaries, a similar amount is paid to subsidiaries and included in Other expenses. Other income also includes charges for goods and services to subsidiaries.

Responsibility statement

We confirm to the best of our knowledge that the consolidated financial statements for 2020 have been prepared in accordance with IFRS as adopted by the European Union, as well as additional information requirements in accordance with the Norwegian Accounting Act, that the financial statements for the parent company for 2020 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements gives a true and fair view of the assets, liabilities, financial position and result of Norsk Hydro ASA and the Hydro Group for the period. We also confirm to the best of our knowledge that the Board of Directors' Report includes a true and fair review of the development, performance and financial position of Norsk Hydro ASA and the Hydro Group, together with a description of the principal risks and uncertainties that they face, and that the country by country report for 2020 has been prepared in accordance with the Norwegian Accounting Act §3-3d and the Norwegian Security Trading Act §5-5a.

Oslo, March 9, 2021



Dag Mejdell
Chair



Irene Rummelhoff
Deputy chair



Arve Baade
Board member



Rune Bjerke
Board member



Liselott Kilaas
Board member



Peter Kukielski
Board member



Sten Roar Martinsen
Board member



Ellen Merete Olstad
Board member



Thomas Schulz
Board member



Marianne Wiinholt
Board member



Hilde Merete Aasheim
President and CEO

To the General Meeting of Norsk Hydro ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Norsk Hydro ASA, which comprise:

- The financial statements of the parent company Norsk Hydro ASA (the Company), which comprise the balance sheet as at 31 December 2020, the income statement, statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2020, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act ("Simplified IFRS").
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provisions for environmental clean-up costs and asset retirement obligations

Refer to Note 1.1 Reporting entity, basis of preparation and significant accounting policies, and Note 4.1 Uncertain assets and liabilities.

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group is involved in operations such as bauxite mining, alumina refining, primary aluminium production and extrusion activities.</p> <p>There is an inherent risk that these operations may generate significant obligations related to site restoration, reforestation and other remediation work. Such potential obligations are dependent on the jurisdictions in which the Group operates and changes in the relevant political and legislative environments.</p> <p>Management decisions to expand, curtail or terminate operations in specific locations can impact obligations as described above.</p> <p>Estimating and calculating such environmental obligations require significant management judgement. The risk of inaccurate estimates is increased due to the uncertainty of scope and timing of such obligations and the limited amount of historical data available.</p> <p>The Group has recognized provisions for environmental clean-up and asset retirement obligations of NOK 4,461 million as explained in note 4.1 Uncertain assets and liabilities.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> Assessing the estimated cost and timing of activities applied in the calculations by comparing management forecasts with prior year estimates Comparing management's assumptions to relevant market data to test the reasonableness of discount rates, inflation rates, foreign exchange rates and other key assumptions used in the calculations Assessing the accounting treatment for compliance with IFRS and consistency of application, in particular related to the extent to which obligations are capitalized or expensed and the amortization period for capitalized assets Testing, with assistance from our valuation specialists, the mathematical accuracy of the models used to calculate provisions and asset retirement obligations Assessing the adequacy of the disclosures pertaining to estimation uncertainty, provisions and contingent liabilities.

Impairment assessment of goodwill, intangible and non-current assets

Refer to Note 1.1 Reporting entity, basis of preparation and significant accounting policies, Note 2.1. Property, plant and equipment, Note 2.2 Intangible assets, Note 2.3 Goodwill, 2.4 Depreciation and amortization expense, and 2.5 Impairment of non-current assets

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The Group's operations are sensitive to certain commodity prices and other factors, including aluminum and alumina prices, energy prices, inflation rates, relevant foreign exchange rates and production volumes which impact key assumptions in cash flow forecasts and can give rise to impairment indicators.</p> <p>Management exercise judgement related to expected timing of future cash flows and key assumptions</p> <p>The economic environment and volatility of long-term assumptions indicate that impairment could be a risk related to specific assets and cash generating units (CGUs) and can also impact the assessment of impairment of goodwill. Impairment indications could also arise from</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> Assessing management's process and results for identification and classification of CGU's and assessing whether they were appropriate and in accordance with relevant accounting standards Evaluating management's assessment of impairment indicators Performing retrospective reviews of the accuracy of management's estimates in terms of timing of cash outflows and other assumptions such as long-term pricing where historical data is available Evaluating and challenging the forecasted cash flows including timing of future cash flows applied in the models with reference to historical accuracy and approved business plans

<p>transactions in which the agreed consideration is below the carrying value of the asset or CGU.</p> <p>Certain plants are also sensitive to the uncertainty related to renewal of power contracts expiring within 2 to 5 years.</p> <p>Impairment charges of NOK 3,879 million were recognized in 2020 consisting of;</p> <ul style="list-style-type: none"> • NOK 513 million in relation to the Slovalco primary aluminium plant • NOK 1.627 million related Goodwill and production facilities in Hydro Extrusions • NOK 1,900 million related to Property, plant and equipment in Hydro Rolling • Reversal of a previous impairment write-down of NOK 161 million related to an industrial park in Germany. <p>As at 31 December 2020, the Group has goodwill of NOK 5.029 million, Property, plant and equipment of NOK 64,245 million and intangible assets of NOK 4,951 million.</p>	<ul style="list-style-type: none"> • When impairment is caused by a sales transaction, confirming the agreed consideration to the sales and purchase agreements, as well as re-calculating the impairment charge and relevant adjustments • Testing the sensitivity of movements in key assumptions • Evaluating, with assistance from our valuation specialists, key assumptions such as aluminium and alumina prices, inflation rates, energy and fuel prices, relevant foreign exchange rates and discount rates by reference to external sources and relevant benchmarks • Testing the mathematical accuracy of the models used to calculate value in use • Assessing the adequacy of the disclosures related to impairment
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Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President and CEO ("Management") for the Financial Statements

The Board of Directors and the President and CEO ("Management") are responsible for the preparation in accordance with law and regulations, including a true and fair view of the financial statements of the Company in accordance with simplified IFRS, and for the preparation and true and fair view of the consolidated financial statements of the Group in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that

includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 9 March 2021
KPMG AS

Lars Inge Pettersen
State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Statement of the Corporate Assembly to the Annual general meeting of Norsk Hydro ASA

The Board of Directors' proposal for the financial statements for the financial year 2020 and the Auditors' report have been submitted to the corporate assembly.

The Corporate Assembly recommends that the directors' proposed financial statements for 2020 for the parent company, Norsk Hydro ASA, and for the Group consisting of Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net loss for 2020 of Norsk Hydro ASA be covered as recommended by the directors.

Oslo, March 9, 2021

Terje Venold

Appendices to the Board of Directors' report

- 128 Alternative Performance Measures (APMs)
- 133 Country by country report
- 144 Diversity and Inclusion
- 151 Modern Slavery transparency statement
- 155 Norwegian code of practice for corporate governance

Quick overview

This section contains information that is part of the Board of Directors' formal responsibility and exceeding the information required directly in the Board of Directors' report.

All documents are approved by the Board of Directors and included in their signatures to the Board of Directors' Report.

The Country by Country report is also included in the Board of Directors' responsibility statement in the financial statements, as required by the Norwegian Accounting Act §3-3d and the Norwegian Securities Act §5-5a.

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*: Earnings before financial items and tax.
- *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.: note 7.6 to the consolidated 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.
- *Adjusted net cash (debt) to equity ratio*: Adjusted net cash (debt)/total equity.
- *Funds from operations to adjusted net cash (debt) ratio*: Cash generation from Hydro's wholly and partly owned operating entities before changes in net operating capital, including the contribution from equity accounted investments, and after current tax expense/adjusted net cash (debt).
- *Adjusted net cash (debt) to underlying EBITDA ratio*: Adjusted net cash (debt) / underlying EBITDA
- *(Underlying) RoaCE*: (Underlying) RoaCE is defined as (underlying) "Earnings after tax" divided by average "Capital employed". (Underlying) "Earnings after tax" is defined as (underlying) "Earnings before financial items and tax" less "Adjusted income tax expense". Since RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense excludes the tax effects of items reported as "Finance income (expense), net" and in addition, for underlying figures, the tax effect of items excluded. "Capital employed" is defined as "Shareholders' Equity", including non-controlling interest plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments".
- *Capital expenditure (Capex)*: "Purchase of property, plant and equipment" plus "Purchase of other Long-term investments", adjusted for elements that are not considered cash effective.
- *Cash effective change in net operating capital*: Changes to "Trade and other receivables" plus/minus changes to "Inventories" plus/minus changes to "Trade and other payables" as reported in the statements of cash flows.
- *Free cash flow*: "Net cash provided by operating activities" less "Net cash used in investing activities", adjusted for "Purchases of short-term investments and "Sales of short-term investments".

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

Hydro has defined two categories of items which are excluded from underlying results in all business areas, equity accounted investments and at group level. One category is the timing effects, which are unrealized changes to the market value of certain derivatives and the metal effect in Hydro Rolling. When realized, effects of changes in the market values since the inception are included in underlying EBIT. Changes in the market value of the trading 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 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 Hydro Rolling* is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting up to five months. As a result, margins are impacted by timing differences resulting from the FIFO inventory valuation method (first in, first out), mainly due to changing aluminium prices during the process. The Neuss smelter is included in the Rolling business. Gains and losses from metal flow between Neuss and other Rolling businesses are eliminated in Hydro Rolling's EBIT but is 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 businesses and inventory valuation expense related to the transactions, as well as a net (gain) 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 in 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 EBIT¹⁾	Year	Year
NOK million	2020	2019
Alunorte agreements - provision ²⁾	129	80
Unrealized derivative effects on raw material contracts	5	-
Impairment charges ³⁾	-	145
Hydro Bauxite & Alumina	134	225
Unrealized derivative effects on LME related contracts	(160)	90
Unrealized derivative effects on power contracts	218	(17)
Impairment charges ⁴⁾	504	506
Other effects ⁵⁾	(131)	-
Hydro Aluminium Metal	430	579
Unrealized derivative effects on LME related contracts	(38)	235
Hydro Metal Markets	(38)	235
Unrealized derivative effects on LME related contracts	(4)	(82)
Metal effect	298	370
Impairment charges ⁶⁾	1,900	-
Significant rationalization charges and closure costs ⁷⁾	14	1,088
Other effects ⁸⁾	(173)	(99)
Hydro Rolling	2,035	1,277
Unrealized derivative effects on LME related contracts	(129)	(163)
Impairment charges ⁹⁾	1,625	255
Significant rationalization charges and closure costs ¹⁰⁾	187	396
Pension ¹¹⁾	-	(62)
Transaction related effects ¹²⁾	(37)	21
Other effects ¹³⁾	101	209
Hydro Extrusions	1,747	656
Unrealized derivative effects on power contracts	25	(6)
(Gains)/losses on divestments ¹⁴⁾	(5,308)	-
Other effects ¹⁵⁾	-	(42)
Hydro Energy	(5,283)	(48)
Unrealized derivative effects on power contracts ¹⁶⁾	(76)	(75)
Unrealized derivative effects on LME related contracts ¹⁶⁾	(8)	11
Impairment charges ¹⁷⁾	(161)	-
(Gains)/losses on divestments ¹⁷⁾	(62)	-
Other and eliminations	(307)	(64)
Items excluded from underlying EBIT	(1,281)	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 Hydro Bauxite & Alumina include write downs of an undeveloped area in Brazil.

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

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

6) Impairment charges in Rolling in 2020 were recognized in relation to the agreement entered into in March 2021 to sell the business.

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

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

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

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

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

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

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

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

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

16) 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.

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

Underlying EBITDA	Year	Year
NOK million	2020	2019
EBITDA ¹⁾	19,465	9,878
Items excluded from underlying EBIT	(1,281)	2,860
Reversal of impairments ²⁾	(3,868)	(906)
Underlying EBITDA	14,316	11,832

1) See Note 1.4 Operating and geographic segment information in the Financial statements.

2) See the section Reported EBIT and net income in the Board of Directors' report.

Underlying earnings per share	Year	Year
NOK million	2020	2019
Net income (loss)	1,660	(2,370)
Items excluded from underlying net income (loss) ^{1) 2)}	1,059	3,078
Underlying net income (loss)	2,718	708
Underlying net income attributable to non-controlling interests	150	(365)
Underlying net income attributable to Hydro shareholders	2,568	1,073
Number of shares	2,049	2,047
Underlying earnings per share	1.25	0.52

1) See Items excluded from underlying net income (loss) in the section Financial results in the Board of Directors' report.

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

Adjusted net cash (debt), adjusted net cash (debt) to equity ratio and funds from operations to adjusted net cash (debt) ratio

Hydro's capital management measures are described in Note 7.1 Capital management in the Financial statements, including reconciliations and comparable information

Underlying Return on average Capital Employed (RoCE)

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

Earnings after tax	Reported		Underlying	
NOK million	2020	2019	2020	2019
EBIT	7,332	499	6,051	3,359
Adjusted Income tax expense ¹⁾	(2,366)	(1,430)	(2,640)	(2,055)
Earnings after tax	4,966	(931)	3,411	1,304

Capital Employed	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
NOK million	2020	2020	2020	2020	2019	2019	2019	2019
Current assets ²⁾	38,326	40,109	39,984	48,122	40,410	45,387	46,375	48,895
Property, plant and equipment	64,245	68,657	70,478	77,909	74,243	74,025	73,193	72,882
Other non-current assets	40,108	34,204	35,188	39,400	36,494	36,103	35,729	35,493
Current liabilities ³⁾	(24,300)	(21,524)	(20,414)	(26,329)	(23,534)	(23,811)	(24,702)	(26,819)
Non-current liabilities ³⁾	(33,104)	(34,658)	(33,179)	(36,712)	(31,771)	(32,509)	(29,882)	(28,958)
Capital Employed	85,274	86,789	92,057	102,389	95,841	99,195	100,713	101,494

Return on average Capital Employed (RoCE)⁴⁾	Reported		Underlying	
Hydro	2020	2019	2020	2019
	5.4 %	(0.9) %	3.7 %	1.3 %

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

- 2) Excluding cash and cash equivalents and short-term investments.
 3) Excluding interest-bearing debt.
 4) Average Capital Employed measured over the last 4 quarters to reflect the return for the full year.

Capital expenditure (Capex)

Capex is a measure for the cash amount spent on investment activities related to property, plant and equipment and other long-term investments as reported in the consolidated statements of cash flows for the period. Hydro uses this measure to drive optimization of capital allocation. The definition was amended in 2020 to limit adjustments. The adjustments represent a limited change of value for the periods reported. Amounts for 2019 have been restated to be comparable.

NOK million	2020	2019 Restated
Purchase of property, plant and equipment	(6,287)	(8,726)
Purchase of other long-term investments	(231)	(698)
Sum	(6,518)	(9,424)
Adjustments ¹⁾	66	60
Capital expenditure	(6,452)	(9,364)

- 1) Adjusted for investment grants received

Cash effective change in net operating capital

This measure is used by Hydro to monitor and follow up on cash generation and to drive financial performance. Hydro primarily follows up net operating capital elements on a cash basis rather than a balance sheet value basis, as the latter are influenced by non-cash currency translation effects.

Net operating capital NOK million	Dec 31 2019	Sep 30 2019	Dec 31 2018	Sep 30 2018
Trade and other receivables ¹⁾	18,959	23,007	20,744	21,727
Inventories ¹⁾	20,816	21,679	26,483	23,916
Trade and other payables ¹⁾	(18,692)	(19,716)	(20,381)	(19,906)
Sum	21,083	24,971	26,845	25,736
Adjustments ²⁾	42	250	321	310
Net operating capital	21,125	25,221	27,166	26,046

- 1) See Consolidated balance sheets
 2) Elements that are not considered to be of an operating nature, e.g., short-term income tax receivables, external accrued interest expense, prepayments and payables for investments, accrued dividends, provision for loss on power purchase agreement, periodization of revenues not yet invoiced

NOK million	2020	2019
Change in Trade and other receivables ¹⁾	1,091	1,869
Change in Inventories ¹⁾	1,075	5,552
Change in Trade and other payables ¹⁾	253	(1,812)
Cash effective change in net operating capital	2,419	5,609

- 1) See Consolidated statements of cash flows

Free cash flow

Free cash flow is a measure of the net cash generation after investing activities. Hydro uses this measure to drive financial performance.

NOK million	2020	2019
Net cash provided by operating activities ¹⁾	13,515	12,550
Net cash used in investing activities ¹⁾	(8,325)	(9,173)
Adjusted for Purchases of short-term investments ¹⁾	6,480	52
Adjusted for Sales of short-term investments ¹⁾	(3,985)	(18)
Free cash flow	7,685	3,411

- 1) See Consolidated statements of cash flows

Country by country report

Hydro's country by country report has been developed to comply with legal requirements as stated in the Norwegian Accounting Act §3-3d and the Norwegian Security Trading Act §5-5a, valid from 2014, and updated in 2017, and replaces our former reporting on payments to host governments according to the Extractive Industries Transparency Initiative (EITI). Our reporting includes, and goes beyond, the EITI requirements. According to the Norwegian Accounting Act, the country-by-country reporting should be on a project level, and payments should be reported per public authority. Following a thorough evaluation, we have defined "project" as legal entity in the report, and "public authority" as the three levels federal; state(s); and municipality(-ies).

The reporting requirement applies to Hydro as a Norwegian listed company with exploration and extractive activities. Currently, this includes Hydro's consolidated operations in Brazil, through exploration and extractive activities in Paragominas, in the state of Pará. On a voluntary basis, and in line with our EITI reporting since 2005, we also include the alumina refinery Alunorte. Alumina is refined from bauxite and is the commercial product from Hydro's Bauxite & Alumina business area.

Hydro's primary aluminium production facility Albras is also closely linked to the extraction of raw materials in Pará. In order to better illustrate the tax contribution from Hydro's aluminium value chain in Pará, Albras is included on a voluntary basis in the country-by-country report. In addition, Hydro voluntarily report on indirect tax contributions not covered by the requirements in the country by country report.

To comply with the Norwegian country-by-country regulation, Hydro is required to report on certain information at corporate level related to legal entities, where they are registered, number of employees, and interest paid to other legal entities in Hydro within another jurisdiction. From 2017, it is also required to give a short description of each legal entity's activities, revenue, income before tax, tax accrued and paid in the reporting year, and accumulated earnings. For additional reporting in accordance with the GRI 207 Tax standard, please see Hydro's GRI index.

The Country-by-country report is approved by the board of directors and included in their responsibility statement.

Payments to authorities per project and authority (exploration and extractive activities, alumina refining and aluminium production) in 2020

Extractive related activities (all in Brazil) ¹⁾	Taxes and fees ²⁾ NOK million	Royalties NOK million	License fees ³⁾ NOK million	Infrastructure, contractual ⁴⁾ NOK million	Infrastructure, voluntary ⁴⁾ NOK million	Investments NOK million	Revenue ⁵⁾ NOK million	Production volume 1 000 mt	Total expenses ^{5) 6)} NOK million
Mineracao Paragominas SA, total	176	74	1	8		832	2,820	8,640	2,318
Federal	136	7	1						
Pará State	40	22	-						
Paragominas municipality	-	45	-						
Norsk Hydro Brasil Ltda, total	10	-	-			26	14	-	-
Federal	10	-	-						
Rio de Janeiro State	-	-	-						
São Paulo Municipality	-	-	-						
Alunorte - Alumina do Norte do Brasil SA, total	301	-	-		23	827	14,849	5,457	12,808
Federal	295	-	-						
Pará State	6	-	-						
Barcarena Municipality	-	-	-						
Albras - Alumínio Brasileiro SA, total	69	-	-		1	579	6,516	288	6,433
Federal	68	-	-						
Pará State	1	-	-						
Barcarena Municipality	-	-	-						
Total⁷⁾	556	74	1	8	24	2,264	24,198	14,386	21,559

1) In 2020, Hydro's extractive activities did not have the following types of payments to host authorities:

- production entitlements
- dividends
- signature, findings and production bonuses
- stocks, shares or other ownership rights

2) Taxes and fees (income, profit and production) except taxes and fees on consumption such as VAT, withholding taxes on behalf of employees, sales tax. Figures are not directly comparable to the further country by country report.

3) License, lease or access fees or other payments for licenses or commissions

4) Payments on improved infrastructure, either contractual based on exploration or operational licenses, or voluntary is based on Hydro's reporting on social investments, please see note S9 to the social statements in Hydro's Annual Report

5) Including power procurement and sales

6) Costs at Alunorte include purchase of bauxite from Paragominas. Costs at Albras include purchase of alumina from Alunorte.

7) Only figures where a total is presented can be consolidated.

Other tax contributions to authorities in Brazil

The Brazilian tax system is complex and volatile. In addition to the direct taxes reported above on income, profit and production, Brazil has several indirect taxes levied at the federal and state levels, and other taxes levied at the municipal level.

For Hydro, there are three relevant indirect tax mechanisms not covered by the country-by-country requirements, i.e ICMS and PIS/COFINS.

ICMS is a Brazilian state tax on the sale of goods, freight and certain services, similar to VAT. ICMS is intended to be a non-cumulative tax, which means that sales are generating ICMS debits with the seller, and purchases are generating ICMS credits with the buyer. However, as export transactions are exempt from ICMS and not generating ICMS debits, exporters accumulate ICMS credits that cannot be offset with any other taxes. As ICMS is an indirect tax, the amounts are reported as expenses in Hydro's financial statements rather than as income tax.

In the state of Pará, Hydro is subject to a tax regime that aims at preventing the accumulation of ICMS recognized credits, and reduces net payable ICMS. From our operations, we generate ICMS tax revenue to Pará when purchasing diesel and fuel oil, when Albras acquires electricity, and also on sales of products to customers located outside the state.

The ICMS regime Hydro is subject to requires Hydro to comply with certain conditions related to vertical integration of aluminium production in Pará. It also requires Hydro to contribute to the development in the region and enable sustainable growth in Pará.

The ICMS deferral is subject to approval by Brazil's National Council of Finance Policy (CONFAZ). In 2018, the Public Auditing Prosecutors for the State of Pará (MP-C/PA) initiated a general process before the State Accounting Court to better understand approvals, compliance and transparency of tax incentives established by the State of Pará.

PIS and COFINS are two social contribution taxes charged on gross income, in most cases at the rate of 9.25 percent. Hydro's group companies in Brazil are charged under a non-cumulative system that resembles VAT. Similar to ICMS, export transactions are not subject to this tax. As a result, Brazilian exporters, like Alunorte and Albras, accumulate credits that can be either reimbursed or offset against debts of other federal taxes.

In addition to the indirect taxes described above, Brazilian municipalities levy a property tax. The property tax, IPTU, is a tax levied on the ownership or possession of urban land and property located in the urban area within the municipality. IPTU is due yearly based on the value of the property, according to rates and conditions foreseen in each municipality's legislation.

The table below includes Hydro entities involved in extractive activities as well as other Hydro entities in the state of Pará.

Other taxes paid to authorities in Brazil⁰

Extractive related activities	ICMS	PIS	COFINS	IPTU	Total contribution
	NOK million	NOK million	NOK million	NOK million	NOK million
Mineracao Paragominas SA, total	30	1	3	-	34
Federal	-	1	3	-	4
Pará State	30	-	-	-	30
Paragominas municipality	-	-	-	-	-
Norsk Hydro Brasil Ltda, total	-	1	6	1	8
Federal	-	1	6	-	7
Rio de Janeiro State	-	-	-	1	1
São Paulo Municipality	-	-	-	-	-
Alunorte - Alumina do Norte do Brasil SA, total	440	1	6	15	462
Federal	-	1	6	-	7
Pará State	440	-	-	15	455
Barcarena Municipality	-	-	-	-	-
Albras - Alumínio Brasileiro SA, total	200	4	18	12	234
Federal	-	4	18	-	22
Pará State	200	-	-	12	212
Barcarena Municipality	-	-	-	-	-
Total	670	7	33	28	738

*Tax off-sets are not included

Further country by country information for all consolidated legal entities

The Norwegian country by country reporting requirement as stated in the Norwegian Accounting Act and the Country by Country Regulation also require reporting on certain information at corporate level related to legal entities, as included in the table below.

Hydro's subsidiaries have both external revenue derived from sale to Hydro's end customers, and internal revenue derived from sale to other Hydro entities. In the table below both revenue streams are included per legal entity, but in Hydro's consolidated financial statements all internal transactions have been eliminated to arrive at Hydro's revenue. The sum of the different items for Hydro's subsidiaries will therefore not add up to the respective consolidated figures.

In order to present a Grand Total in the country by country report that is comparable to Hydro's consolidated financial statements, we have included all group eliminations as a separate line. These include, but are not limited to, eliminations of internal revenue and cost, internal receivables and payables, distributed profit such as dividends within the group, goodwill and excess values not attributable to individual legal entities, accumulated profits allocated to non-controlling interests and all joint operations and joint ventures.

Assets and liabilities in subsidiaries that have been acquired have been remeasured to fair value in Hydro's financial statements. This value adjustment, often referred to as excess value, represents the difference between the fair value of the company as paid by Hydro, and the carrying value of assets and liabilities as recognized by the subsidiary at the time of purchase. This premium is not reflected in the subsidiaries local statutory reporting. Due to this, figures reported in Hydro's country by country report are not necessarily comparable to the entities' local statutory reporting. Acquired entities are included from the date of acquisition. As a result of rounding adjustments, the figures in one or more of the columns in the table below may not add up to the total of that column.

The information is included in the independent auditor's assurance report.

	Hydro Extrusion (Jiangyin) Co. Ltd.	Dormant	100%	-	-	-	-	-	-	-28	
Total China & Hong Kong				639	4		3,481	148	41	21	191
Croatia	Hydro Building Systems Croatia d.o.o.	Building systems production	100%	14	-	-	-	-	-	-	-
Total Croatia				14	-	-	-	-	-	-	-
Czech Republic	Hydro Building Systems Czechia sro	Sales company	100%	8	-	-	-	1	-	-	2
Total Czech Republic				8	-	-	-	1	-	-	2
Denmark	Hydro Aluminium Rolled Products Denmark A/S	Sales company	100%	2	-	-	4	1	-	-	8
	Hydro Extrusion Denmark A/S	Extrusion production	100%	282	1	3	1,264	37	8	-	251
	Hydro Holding Denmark A/S	Local holding company	100%	-	-	-	-	5	-2	-1	1,522
	Hydro Precision Tubing Tønder A/S	Precision tubing production	100%	400	11	1	1,155	153	34	-	731
Total Denmark				684	12	3	2,423	197	41	-1	2,512
Estonia	Hydro Extrusion Baltics AS	Extrusion production	100%	14	-	-	87	4	1	1	17
Total Estonia				14	-	-	87	4	1	1	17
Finland	Hydro Extrusion Finland Oy	Sales company	100%	10	1	-	139	3	1	1	25
Total Finland				10	1	-	139	3	1	1	25
France	Extrusion Services S.a.r.l	Remelter	100%	42	-	-	532	22	3	-5	205
	Hydro Aluminium France S.A.S.	Sales company	100%	7	-	-	17	-	1	-	1
	Hydro Aluminium Sales and Trading s.n.c.	Sales company	100%	2	1	-	7	-	-	-	3
	Hydro Building Systems France Sarl	Building systems production	100%	991	45	-	3,052	279	102	18	688
	Hydro Extrusion Albi SAS	Extrusion production	100%	262	1	-	894	40	15	3	144
	Hydro Extrusion Lucé/Châteauroux SAS	Extrusion production	100%	335	6	-	844	-10	-2	3	2
	Hydro Extrusion Puget SAS	Extrusion production	100%	159	2	1	468	-149	-23	1	-345
	Hydro Holding France SAS	Local holding company	100%	2	-	-	-	101	-21	51	-578
	Hydro Tool Center SAS	Tool and spare parts services	100%	5	-	-	37	-	-	-	5
	Hydro Shared Services France	IT shared services	100%	13	-	-	22	1	1	1	3
Total France				1,818	55	1	5,872	286	75	71	128
Germany	Eugen Notter GmbH	Building systems production	100%	23	-	-	22	-2	-1	-	10
	Hydro Aluminium Deutschland GmbH ¹⁶⁾	Local holding company	100%	63	1	-	44	-3,194	120	-280	177
	Hydro Aluminium Dormagen GmbH	Value-adding services	100%	24	7	-	37	-2	1	-	7
	Hydro Aluminium Gießerei Rackwitz GmbH	Remelter	100%	61	6	-	1,043	62	-	-	37
	Hydro Aluminium High Purity GmbH	High-purity aluminium production	100%	67	5	-	264	-41	-6	-	63
	Hydro Aluminium Recycling Deutschland GmbH	Recycling	100%	22	7	-	49	-4	2	-	89
	Hydro Aluminium Rolled Products GmbH	Rolling mills and primary aluminium production	100%	3,128	147	-	19,453	-2,232	-93	15	2,158
	Hydro Building Systems Coating GmbH	Building systems production	100%	3	-	-	73	-2	-2	-	27
	Hydro Building Systems Germany GmbH	Building systems production	100%	560	43	11	1,130	27	-3	2	140
	Hydro Building Systems Extrusion GmbH	Building systems production	100%	-	-	-	585	28	-	-	5
	Hydro Extrusion Deutschland GmbH	Extrusion production	100%	416	22	-	1,485	44	-7	-	137
	Hydro Extrusion Offenburg GmbH	Extrusion production	100%	210	1	-	637	31	1	-	122
	Hydro Holding Offenburg GmbH ¹⁷⁾	Local holding company	100%	38	-	-	45	-125	28	-2	59
	Hydro Precision Tubing Remscheid GmbH	<i>Entity sold 2020</i>	-	-	-	1	110	-124	-6	-	-4
	Norsk Hydro Deutschland Verwaltungs GmbH	<i>Entity is in liquidation</i>	100%	-	-	-	-	-	-	-	-2
	SEGN Standort-Entwicklungs-Gesellschaft										
	Nabwerk mbH	<i>Dormant</i>	100%	-	-	-	-	-	-	-	-
	VAW-Innwerk Unterstützungs-Gesellschaft GmbH	Pension fund	78%	-	-	-	-	-1	-1	-	229
Total Germany				4,615	239	12	24,973	-5,537	33	-265	3,253
Greece	Hydro Building Systems A.E.	<i>Entity is in liquidation</i>	100%	-	-	1	-	-3	-	-	-41
Total Greece				-	-	1	-	-3	-	-	-41
Hungary	Hydro Extrusion Hungary Kft	Extrusion production and support services	100%	1,554	-	-	2,811	86	44	40	124
Total Hungary				1,554	-	-	2,811	86	44	40	124
India	Sapa Extrusion India Pvt. Ltd.	Precision tubing production	100%	430	3	-	284	-68	-	-	-510

Total India				430	3	-	284	-68	-	-	-510
Italy	Hydro Aluminium Metal Products S.r.l.	Sales company	100%	2	-	-	9	1	-	-	19
	Hydro Building Systems Atessa s.r.l. ¹⁵⁾	Building systems production	100%	-	-	-	645	4	-	-	23
	Hydro Building Systems Italy S.P.A. ¹⁵⁾	Building systems production	100%	319	6	-	670	7	-2	-1	182
	Hydro Extrusion Italy S.r.l.	Extrusion production	100%	299	6	-	1,263	8	-11	3	346
	Hydro Holding Italy S.P.A.	Local holding company	100%	-	-	-	-	-491	-	1	450
Total Italy				620	12	-	2,587	-472	-13	3	1,020
Japan	Hydro Aluminium Japan KK	Sales company	100%	7	-	-	202	7	2	4	68
Total Japan				7	-	-	202	7	2	4	68
Lithuania	Hydro Building Systems Lithuania UAB	Sales company	100%	11	-	-	90	5	1	1	21
	Hydro Extrusion Lithuania UAB	Extrusion production	100%	159	2	-	129	14	3	-1	47
Total Lithuania				170	2	-	218	19	3	-	68
Luxembourg	Hydro Aluminium Clervaux S.A.	Remelter	100%	48	7	-	1,049	53	14	13	182
Total Luxembourg				48	7	-	1,049	53	14	13	182
Mexico	Hydro Aluminium Metals Mexico S. de R.L.	Sales company	100%	-	-	-	-	-	-	-	-
	Hydro Precision Tubing Monterrey S. de R.L. de C.V.	Precision tubing production	100%	127	2	-	4	2	-	2	121
	Hydro Precision Tubing Reynosa S. de R.L. de C.V.	Precision tubing production	100%	209	8	-	84	8	5	3	26
	Hydro Precision Tubing Services Monterrey S. de R.L. de C.V.	Precision tubing production	100%	-	-	-	38	2	2	3	-1
Total Mexico				336	10	-	126	11	7	8	145
Netherlands	Hydro Albras B.V.	Local holding company	100%	-	-	-	-	192	-	-	-10
	Hydro Aluminium Brasil Investment B.V.	Local holding company	100%	-	-	-	-	8	-4	-	971
	Hydro Aluminium Investment B.V.	Local holding company	100%	-	-	-	-	-	-	-	-
	Hydro Aluminium Netherlands B.V.	Local holding company	100%	-	-	-	-	109	-	-	288
	Hydro Aluminium Pará B.V.	Local holding company	100%	-	-	-	-	-	-	-	-133
	Hydro Aluminium Qatalum Holding B.V.	Local holding company	100%	-	-	-	-	979	-	-	1,653
	Hydro Aluminium Rolled Products Benelux B.V.	Sales company	100%	4	-	-	6	1	1	-	1
	Hydro Alunorte B.V.	Local holding company	100%	-	-	-	-	-	-	-	-
	Hydro Building Systems Netherlands B.V.	Building systems production	100%	-	-	-	48	7	-2	-	8
	Hydro CAP B.V.	Local holding company	100%	-	-	-	-	-	-	-	-429
	Hydro Extrusion Drunen B.V.	Extrusion production	100%	387	14	-	1,371	38	5	-	775
	Hydro Extrusion Holding Netherlands B.V.	Real estate	100%	-	-	-	-	14	2	-	-2
	Hydro Extrusion Hoogezand B.V.	Extrusion production	100%	165	-	-	584	34	16	2	237
	Hydro Holding Netherlands B.V.	<i>Entity dissolved 2020</i>	-	-	-	5	-	-6	1	-1	-
	Hydro Paragominas B.V.	Local holding company	100%	-	-	-	-	210	5	-	-2
	Norsk Hydro Holland B.V.	Local holding company	100%	4	-	-	59	1,038	-25	-6	11,549
Total Netherlands				560	14	5	2,067	2,624	-1	-5	14,907
Norway	Hycast AS	Development and design of casting technology and related sales	100%	54	-	-	248	17	4	-	128
	Hydro Aluminium AS	Primary aluminium production	100%	2,270	593	244	44,739	-2,781	401	304	18,057
	Hydro Aluminium Rolled Products AS	Rolling mill	100%	635	50	4	4,454	209	46	-	791
	Hydro Energi AS ¹⁰⁾	Power production	100%	188	13	-	6,493	7,563	331	317	5,019
	Hydro Energi Invest AS	Local holding company	100%	-	-	-	-	-1	-	-	-
	Hydro Extruded Solutions AS	Local holding company	100%	43	1	90	-	-117	-38	-8	1,291
	Hydro Extrusion Norway AS	Extrusion production	100%	101	12	-	347	4	1	-	50
	Hydro Kapitalforvaltning AS	Local holding company	100%	-	-	-	11	-	-	-	-
	Hydro RG Invest AS	Local holding company	100%	-	-	-	-	-	-	-	-
	Hydro Vigelands Brug AS	High-purity aluminium production	100%	35	8	2	107	11	2	-	92
	Hydro Vigelandsfoss AS	Power production	100%	-	-	-	21	-9	10	16	167

	Industrieforsikring AS	Insurance	100%	-	-	-	169	-2	-14	-	512
	Norsk Hydro ASA	Parent company	-	394	14	-	214	-551	-83	33	29,419
	RSK Holding AS ¹¹⁾	Entity sold 2020	-	-	-	-	178	53	27	95	-
	Røldal-Suldal Kraft AS ¹¹⁾	Entity sold 2020	-	-	-	-	197	43	28	115	-
	Sveigfos AS	Power trading	100%	-	-	-	-	-	-	-	1
	Sør-Norge Aluminium AS	Primary aluminium production	100%	328	119	16	1,900	-92	-20	-	1,718
	Vækerø Gård Barnehage ANS	Company kindergarden	100%	-	-	-	-	-	-	-	-
Total Norway				4,048	810	358	59,080	4,348	696	874	57,245
Oman	Hydro Building Systems Middle East (FZC) LLC ¹²⁾	Sales office	100%	-	-	-	45	25	-	-	45
Total Oman				-	2	-	45	25	-	-	45
Poland	Hydro Aluminium Rolled Products Polska Sp. z o.o.	Sales company	100%	5	-	-	4	1	-	-	3
	Hydro Building Systems Poland Sp. z o.o.	Sales company	100%	51	-	-	80	-6	-1	1	-11
	Hydro Extrusion Poland Sp. z o.o.	Extrusion production	100%	1,392	4	1	2,086	131	26	54	887
Total Poland				1,448	4	1	2,169	127	26	54	878
Portugal	Hydro Aluminium Extrusion Portugal HAEP S.A.	Extrusion production	100%	109	17	-	388	3	-	-	70
	Hydro Building Systems Portugal (HBSPT) SA	Building systems production	100%	69	-	1	220	8	9	-	21
Total Portugal				178	17	1	607	11	9	-	91
Romania	Hydro Extrusion S.R.L.	Entity sold 2020	-	-	-	-	30	14	-	-	1
Total Romania				-	-	-	30	14	-	-	1
Singapore	Hydro Aluminium Asia Pte. Ltd.	Trading company	100%	18	-	-	8,279	86	10	6	359
	Hydro Aluminium Asia Rolled Products Pte. Ltd.	Entity dissolved in 2020	0%	-	-	-	-	-	-	-	-
	Hydro Holding Singapore Pte. Ltd.	Sales and local holding company	100%	21	-	-	37	-8	-	-	-423
Total Singapore				39	-	-	8,316	78	10	6	-64
Slovakia	Hydro Extrusion Slovakia a.s.	Extrusion production	100%	369	3	-	573	22	5	-4	-18
	Slovalco a.s.	Primary aluminium production	55%	454	-	-	3,070	-526	-76	-	-125
	ZSNP DA, s.r.o.	Transportation	100%	-	-	-	8	-	-	-	-
Total Slovakia				823	3	-	3,651	-504	-72	-4	-143
South Africa	Technal Systems South Africa (Pty) Ltd.	Entity is in liquidation	100%	-	-	-	-	-1	-	-	-13
Total South Africa				-	-	-	-	-1	-	-	-13
Spain	Hydro Aluminium Iberia S.A.U	Remelter	100%	52	7	-	704	45	2	10	347
	Hydro Aluminium Rolled Products Iberia S.L.	Sales company	100%	5	1	-	8	2	-	-	11
	Hydro Building Systems Spain S.L.U.	Building systems production	100%	262	6	-	657	-12	3	6	-20
	Hydro Extruded Solutions Holding S.L.U.	Local holding company	100%	7	-	-	17	-13	21	-	-701
	Hydro Extrusion Spain S.A.U.	Extrusion production	100%	291	31	-	1,012	49	-4	1	541
Total Spain				617	45	-	2,398	71	22	16	178
Sweden	Hydro Building Systems Sweden AB	Building systems production	100%	113	3	-	694	76	-	-	14
	Hydro Extruded Solutions AB	Local holding company R&D	100%	804	13	5	62	1,030	81	85	2,722
	Hydro Extrusion Sweden AB	Extrusion production	100%	52	-	8	2,091	-36	2	-16	742
	Hydro China Holding AB	Local holding company	100%	-	-	-	-	53	-	-	55
Total Sweden				969	16	13	2,847	1,123	83	69	3,532
Switzerland	Hydro Aluminium International SA	Sales company	100%	14	-	2	15,607	-504	-67	40	-471
	Hydro Aluminium Walzprodukte AG	Sales company	100%	2	-	-	4	1	-	-	5
	Hydro Building Systems Switzerland AG	Sales company	100%	43	3	-	308	45	10	5	114
Total Switzerland				59	3	2	15,920	-459	-58	45	-352
Turkey	Hydro Yapi Sistem Sanayi VE Ticaret AS	Sales company	100%	23	-	-	48	-8	-2	-	16
Total Turkey				23	-	-	48	-8	-2	-	16
Ukraine	Sapa Profiles UA	Entity is in liquidation	100%	-	-	-	-	-	-	-	-
Total Ukraine				-	-	-	-	-	-	-	-
United Arab Emirates	Hydro Building Systems Middle East FZE	Sales company	100%	15	-	-	122	14	-	-	62
Total United Arab Emirates				15	-	-	122	14	-	-	62
United Kingdom	Hydro Aluminium Deeside Ltd.	Remelter	100%	45	-	-	690	10	3	-	124

	Hydro Aluminium Rolled Products Ltd.	Sales company	100%	6	-	-	12	3	1	-	8	
	Hydro Building Systems UK Ltd.	Building systems production	100%	128	-	-	424	-38	-7	-	293	
	Hydro Components UK Ltd. ¹³⁾	<i>Entity is in liquidation</i>	100%	276	1	6	223	-33	-	-	16	
	Hydro Aluminium UK Ltd. ¹³⁾	Extrusion production	100%	449	5	2	1,386	-4	-7	-	21	
	Hydro Holdings UK Ltd.	Local holding company	100%	-	-	-	1	-60	-	-	-362	
Total United Kingdom				904	6	8	2,737	-122	-11	-	101	
USA	EMC Ashtabula Inc	Local holding company	100%	-	-	-	-	-104	-24	-	-2,404	
	EMC Metals Inc	Local holding company	100%	-	-	-	-	272	3	-	852	
	Hydro Aluminium Metals USA, LLC	Local holding company	100%	144	-	-	4,846	39	-31	-	-1,287	
	Hydro Building Systems North America Inc	<i>Entity is in liquidation</i>	100%	-	-	-	-	-	-	-	-	
	Hydro Building Systems North America LLC	Sales company	100%	3	-	-	13	-17	-1	-	-32	
	Hydro Extrusion Portland Holding Inc.	<i>Entity dissolved in 2020</i>	0%	-	-	-	-	-4	-	-	-	
	Hydro Extrusion Portland Inc.	Extrusion production	100%	449	33	-	1,648	-109	-6	-	-154	
		Extrusion production and support services	100%	4,747	62	-	18,259	783	-11	-4	125	
	Hydro Holding North America Inc.	Local holding company	100%	10	2	1	-	-30	177	128	2,801	
	Hydro Precision Tubing Adrian Inc.	Precision tubing production	100%	-	-	-	-	-3	-	-	-214	
	Hydro Precision Tubing Louisville Inc.	Precision tubing production	100%	-	-	-	-	-	-	-	26	
	Hydro Precision Tubing Monterrey Central LLC	Precision tubing production	100%	-	-	-	-	-	-	-	-	
	Hydro Precision Tubing Monterrey LLC	Precision tubing production	100%	-	-	-	372	59	-	-	333	
	Hydro Precision Tubing USA LLC	Precision tubing production	100%	157	2	-	903	9	-4	-	-51	
Total USA				5510	99	1	26,041	894	104	123	-5	
Vietnam	Sapa Ben Thanh Aluminium Profiles Co. Ltd	<i>Entity sold 2020</i>	-	-	-	-	-	-20	-	-	-1	
Total Vietnam				-	-	-	-	-20	-	-	-1	
Total Eliminations, non-controlling interests and goodwill and excess values not attributable to specific legal entities							-	-73,093	9	-288	-15	-33,793
Total joint operations and joint ventures							2,882	-817	-4	50	-3,498	
Grand total				34,240	1,931	438	138,118	2,609	950	1,588	52,028	

- 1) Number of employees is based on the legal entity each employee is employed by and represents headcount
- 2) Revenue consists of external and internal revenue from sales of products and services, and realized and unrealized results from derivatives related to sale of products. Elimination of sale to other Hydro companies is presented on a combined basis in "Eliminations". Revenue in this report equals revenue in Hydro's consolidated financial statements
- 3) For the composition of income before tax, please refer to consolidated income statements and related notes
- 4) For a description and the composition of income taxes, please refer to consolidated income statements and related notes
- 5) Income taxes paid represents the actual payments made during the year independent of which year the tax relates to. In some tax regimes including Brazil, tax payments include settlement of tax liabilities with tax credits generated from other payments to federal authorities
- 6) Retained earnings consists of accumulated gains and losses, net of distributed profits from the point of view of the legal entity. Retained earnings existing in the companies at the time of Hydro's acquisition is deducted in "Eliminations". In addition, "Eliminations" consists of unrealized gains in transactions between Hydro companies
- 7) Hydro Aluminium Australia Pty Ltd is the owner of Hydro's ownership share in Tomago aluminium smelter (Aluminium Company Pty Limited), a joint operation.
- 8) Hydro Components Nenzing GmbH was merged into Hydro Extrusion Nenzing GmbH in Q2 2020
- 9) Hydro Aluminium Canada & Co. Ltd. is the owner of Hydro's ownership share in Aluminerie Alouette Inc, a jointly owned aluminium smelter
- 10) Hydro Energy AS includes investment in the two joint ventures Hydro Volt AS and Corvus AS
- 11) Hydro Energi AS contributed its shares in RSK Holding AS, in turn owning 100% of Røldal Suldal Kraft AS (RSK), in exchange for a 25.6% ownership in Lyse Kraft DA in Q4 2020
- 12) Hydro Building Systems Middle East (FZC) LLC is filial of Hydro Building Systems Middle East WLL in Bahrain, previously reported together with the parent company
- 13) Hydro Components UK Ltd transferred assets and liabilities to Hydro Extrusion UK Ltd in Q3 2020. The combined legal unit has been renamed to Hydro Aluminium UK Ltd.
- 14) Hydro Extruder LLC, Hydro Extrusion Delhi and Hydro Extrusion North America LLC were dissolved into Hydro Extrusions USA LLC in Q1 2020. Hydro Extrusion Portland Holding Inc was dissolved into Hydro Extrusion USA LLC in Q2 2020
- 15) Hydro Building Systems Italy S.P.A. demerged operational activities of Atessa into a new company named Hydro Building Systems Atessa s.r.l. in Q1 2020
- 16) Hydro Energy GmbH was merged into Hydro Aluminium Deutschland GmbH in Q4 2020
- 17) Hydro Building Systems Germany GmbH was demerged into a new legal entity Hydro Building Systems Extrusion GmbH
- 18) Sapa Germany GmbH was merged into Hydro Holding Offenburg GmbH in Q4 2020
- 19) Extended table covering GRI 207 tax reporting requirement is published on www.hydro.com

Entity descriptions

In the table above, each company has been given a short description of its main activities. Some of the entities can also have other activities as listed below.

Short description	Main activities
Alumina refining	Refining of bauxite to alumina. Hydro operates the Alunorte alumina refinery
Bauxite mining	Mining of bauxite, the raw material for aluminium productions. Hydro has only one consolidated bauxite mine
Building systems production	Production of building systems where aluminium is used
Company kindergarden	Kindergarden for children of employees or tenants
Dies production	Production of dies for extrusion of aluminium profiles
Energy sourcing	Sourcing of energy for Hydro operations
Fabrication of extruded products	Added value processing of extruded profiles
Extrusion production	Includes one or more extrusion production lines and is normally also responsible for sales and marketing of its products. May also have R&D activities
Recycling	Sorting of aluminium scrap for supply to remelters
High-purity aluminium production	Production of aluminium of minimum 99.99 percent purity
Insurance	In-house (captive) insurance
IT shared services	IT shared services for Hydro operations
Local holding company	Holding & Financing. Holding shares or other equity instruments. Administrative, management or support services
Pension fund	Employee pension fund
Power production	Production of hydro-power
Power trading	Trading of power and energy services
Precision tubing production	Production of extruded aluminium tubes, micro-port aluminium tubes, and welded aluminium tubes
Primary aluminium production	Includes one or more primary aluminium plant(s), and may also include casting, anode production and/or R&D activities
Public affairs	Hydro's Brussels office
Real estate	Property management and development. Owner of land and infrastructure
R&D	Research and development activities
Remelter	Facility remelting standard ingots, process scrap and/or post-consumer scrap
Rolling mill	Production of rolled products
Sales company	Sales, marketing and distribution offices
Support services	Administrative and other support services
Tool and spare parts services	Provides tool and spare parts services, in addition to administrative and management support
Trading company	Sales, marketing and distribution of casthouse aluminium products
Transportation	Transport of raw materials by railway train

Diversity and Inclusion

Hydro's organization around the world represents significant diversity in education, experience, gender, age and cultural background. We see this diversity as a source of competitive advantage, as it encourages innovation, learning and better customer understanding.

Research and experience show that to enable a culture of learning and innovation and improved customer understanding, diverse teams, led by inclusive leaders, are needed. The key is to utilize the potential in the workforce diversity. Different backgrounds, cultures and perspectives are important enablers to deliver on our business strategy and to create sustainable business value.

In order to advance in diversity and inclusion, Hydro continuously works to improve the approach, associated processes and governance. The success is dependent on ownership and accountability from business areas and management, which are in the process of updating roadmaps to support diversity and inclusion targets globally as well as locally.

In solving complex tasks, Hydro's leaders should aim for diverse teams and realize their potential through inclusion, so that our differences become a competitive advantage. Our ambition is to have a high-performing and sustainable work environment, based on inclusion of our differences. We want all employees to know they are valued for their differences and that they contribute to the success of our business strategy.

Hydro's approach to and requirements for diversity and inclusion are based in The Hydro Way, our values Care, Courage and Collaboration, in the board-sanctioned Code of Conduct, and in Hydro's People Directive, approved by the President & CEO.

This report is developed to comply with the requirements on public disclosure in the Norwegian Equality and Anti-Discrimination Act (Likestillings- og diskrimineringsloven). This diversity and inclusion report is approved by the board of directors and included in their signatures to the Board of Directors' Report.

Our approach

In our relationships with each other, we strive to be open, honest and respectful. It is everyone's responsibility to contribute to a supportive work environment, based on mutual trust, transparency and respect. Hydro does not tolerate any form of harassment or bullying in the workplace.

We all have the right to work in an environment that is free from intimidation and harassment and where we can feel safe and comfortable. Harassment in the workplace can take many forms and be experienced differently from one person to another; it can be physical, verbal, sexual or other. We do not tolerate any form of harassment or discrimination, including but not limited to gender, race, color, religion, political views, union affiliation, ethnic background, disability, sexual orientation or marital status. We do not tolerate any form of physical punishment.

Hydro is committed to providing equal employment opportunities and treating all employees fairly and with respect. Hydro's employees and business units shall only use merit, qualifications and other professional criteria as a basis for employee-related decisions, such as recruitment, training, compensation and promotion. We strive to develop programs and actions to encourage a diverse organization based on the principle of equal opportunities. Hydro is committed to the principles of non-discrimination.

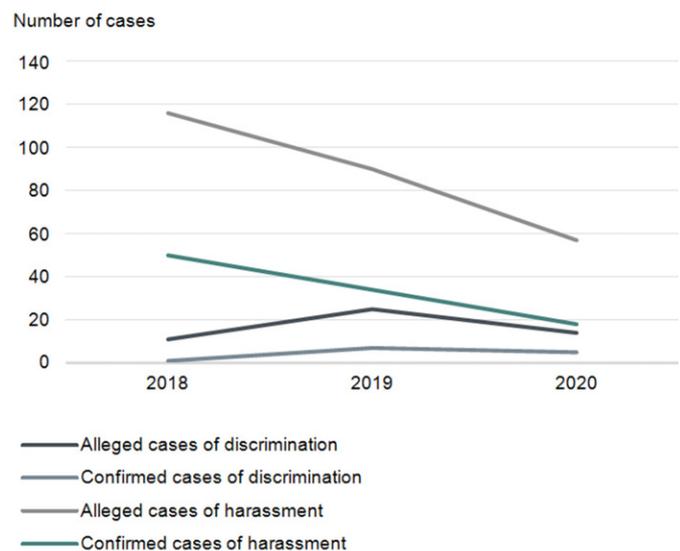
Risks for discrimination

We use the internal grievance mechanism Hydro AlertLine and the employee engagement survey Hydro Monitor as tools to survey the risk level of discrimination in the organization. Cases of alleged and/or confirmed discrimination and harassment are relevant indicators from AlertLine, while in Hydro Monitor we use gender differences in the employee engagement index and the psychosocial risk index as important indicators.

A thorough human rights due diligence of our operations in Pará state, Brazil, have identified areas where we can draw lessons of learning related to risk of discrimination. The due diligence was performed by the human rights consultancy Proactiva, based in Brazil.

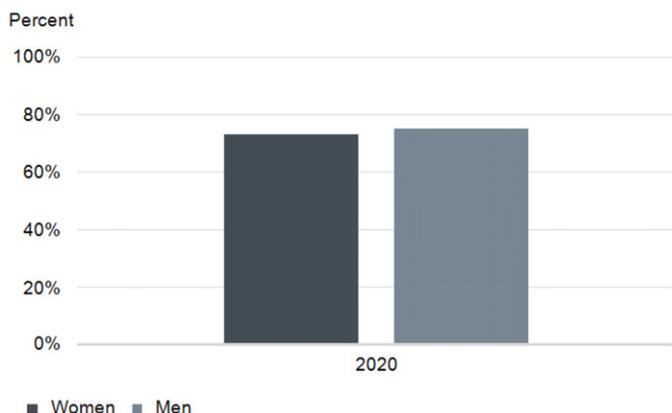
Topics related to diversity and inclusion have not been identified among Hydro's main strategic risks, see page 22.

Alleged and confirmed cases of discrimination and harassment

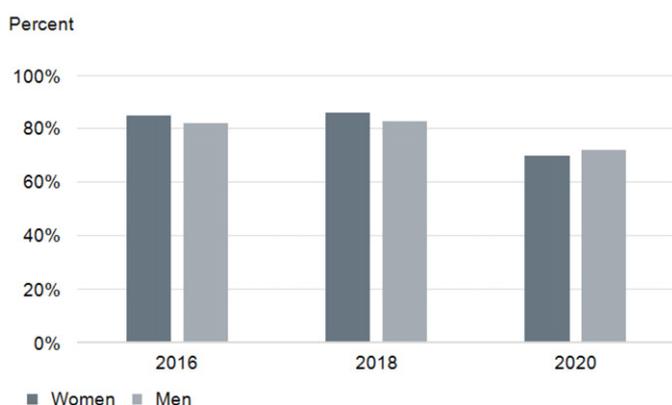


The total total number of alleged cases of discrimination and harassment was 71 in 2020

Hydro Monitor - Psycosocial Risk Index (PRI)



Hydro Monitor - Employee Engagement



Hydro changed survey provider in 2020, and the index may therefore not be comparable to previous years.

Inclusion a prerequisite for equal opportunities

Inclusion to Hydro is about creating a work environment where all employees can contribute with their full potential. It is first of all a leadership responsibility, but also a responsibility for each individual employee in their daily work.

While we believe that diversity is a prerequisite to secure the best workforce, inclusion is needed to secure optimal value creation. It is about creating a work environment where all individuals are enabled to contribute, and making their voices heard. It is about making sure our differences and similarities become our strength, with an ambition to enable an open and curious culture of inclusion. Training and competence in inclusive leadership are important criteria for success, in addition to foster an inclusive culture.

Our strategy and ambitions

Through Hydro's global people processes we aim to ensure the right competence, capabilities and organizational culture to be able to deliver on our overall strategic agenda – lifting profitability, driving sustainability. Hydro's global people processes are learning and competence development, leadership and succession, talent management, as well as diversity and inclusion. The ambition is to have a high performing and sustainable work environment based on inclusion of our differences.

In 2020, we started the work to make sure Hydro's diversity and inclusion strategy is relevant and applicable across our business, and to our 34.000 employees across 40 countries. Based on this we are building a roadmap and plan on group level for how to reach the targets set for 2025. The strategy is research-based and draws on the learning and practical experience from other companies.

By applying improved analytics tools and going deeper into our employee engagement survey, Hydro Monitor, we are able to better understand the current state of diversity and inclusion in Hydro. Based on this, we form hypotheses for how to improve diversity, inclusion and belonging, and pilot projects to create a sustainable change in matters important to our employees. We will measure progress through annual surveys and establish actions for further improvements, using the results from Hydro Monitor 2020 as a baseline.

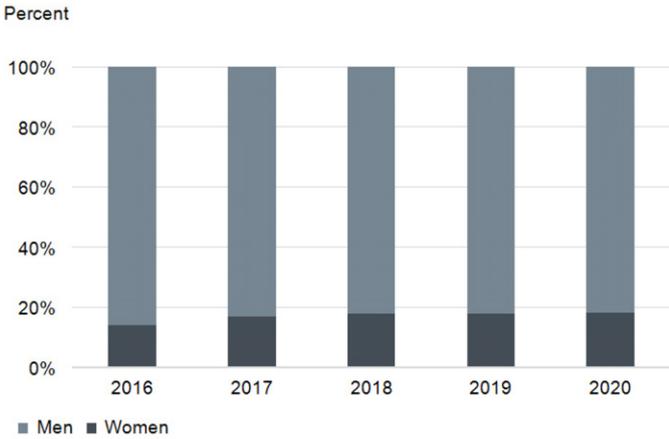
Based on findings from analyses, Hydro aim at improving diversity and inclusion through three main areas:

- Foster inclusive leadership and culture for all employees to contribute with their full potential, increasing value creation
- Promote the same opportunity for everyone to contribute and succeed, recognizing that individuals have different starting points
- Increase relevant diversity, both on overall level, among leaders and on team level

We have worked systematically to increase gender diversity in Hydro's operations for more than twenty years, and we acknowledge the challenges and the obstacles that face both us as a company and our industry. While we to a certain extent have succeeded for staff positions, we still have a challenge related to operators. In 1997, Hydro launched its first action plan to promote female employees and leaders.

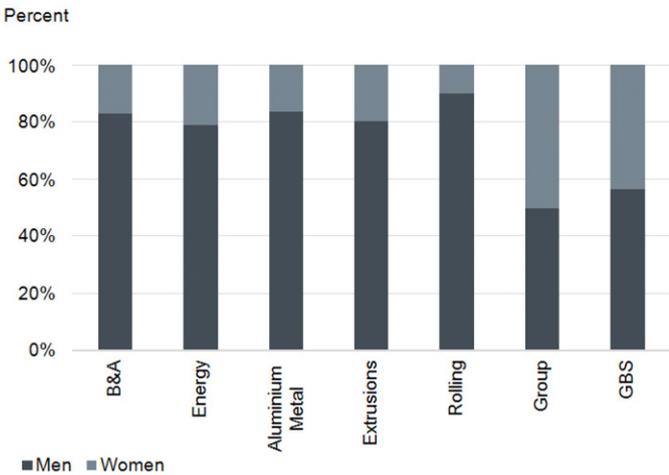
The ambition set for the share of women in Hydro is 25 percent by 2025, including permanent and temporary employees. We have a structured approach and will implement concrete actions to meet this.

Share of women



The total share of women at all levels in Hydro was 18 percent in 2020

Gender distribution per business area

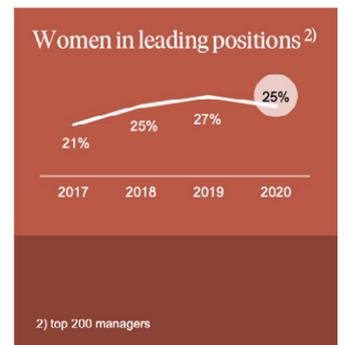
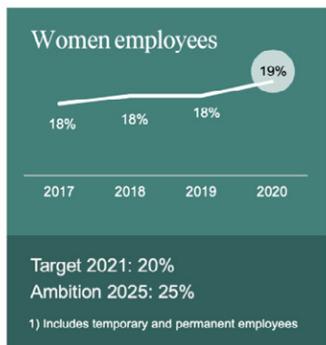


Corporate and GBS are approaching a gender equal workforce, but in most business areas the gender distribution is unequal, with women making up less than 25% of the workforce.

Research shows inclusive leadership ensures that the different voices within a company are heard, and diverse thinking is appreciated. Through more thorough analyses of Hydro Monitor, a clear finding is that employees desire to be part of an inclusive culture where diverse perspectives are shared and valued. Hence, Hydro focus on developing inclusive leadership to foster an open, curious and safe work environment where everyone is enabled to contribute and generate value. Inclusive leadership, diverse thinking and collaboration will help Hydro as a company to

- continuously improve ways of working to drive efficiency
- seize new opportunities where our capabilities match global megatrends
- attract and retain talent
- enhance learning and development.

The success is dependent on ownership and accountability from business areas and management, fostering an inclusive workplace is a responsibility placed on every single Hydro employee.



Opportunities for employees with disabilities

We are continuously adjusting working conditions so that all employees have the same opportunities in their workplace. In Brazil, we are required to employ at least 5 percent employees with disabilities. 4.6 percent of the employees in Paragominas were disabled by the end of 2020, and Alunorte employed 4.5 percent at the end of 2020, while the level at Albras was 4.5 percent. The absolute number for employees with disabilities increased in 2020, compared to 2019. We are working to increase the share of disabled employees. Just as important as achieving the legal requirements, Alunorte, Paragominas and Norsk Hydro Brasil are working on the career development of employees with disabilities. The extrusion sites in Southern-Brazil fulfilled their legal requirements.

Drawing from these experiences, how we can generate opportunities and be an attractive employer for employees with disabilities across our global operations, will be part of our strategy work.

Collaborating with unions and other employee representatives

Through the Global Framework Agreement (see page 28) Hydro is committed to providing equality of opportunity and treatment in recruitment, employment, training and career development, regardless of race, color, gender, membership or affiliation with a trade union, religion, political conviction, nationality or cultural origin, as required by ILO Conventions 100 and 111 respectively. This includes equal remuneration for men and women for work of equal value.

The diversity and inclusion strategy is planned discussed during 2021 in the established business area communication bodies for dialogue between management and unions.

Status for equal opportunities

The information in this section are excerpts from the Social statements in Hydro's Annual Report 2020. More information about the reporting principles and the methodology used for data collection and reporting can be found in The Viability Performance Statements in Hydro's Annual Report 2020.

Hydro Monitor

Hydro has a global engagement survey, Hydro Monitor, which is normally run every second year. The last survey took place in 2020 when all permanent employees were invited to participate and 89 percent responded. Hydro Extrusion participated for the first time in 2020 and the methodology was changed from the previous Hydro Monitor which took place in 2018. Thus, the results are not directly comparable.

For more information, see also the section Risk for discrimination above

Hydro Monitor	2020	2019	2018	2017	2016
Employee Engagement Index (EEI)	72%	N/A	84%	N/A	83%
Women	70%	N/A	86%	N/A	85%
Men	72%	N/A	83%	N/A	82%
Psychosocial Risk Index (PRI)	75%				
Women	73%				
Men	75%				
Integrity Culture Index (ICI)	76%				
Women	75%				
Men	76%				
Performance Excellence Index (PEI) (discontinued)	N/A	N/A	82%	N/A	82%
Response rate	89%	N/A	88%	N/A	89%

Share of male/female employees

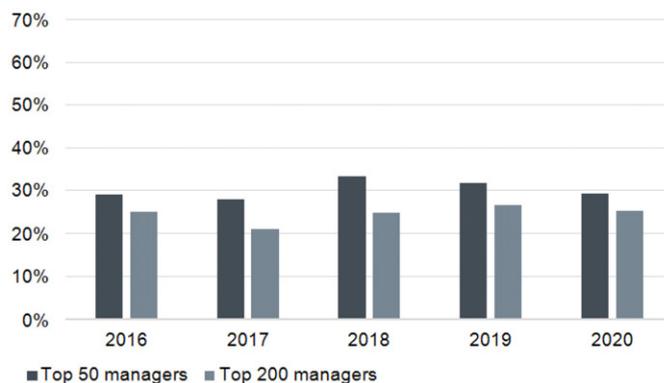
Share of non-Norwegian leaders

Percent



Share of women leaders

Percent



The total share of women at all levels in Hydro was 18 percent in 2020.

The share of women was 40 percent in Hydro's Corporate Management Board in 2020. With three women among the seven shareholder-elected members and one woman among the three employee representatives on the Board of Directors, Hydro complies with the Norwegian legal requirements on female representation.

While gender equality is a challenge among operators at most of Hydro's operational sites, women constitute 50 percent of the workforce in Hydro's corporate staffs and 43 percent in Global Business Services. Globally, about 1/3 of employees in staff positions are women.

Compensation

All employees shall receive a total compensation that is competitive and aligned with the local industry standard (but not market-leading). The compensation should also be holistic, performance oriented, transparent, fair and objective. Relevant qualifications, such as performance, education, experience and professional criteria, shall be considered when providing training, settling compensation and awarding promotions.

Salaries in the organization are reviewed on a regular basis. There is no significant gender-pay differentials for employees earning collective negotiated wages in Norway, Germany and Brazil.

Following the integration of Extrusions in 2017, the USA and Hungary became significant countries of operations for Hydro. We have looked into the salary differences for all Hydro employees in Hungary, and based on overall figures we found no significant gender related salary differences.

We have looked into the salary conditions for all Hydro employees in the USA, including the remelters, extrusion plants and precision tubing facilities. Based on our initial analysis, on average there are no significant gender related salary differences. In Extrusion North America we have initiated steps to conduct a more thorough analysis to help us identify specific disparity issues that may exist.

In 2020, we started the integration of compensation data in our people master data system, and a global job architecture framework was developed enabling us to map all employees in Hydro. The mapping and calibration of the positions will be conducted through 2021. Hydro's global job architecture framework is built on Mercer's International position evaluation system IPE. From 2021 we aim to give more detailed information on gender pay using this framework.

Sick leave

Sick leave in Hydro's global organization was 4.2 percent in 2020, compared to 3.672081977 percent in 2019. In Norway, sick leave was 4.5 percent in 2020 compared to 4.5 percent in 2019. Women in Norway had a sick leave of 5.34 percent, while men had 4.5 percent.

Part-time

Hydro employees normally work full-time. The opportunity to work part-time is considered a benefit for which a special application must be made. Starting in 2021, we will examine if there is involuntary part-time among Hydro employees.

Parental leave

In 2020, a total of 55 women and 107 men took out parental leave in Norway. On average women had 24 weeks of maternity leave and men 10 weeks of paternity leave.

For 2021 we will seek to extend this reporting to cover additional countries.

In Brazil the legal requirement is 120 days of maternity leave and five days of paternity leave. Since 2019, Hydro offers 180 days of maternity leave and 10 days of paternity leave to all employees.

Permanent employees by region, gender and payroll

	Number of employees ¹⁾					Payroll (NOK million) ^{2) 3)}				
	2020	2019	2018	2017	2016	2020	2019	2018	2017	2016
Norway	4,048	4,103	4,050	3,962	3,689	3,632	3,684	3,591	3,220	3,001
Women	21%	21%	21%	20%	19%					
Men	79%	79%	79%	80%	81%					
Germany	4,615	4,967	4,909	4,861	3,555	3,577	4,307	3,265	2,256	2,201
Women	13%	13%	12%	12%	10%					
Men	87%	87%	88%	88%	90%					
France	1,818	1,894	1,883	1,829	-	917	939	954		
Women	16%	16%	16%	16%	0%					
Men	84%	84%	84%	84%	0%					
Hungary	1,554	1,612	1,675	1,540	-	384	408	541		
Women	30%	29%	26%	24%	0%					
Men	70%	71%	74%	76%	0%					
Other Europe	8,407	9,071	9,338	8,864	735	3,746	3,850	3,678	201	223
Women	22%	22%	22%	21%	11%					
Men	78%	78%	78%	79%	89%					
Total Europe	20,442	21,647	21,855	21,056	7,979	12,256	13,188	12,029	5,677	5,425
-	-	-	-	-	-					
Brazil	6,070	6,108	5,658	5,227	4,743	1,059	1,273	1,158	1,166	986
Women	13%	13%	13%	12%	13%					
Men	87%	87%	87%	88%	87%					
USA	5,510	6,013	6,291	5,954	-	3,517	3,656	3,348		
Women	17%	16%	15%	14%	0%					
Men	83%	84%	85%	86%	0%					
Rest of the world	2,218	2,542	2,432	2,388	189	677	889	783		
Women	19%	18%	18%	18%	23%					
Men	81%	82%	82%	82%	77%					
Total	34,240	36,310	36,236	34,625	12,911	17,509	19,005	17,318	7,258	6,681
Women	18%	18%	18%	17%	14%					
Men	82%	82%	82%	83%	86%					

1) Number of employees is based on where the employee actually is stationed, and will in some cases differ from the Country-by-country report, which shows in which legal company she or he is employed.

2) Joint operations (Alunorf and Aluchemie from 2016 to 2019) are excluded from the payroll figures in the table above. Those entities are included in Hydro's financial statements on a line-by-line basis. Please see note 3.1 to the consolidated financial statements for more information about joint operations.

3) Payroll figures for Extrusions is only available from 2018

GRI-reference: GRI Standards 201-1 (2016) and GRI Standards 102-8 (2016)

Age distribution permanent employees

Age distribution

	2020	2019	2018	2017	2016
Under 30	14%	15%	15%	15%	12%
30-49	53%	52%	52%	52%	54%
50 +	32%	33%	33%	32%	33%

GRI Reference: GRI Standards 405-1 (2016) and G4-EU15

Total employees by employment type

Employment category	2020	2019	2018	2017	2016
Permanent - total	34,240	36,310	36,236	34,625	12,911
Temporary - total	1,929	1,647	1,680	1,646	1,266
Women	32%	27%	27%	23%	27%
Men	68%	73%	73%	77%	73%

GRI Reference: GRI Standards 405-1 (2016) and G4-EU15

Part-time employees

Part-time employees ¹⁾	2020	2019	2018	2017	2016
Norway	0.7 %	1.2 %	1.5 %	1.9 %	2.0 %
Women	1.8 %	3.7 %	4.2 %	5.6 %	3.5 %
Men	0.4 %	0.5 %	0.8 %	1.0 %	1.6 %
Total employees	2.0 %	1.3 %	1.3 %	1.6 %	1.2 %
Women	5.9 %	4.9 %	4.9 %	6.2 %	5.7 %
Men	1.1 %	0.5 %	0.5 %	0.6 %	0.6 %

1) Data for 2020 includes 98 percent of Hydro's permanent employees globally.

GRI Reference: GRI Standards 102-8 (2016)

Modern Slavery transparency statement

Hydro's Modern slavery transparency statement has been developed to comply with the legal requirements as stated in the UK Modern Slavery Act 2015, valid to Hydro from 2016, and the Australia Modern Slavery Bill 2018, valid to Hydro from 2020. The reporting requirements apply to Hydro as a supplier of goods with a total turnover of £36 million or more in the UK and more than AUD 100 million in Australia. The statement is valid for Norsk Hydro ASA and its consolidated subsidiaries. These include, but are not limited to, the fully-owned production units Hydro Aluminium Deeside Ltd, Hydro Building Systems UK Ltd., Hydro Components UK Ltd and Hydro Aluminium UK Ltd in the UK and the fully-owned holding company Hydro Aluminium Australia Pty Limited in Australia. The latter is the owner of Hydro's 12.4 percent of the shares in the joint venture Tomago Aluminium Smelter and the Tomago Aluminium Smelter management company Tomago Aluminium Company Pty.

The Modern slavery transparency statement is prepared based on information collected from all consolidated entities in Hydro. In addition, the above-mentioned legal entities have been consulted on the statement itself.

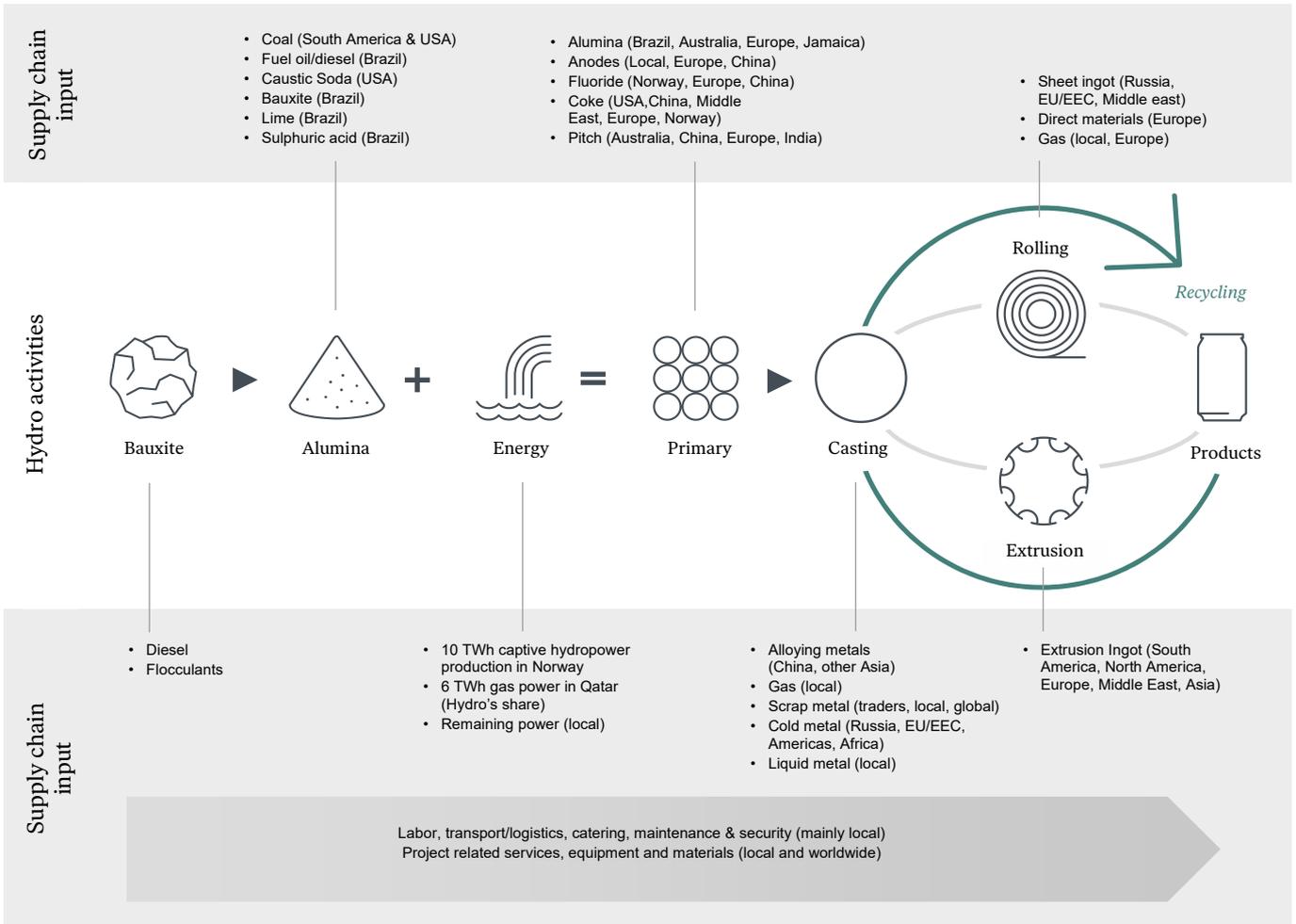
Entities that are not fully owned by, but are controlled by Hydro, can have different policies. We believe that their relevant policies are aligned with the ones of Hydro.

The UK and Australia Modern Slavery transparency statement is approved by the board of directors of the parent company Norsk Hydro ASA and is included in their signatures to the Board of Directors' Report.

Our business and supply chain

Hydro is a fully integrated aluminium company with 34,000 employees in around 40 countries on all continents. 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 in the global aluminium industry. Our operations include one of the world's largest bauxite mines and the world's largest alumina refinery, both located in Brazil. We have primary metal production facilities in Europe, Canada, Australia, Brazil and Qatar. Hydro is a large operator of power production in Norway. Extrusion activities are mainly located in Europe and North America, but we also have significant operations in Asia and Brazil. Hydro is present within all market segments for aluminium, with sales and trading activities throughout the value chain serving more than 30,000 customers. Hydro has more than 30,000 active suppliers globally. Most of these are situated in the same countries as our production facilities.

Hydro's supply chain



The figure shows Hydro's supply chain related to its value chain, and does not reflect the current organizational structure.

Our policies and commitments

As a global energy and aluminium company with mining interests, ensuring responsible conduct in relation to society at large is important throughout Hydro's value chain. We have to consider our impact on society, spanning from construction to divestment activity, including risk of human rights violations, within our own operations, the communities we are part of, and in the supply chain.

Our compliance system shall ensure that all persons acting on behalf of Hydro comply with applicable laws and regulations and with the requirements adopted by Hydro. Information pertaining to Hydro's human rights policies and compliance is regularly discussed with the board of directors, the Corporate Management Board, business area management teams, and relevant parties such as union representatives.

We respect the human rights of all individuals and groups that may be affected by our operations, including freedom from modern slavery. As an employer, owner and purchaser,

an important contribution toward respecting human rights is to secure decent working conditions in our organization, in minority-owned companies and with our suppliers.

We do not tolerate any form of harassment or discrimination, including but not limited to gender, race, color, religion, political views, union affiliation, ethnic background, disability, sexual orientation or marital status. And we do not tolerate any form of forced labor or child labor abuse. We support the principle of freedom of association and collective bargaining. Hydro also supports key frameworks that define human rights principles and is committed to following these, including the UN Guiding Principles on Business and Human Rights and ILO's eight core conventions. We are a member of the UN Global Compact and the International Council on Mining and Metals (ICMM) and are committed to following their principles and position statements. We use the GRI Standards for voluntary reporting of sustainable development. Hydro's human rights management is based on the OECD Due Diligence Guidance for Responsible Business Conduct. Human rights responsibilities are part of Hydro's Code of Conduct, which is translated into 19 languages.

As part of the ongoing process to manage and improve Hydro's human rights impacts, we updated our Human Rights policy and Supplier Code of Conduct in 2020. We also prioritized Hydro's major risks related to human rights (salient issues) and revised the mapping of risk to people in our enterprise risk management process. A corporate coordination group was established to improve collaboration on human rights topics across the organization. The improvement work will continue in 2021.

Hydro's new Human Rights Policy outlines the company's commitment to respecting and promoting human rights. The commitment is integrated in key procedures, including supply chain management, new projects, portfolio management, and risk management. The policy is approved by the Corporate Management Board and is available at www.hydro.com/principles.

We have identified Hydro's major risks to people, the human rights salient to our operations and which we are most at risk of impacting:

- Modern slavery, forced labor and child labor abuse
- Principles of freedom of association and collective bargaining
- Freedom from discrimination and harassment
- Decent working conditions
- Right to privacy
- Right to health
- Right to safety
- Rights of vulnerable individuals and groups
- Access to information, dialogue and participation
- Rightful, respectful and lawful resettlement, relocation and repossession

We expect our suppliers and business partners to follow the Universal Declaration of Human Rights, ILO's eight core conventions and related UN documents and instruments. The minimum requirements to our suppliers are stated in Hydro's Supplier Code of Conduct. The Hydro Supplier Code of Conduct was updated in 2020 to be more specific on several of the requirements than the former version. The changes are based on international standards Hydro is committed to and more requirements have been included, e.g., data privacy, minimum wages, alert line and conflict minerals.

Implementation of governing documents, processes and procedures that concern the respect for human rights is a line management responsibility. Human rights risk can be addressed in the business areas' sustainability committees or similar fora. Information pertaining to Hydro's most severe human rights risks is communicated to the board of directors, the Corporate Management Board, business area management teams, and relevant parties such as union representatives.

Training and capacity building

Human rights responsibilities are part of Hydro's Code of Conduct, which is translated into 19 languages. The Code of Conduct includes our opposition to all forms of human trafficking and forced or compulsory labor. Training on the Code of Conduct is provided to employees. In addition, more specific training on relevant human rights topics is provided

to relevant functions and locations. E-learnings on Hydro's Social responsibility, including human rights, is available to all employees. For more information, see note S10.4 to the Social statements in Hydro's Annual Report 2020.

We have committed to contribute to quality education and capacity building for 500,000 people in our communities and for business partners from 2018 until end of 2030. In 2020, we reached an additional 59,000 people, accumulating to more than 100,000 since 2018. Continuous improvement of current initiatives and development of new high-impact initiatives will be important going forward.

Hydro works to strengthen and improve suppliers' performance. This may be done through dialogue, sharing of knowledge, innovation processes, incentives or supplier development programs.

Risk assessments of human and labor rights

With more than 30,000 active suppliers, Hydro risks being exposed to human rights violations including modern slavery. Hydro did not detect severe human rights impacts in our own operations in 2020, pending final results from the human rights due diligence of Albras, Alunorte and Paragominas.

Human rights due diligence is integrated in relevant business processes including the enterprise risk management process. Mitigating actions or activity plans are developed and included in business plans in the business areas where relevant. Business plans are monitored, followed up and evaluated through the year in regular internal board meetings. Human rights and other sustainability related issues are discussed when relevant.

In line with our risk-based approach, we aim to conduct more thorough stand-alone human rights impact assessments with mitigating action plans where there is a higher risk for adverse impacts.

Before new projects, major developments or large expansions are undertaken, we aim to conduct risk-based environmental and social impact assessments, when relevant, which include evaluating risks for adverse human rights impacts. We are guided by The IFC Performance Standards on Environmental and Social Sustainability in doing so.

We recognize that our activities impact communities in which we operate. We engage and collaborate with stakeholders both internally and externally when relevant to help inform us about, and evaluate the effectiveness of, our human rights management. This may include NGOs, unions, works councils, local associations, authorities, customers, suppliers, business partners.

We are committed to the principles of non-discrimination and to respecting the rights of vulnerable individuals and groups. We aim to include vulnerable individuals and groups in our dialogues and to pay particular attention to these groups in terms of impact and remediation. Dialogue with the employees' representatives includes involvement at an early stage in all major processes affecting employees, and

we have a tradition for open and successful collaboration between management and unions.

Where relevant, and in line with our risk-based approach, we have regular dialogue with communities, and more frequent and structured dialogue in communities with higher risk of facing adverse human rights impacts. Hydro has significant operations in Barcarena, Brazil, including the Alunorte alumina refinery and Albras aluminium plant. Local social conditions are challenging with high levels of unemployment and general poverty. We have established contact with local authorities and representatives for our neighbors, including dialogue with traditional Quilombola groups in Brazil.

The Brazilian human rights consultancy Proactiva has conducted a thorough human rights due diligence of our operations in Pará state, Brazil. The due diligence covers the alumina refinery Alunorte, primary aluminium plant Albras and the Paragominas bauxite mine, including the bauxite slurry pipeline from Paragominas to Alunorte. An action plan is under implementation, prioritized by severity for implementation by 2023. During 2020, we made progress in several areas. Examples include conducting human rights training for employees and for suppliers and improving human rights in the Bauxite & Alumina's Enterprise Risk Management and procurement processes.

Grievance, or complaint, mechanisms are important to understand the impact of Hydro's operations on the rights of individuals and groups affected by our operations. Grievances may be of any kind, including social and environmental issues. To help facilitate informed and effective participation with people who are potentially affected by our operations, we establish or facilitate access to effective grievance mechanisms where relevant. We encourage, and will not retaliate against, individuals who in good faith raise concerns regarding Hydro's respect for human rights. Hydro is committed to not interfere, retaliate or hinder access to judicial or non-judicial grievance mechanisms.

In situations where we identify adverse human rights impact that we have caused or contributed to, we work to cooperate in, promote access to and/or provide fair remediation.

Responsible behavior

We recognize that business can have an important role in supporting the fulfillment of human rights.

Hydro's social responsibility ambition is to make a positive difference by strengthening our business partners and the local communities where we operate. To do this, we target the fundamental drivers of long-term development. In line with stakeholder expectations and needs, and through strong partnerships, we aim to:

- Contribute to quality education in our communities
- Promote decent work throughout the value and supply chain
- Foster economic growth in our communities
- Strengthen local communities and institutions through capacity building on human rights and good governance

Some of our community programs are linked to mining license requirements, while others are voluntary

commitments. The programs target education, economic growth, decent work, capacity building and strengthening of institutions. Many social programs have either been put on hold or transferred to digital platforms due to Covid-19 in 2020. Several programs are linked to partnerships.

Through our operations, we contribute to the economic and human development of our employees and the communities in which we operate. We work to ensure informed and effective participation by individuals and groups who are actually or potentially affected by our operations. We respect Indigenous Peoples' rights, including the right to free, prior and informed consent, and the rights of local communities when our activities may affect their lands, territories and livelihoods.

Hydro is concerned about fundamental labor rights, such as minimum wage requirements and the regulation of working hours, and we support the principle of freedom of association and collective bargaining. We have a long tradition of maintaining a good dialogue with employee organizations. All major sites in Europe and Brazil are unionized. Hydro Extrusions has a major presence in the US, and about 60 percent of our US employees are working at unionized sites. All business areas have a forum for dialogue between the management and union representatives. Hydro's Global Framework Agreement was last updated in 2016. The negotiation of a new agreement has been delayed due to the Covid-19 pandemic.

An important contribution toward respecting human rights is to secure decent working conditions in our organization and promote the same standards in jointly operated and minority-owned companies, and with our suppliers. In Qatalum, in Qatar, where Hydro holds a 50 percent share, the large majority of employees are migrant workers. Proper working conditions for them is key to us. GIEK (Norwegian Export Credit Guarantee Agency) conducted a review of the social responsibility performance in 2019. Qatalum has followed up on the recommendations identified although some recommendations have been delayed due to travel restrictions during Covid-19.

All documents listed under References below are also valid for all our subsidiaries subject to the UK Modern Slavery Act and the Australia Modern Slavery Bill.

References

A number of Hydro's constituting documents and global directives are relevant for our work against modern slavery. These include, but are not limited to:

- CD07 Hydro's Code of Conduct
- GD02 Hydro's People Directive
- GD03 Health, Security, Safety and Environment
- GD09 Hydro's Social Responsibility
- GP09-01 Corporate Social Responsibility in the supply chain
- GP09-01 Hydro's Supplier Code of Conduct
- GP09-03 Hydro's Human Rights Policy
- The Hydro Integrity Program Handbook

All documents are available at www.hydro.com/principles

Board of Director's report in relation to the Norwegian code of practice for corporate governance

This chapter provides a detailed overview of how Hydro follows the Norwegian Code of Practice for Corporate Governance of 2018. Information that Hydro must provide in accordance with the Norwegian Accounting Act, section 3.3b, is also included. This overview should be seen in context with the general corporate governance report provided in Hydro's annual report for 2020.

The board of Norsk Hydro ASA actively supports sound management principles of corporate governance, and places emphasis on Hydro's compliance with the Norwegian Code of Practice for Corporate Governance and on explaining any deviations.

Deviations from the Norwegian code of practice for corporate governance

In the Board of Directors' assessment, we have deviations from three sections in the code of practice:

Section 6, General Meeting of Shareholders:

Hydro has two deviations from this section:

1) *"Ensure that the members of the Board of Directors ... are present at the General Meeting"*: The entire Board of Directors has normally not participated in the General Meeting. Matters under consideration at the General Meeting of Shareholders have not previously required this. The Chair of the Board of Directors is always on hand to present the report and answer any questions. Other board members participate as needed. The Board of Directors considers this to be adequate.

2) *"Making arrangements to ensure an independent chairman for the General Meeting"*: Section 9 in Hydro's articles of association states that the General Meeting is chaired by the Chair of the Corporate Assembly, or, in his or her absence, by the Deputy Chair. This arrangement has been approved by the company's shareholders through resolutions at the General Meeting.

Section 7, Nomination committee:

Hydro has one deviation from this section:

"The company's guidelines for the nomination committee should establish rules for rotation of the members of the nomination committee": The nomination committee has no formal rules on rotation of its members. The nomination committee's mandate expresses, however, the intention to "over the course of time balance the need for continuity against the need for renewal in respect of each governing organ." The Chair of the committee, who is also the Chair of the

Corporate Assembly, has been a member of the committee since 2012, became acting Chair in 2014 and was elected Chair in 2015. The other members were elected to the nomination committee in 2015, 2019 and 2020.

Section 14, Takeovers:

Hydro has one deviation from this section:

"The Board of Directors should establish guiding principles for how it will act in the event of a take-over bid": The Board of Directors has chosen not to prepare explicitly formulated general principles for handling takeover bids. The reason for this is that the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owns 34.3 percent of the Hydro shares (as of 31.12.2020) and the Ministry of Trade, Industry and Fisheries has by virtue of the Active Ownership Report (Report to the Storting no. 8 (2019-2020)) expressed a long-term ownership perspective in the company for the purpose of retaining a leading technology and industrial company with head office functions in Norway.

1. Statement of corporate governance

Hydro follows the most recent edition of the Norwegian Code of Practice for Corporate Governance from 2018. Hydro seeks to comply with international best practice standards when preparing steering documents. The board monitors the subject of corporate governance actively and continuously. This statement was adopted at the board meeting of 9 March 2021.

2. Hydro's business

Hydro is a global aluminium company with production, sales and trading activities throughout the value chain, from bauxite, alumina and energy generation to the production of primary aluminium and rolled and extruded products as well as recycling. Based in Norway, the company has 36,000 employees involved in activities in 40 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

The company's purpose, as stated in section 2 of its articles of association, is to engage in industry, commerce and transport, to utilize energy resources and raw materials, and to engage in other activities connected with this purpose. Its business activities may also be conducted through participation in or in cooperation with other companies.

The Board of Directors evaluates the company's objectives, strategies and risk profile at least annually and reports on it in the Board of Directors' report.

The Hydro Way represents our framework for leadership, organization and culture and is the foundation for our governance system, including our code of conduct. Hydro's Code of Conduct has been approved by the Board of Directors, which also oversees that Hydro has appropriate corporate directives for, among other things, risk management, HSE and corporate responsibility.

Sustainability and social responsibility are integrated into the Group's strategy processes and are discussed in more detail in the Group's annual report.

References: Hydro's articles of association are available at www.hydro.com/governance. Learn more about The Hydro Way and Hydro's corporate directives at www.hydro.com/principles, and Board of Directors' Report 2020 in this document.

3. Equity and dividend

In the opinion of the Board of Directors, Hydro's equity capital is appropriate to the company's objectives, strategy and risk profile.

Hydro's dividend policy is in the long term to pay out, on average, 40 percent of net income as ordinary dividend over the cycle to our shareholders. The dividend policy has a floor of NOK 1.25 per share. This policy has been revised, from 2021 onwards, reflecting Hydro's ambitions to lift performance and cash returns to shareholder over the cycle. The revised dividend policy is to pay out a minimum of 50 percent of underlying net income over the cycle with a NOK 1.25 per share dividend floor.

The dividend per share is proposed by the Board of Directors, based on Hydro's dividend policy, and approved by the General Meeting of Shareholders.

At the Annual General Meeting in 2020, it was decided to authorize the board to decide on the distribution of dividends on the basis of the company's financial results for 2019. The authorization was based on the ongoing uncertainty related to the Covid-19 pandemic situation and its impact on Hydro's operations, markets and financial position, and was valid until the Annual General Meeting in 2021. The board decided to pay a dividend of NOK 2.6 billion on 12 November. This is equivalent to a dividend of NOK 1.25 per share.

The Board of Directors may obtain authorization from the General Meeting of Shareholders to buy back Hydro shares in the market. In such cases, the board will normally request that the shares are acquired in the open market, and that the authority lasts no longer than until the next general meeting.

When the General Meeting of Shareholders considers whether or not to authorize the Board of Directors to carry out share capital increases for different purposes, each purpose must be considered separately by the meeting. Such authorization will be limited in time, and will last no longer than until the date of the next general meeting. Authorization granted to the Board of Directors is restricted to specific purposes. Such authorization was last given in 2010 in connection with the Vale transaction.

See also item 4.

References: Learn more about Hydro's equity and dividend policy under Shareholder information in Hydro's Annual Report 2020.

4. Equal treatment of shareholders

Hydro has one share class. All the shares have the same rights.

Transactions involving own shares are normally executed on the stock exchange. Buybacks of own shares are executed at the current market rate.

Shareholders who are registered in the Norwegian Central Securities Depository (VPS) may vote in person or by proxy at the General Meeting of Shareholders. Invitations are sent to the shareholders or to the bank/broker where the shareholder's securities account is held.

Sales of shares to employees in Norway are conducted at a discount to market value. See also item 6.

Contact between the Board of Directors and the investors is normally conducted via the management. Under special circumstances the board, represented by the Chair, may conduct dialogue directly with investors.

Regulation of share issues and preemptive rights are described in the company's articles of association.

State ownership

As of December 31, 2020 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.3 percent of Hydro's issued shares. Hydro holds regular meetings with the Ministry, where topics discussed include Hydro's economic and strategic development, sustainability, and the Norwegian State's expectations regarding results and returns on investments. These meetings are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in Norwegian company and securities legislation, not least with respect to equal treatment of shareholders. As a shareholder, the Norwegian state does not usually have access to more information than what is available to other shareholders. If state participation is imperative and the government must seek approval from the Norwegian parliament (Stortinget), it may be necessary to provide the Ministry with insider information. In such cases, the state is subject to the general rules that apply to the handling of such information.

References: Learn more about major shareholders in the "Shareholder Information" section of Hydro's Annual Report 2020 and sale of the Hydro share to employees in note 9.3 (Employee remuneration) to the consolidated financial statements. Hydro's code of conduct can be found on www.hydro.com/principles. Hydro's articles of association can be found on www.hydro.com/governance. See also note 9.6 (Related party information) to the consolidated financial statements.

5. Freely negotiable shares

The Hydro share is freely negotiable. It is among the most traded shares on the Oslo Stock Exchange and is subject to efficient pricing. As of December 31, 2020 the Norwegian state, represented by the Ministry of Trade, Industry and Fisheries, owned 34.3 percent of Hydro's shares, while the

Government Pension Fund Norway owned 7.7 percent. Shareholding is based on information from the Norwegian Central Securities Depository (VPS) as of December 31, 2020. Due to lending of shares, an investor's holdings registered in its VPS account may vary.

References: Learn more about Hydro's equity and dividend policy under Shareholder information in Hydro's Annual Report 2020.

6. General Meeting of Shareholders

Shareholders are guaranteed participation through the Annual General Meeting, which is the company's highest governing body. The company's articles of association are adopted here.

In 2020, the Annual General Meeting was held on 11 May, and 58.87% of the total share capital was represented. At the meeting, 1 206 354 649 of a total of 2 068 998 276 shareholders were present or were represented by proxy. The Annual General Meeting was conducted digitally due to the Covid-19 pandemic, with a live webcast and electronic voting on each item.

Notice of a General Meeting of Shareholders with supporting information is normally published on www.hydro.com more than three weeks in advance, and is sent to the shareholders at least three weeks before the meeting is held.

Notice of a General Meeting of Shareholders provides information on the procedures which shareholders must observe in order to participate in and vote at the meetings. Such notice also details:

- the procedure for representation by proxy, including the use of a form of proxy
- the right of shareholders to propose resolutions for consideration by the General Meeting of Shareholders.
- the website where the notice of the meeting and other supporting documents will be made available

The following information is available at www.hydro.com:

- information on the right of shareholders to propose matters for consideration by the General Meeting of Shareholders
- how to make proposals for resolutions for consideration by the General Meeting or how to comment on matters for which no resolution is proposed
- form of proxy

Our aim is that resolution proposals and supporting information that are distributed are sufficiently detailed and comprehensive to enable shareholders to reach decisions on the matters to be considered at the meeting.

The notification deadline for shareholders wishing to attend the General Meeting of Shareholders is no more than five days prior to the meeting.

Shares registered in a nominee account must be re-registered in the Norwegian Central Securities Depository (VPS) and be registered in the VPS on the fifth working day before the General Meeting of Shareholders in order to obtain voting rights.

Shareholders who are unable to attend in person may vote by proxy. Hydro will nominate a person who will be available to vote on behalf of shareholders as their proxy.

The General Meeting of Shareholders votes for each candidate nominated for election to the company's Corporate Assembly and nomination committee.

To the extent possible, the form of proxy will facilitate separate voting instructions for each matter to be considered by the meeting and for each of the candidates nominated for election. It is possible to vote electronically in advance.

The General Meeting of Shareholders is chaired by the Chair of the Corporate Assembly or, in his or her absence, by the Deputy Chair.

The Chair of the Board of Directors, minimum one nomination committee representative, the President and CEO, and the auditor attend the General Meeting.

References: Learn more about the General Meeting of Shareholders at www.hydro.com/investor

Deviations: See the first page of this section.

7. Nomination committee

In accordance with section 5A of Hydro's articles of association, the company must appoint a nomination committee. The main task is to provide a recommendation to the company's Annual General Meeting on the election of members to the Corporate Assembly, and a recommendation to the Corporate Assembly on the election of the shareholders' representatives on the board. In addition, the nomination committee submits proposals for remuneration to the members and deputies of the board and the Corporate Assembly, and carries out an annual evaluation of the board's work.

The nomination committee is comprised of minimum three members, maximum four, who are either shareholders or shareholder representatives. The committee's Chair and members are appointed by the General Meeting of Shareholders. At least two, including the Chair, must be elected from the shareholder-elected representatives in the Corporate Assembly. If the Chair resigns as member of the Nomination Committee during the electoral period, the Nomination Committee shall elect among its members a new Chair for the remainder of the new Chair's electoral period.

The guidelines for the nomination committee have been approved by the General Meeting of Shareholders, which also determines the remuneration of the committee. All shareholders may propose candidates for the nomination committee at any time. In order to be considered at the next ordinary election, proposals must be submitted by the end of November in the year before the election year.

The recommendations of the nomination committee include details on the candidates' background and independence.

The nomination committee ensures that due attention is paid to the interests of the shareholder community and the

company's requirements for competence, capacity and diversity. The nomination committee also takes account of relevant statutory requirements regarding the composition of the company's governing bodies.

According to its mandate, the Nomination Committee shall be receptive to external views and shall ensure that any deadlines for proposals regarding members of the Corporate Assembly, the Nomination Committee and the Board of Directors are published well in advance on the Company's website. In carrying out its duties the Nomination Committee should actively maintain contact with the shareholder community and should ensure that its recommendations are anchored with major shareholders.

All members of the nomination committee are independent of Hydro's Board of Directors, chief executive officer and other executive management staff. As the largest shareholder, the Norwegian state is represented on the nomination committee by Morten Strømgren from the Ministry of Industry and Fisheries and the Government Pension Fund Norway (Folketrygdfondet) by Nils Bastiansen.

References: Hydro's Articles of Association can be found at www.hydro.com/governance. More information about Hydro's nomination committee can be found at the same site. Members of the nomination committee are listed on www.hydro.com/governance. Nominations can be submitted electronically, also from www.hydro.com/governance

Deviations: See the first page of this section.

8. Corporate Assembly and Board of Directors: composition and independence

Detailed information about each board member can be found in the corporate governance chapter in Hydro's Annual report 2020.

All board members, members of the board committees and members of the Corporate Assembly are independent of the company's executive management and material business relationships. One member and one deputy of the Corporate Assembly are dependent of one major Hydro shareholder: Kjetil Houg is CEO of the Government Pension Fund Norway (Folketrygdfondet) and was elected as a member of the Corporate Assembly in 2020. Nils Bastiansen, who is also an employee of the Government Pension Fund Norway, is a deputy member of the Corporate Assembly. There were a few matters where certain board members were disqualified.

Thomas Schulz is the CEO of the listed company FLSchmidt. Sales and purchases between FLSchmidt and fully owned Hydro subsidiaries totaled DKK 13.9 million in 2019. Schulz was not directly involved in these transactions.

Two-thirds of the Corporate Assembly and their deputies are elected by the General Meeting of Shareholders. The nomination committee nominates candidates with a view to obtain a broad representation by the company's shareholders and other relevant stakeholders with competence in, for example, technology, finance, research, and corporate social responsibility.

The Corporate Assembly elects the Board of Directors, including its chair and Deputy Chair.

In compliance with section 5A of Hydro's articles of association, the Board of Directors consists of between nine and 11 members. These are elected for a period of up to two years.

The nomination committee aims to achieve a board composition that protects the interests of the shareholder community and the company's need for expertise, capacity and diversity. Emphasis is placed on the members complementing each other professionally and on the board's ability to function as a collegiate body.

As of December 31, 2020, nine of the board's directors owned a total of 142,968 shares. Hydro has no share purchase program for board members, with the exception of the employee representatives, who are entitled to buy shares through the Norwegian employee share purchase scheme. All share purchase transactions are conducted in compliance with the Securities Trading Act.

References: The Government Pension Fund Norway is a significant shareholder in Hydro. An overview of the members of the Corporate Assembly, the current composition of the Board of Directors and information about their independence in the nomination committee's report, and Hydro's articles of association is available at www.hydro.com

9. The work of the Board of Directors

The Board of Directors has established procedures for its own work and that of the company's management, with particular emphasis on clear internal division of responsibilities whereby the board has responsibility for supervising and administrating the company, and the company's management has responsibility for the general operation of the group.

Conflicts of interests and disqualification

Hydro's Code of Conduct contains guidelines for, among other things, how conflicts of interests that may arise should be dealt with. The code applies to all of Hydro's board members and employees. It is the opinion of the Board of Directors that there were no transactions that were material between the group and its shareholders, board members, Corporate Management Board or related parties in 2020, except those described under item 8.

If the Chair of the board is or has been actively involved in a given case, for example in negotiations on mergers, acquisitions etc., another board member will normally lead discussions concerning that particular case.

The board's guidelines also contain rules that any board member holding a key position in a company with competing activities may not participate in the discussion of or decision on matters where competition-sensitive issues are addressed.

The Board of Directors has an annual work plan, with particular emphasis on objectives, strategy and implementation.

Since 2001, Hydro has had an audit committee and a compensation committee. The audit committee has four members and the compensation committee three members. The shareholder-elected members are all independent of the company. In the opinion of the Board of Directors, the audit committee meets the Norwegian requirements regarding independence and competence.

The Board of Directors conducts an annual self-assessment of its work, competence and cooperation with management and a separate assessment of the Chair of the board. In addition, the audit committee performs a self-assessment. The assessment results are submitted to the nomination committee, which in turn assesses the board's composition and competence.

References: See the section Board developments in the Board of Directors' report. Information about the Board of Directors and its committees, and the board members' competence can be found in the chapter Corporate Governance in Hydro's Annual Report 2020. The Board of Directors' mandate can be found at www.hydro.com

10. Risk management and internal controls

The Board of Directors ensures that the company has sound internal controls and appropriate risk management systems through, for example, an annual review of the key risk areas and the company's internal controls. Internal audit corporate reports directly to the Board of Directors, but is for administrative purposes placed under the purview of the chief financial officer.

Hydro's internal control system includes all parts of our corporate directives, including our code of conduct and HSE and corporate social responsibility requirements. A more detailed description of the company's internal controls and risk management systems related to financial reporting can be found at www.hydro.com/governance

References: A review of Hydro's major risks can be found in the section Risk review in the Board of Directors' report.

11. Remuneration of the Board of Directors

The board members elected by the shareholders perform no duties for the company other than their board duties.

Remuneration is determined by the Corporate Assembly, based on the recommendation of the nomination committee. The nomination committee recommends compensation with the intention that it should reflect the board's responsibility, competence and time commitment as well as the company's complexity and global activities compared with the general level of directors' fees in Norway. Remuneration of the Board of Directors is based neither on performance nor on shares or share options.

References: All aspects of remuneration of the Board of Directors are described in note 9.4 (Board of Directors and Corporate Assembly) to the consolidated financial statements. See also Hydro's articles of association.

12. Remuneration of the executive management

The Board of Directors establishes guidelines for remuneration of members of the executive management. The guidelines are based on Hydro's remuneration policy, which is that Hydro shall pay its employees a total compensation package that is competitive, but not among the highest, and in line with good industry standards locally. The overall purpose of the remuneration policy is to strengthen the Hydro Group's ability to create value over the long-term by supporting business strategy and long-term interests, and to ensure that the Group is run in a sustainable manner.

Where appropriate the remuneration package should, in addition to the base salary, comprise a performance-based incentive, which should reflect individual performance. The company has share-based long-term incentive programs, but no share option scheme for its executive management.

The Board of Directors' statement on management remuneration has so far been made public through note 9.1 to the consolidated financial statements. Note 9.1 has been sent forward to the General Meeting of Shareholders for advisory vote, however, the part of section of note 9.1 which concerns compensation based on shares has been presented for a binding vote.

Following amendments to the Public Limited Liability Companies Act, there are new and more detailed requirements for determining salaries and other remuneration of the executive management. In accordance with this, the Board of Directors has proposed new guidelines for remuneration to executive management in Hydro, replacing the principles for remuneration of the executive management in note 9.1 to the consolidated financial statements, with effect from 2021.

The new guidelines will be presented to the Annual General Meeting in 2021, where a binding vote on these will be held in accordance with the new regulations. The guidelines will then be available on Hydro's website.

Note 9.1 to the consolidated financial statement for 2020 describes the remuneration policy for 2020. Based on the new requirements in the Public Limited Liability Companies Act, a more comprehensive remuneration description will be presented, and will be prepared for the Annual General Meeting in 2022.

References: The board's guidelines for management remuneration are described in note 9.1 (Board of Directors' statement on executive management remuneration) to the consolidated financial statements. All aspects of remuneration of management are described in note 9.2 (Management remuneration). The employee share purchase plan is described in note 9.3 (Employee remuneration). Hydro's remuneration policy is also described in Hydro's people policy, which can be found at www.hydro.com/principles

13. Information and communication

Hydro has established guidelines for the company's reporting of financial and extra-financial information; that is, requirements that go beyond financial reporting, such as the environment, social conditions and corporate governance. These guidelines are based on transparency and consideration of the requirement for equal treatment of all players in the securities market. This also pertains to contact with shareholders outside of the Annual General Meeting.

Shareholder information is available at www.hydro.com. The financial statements and annual report are sent free of charge to shareholders on request. Notice of General Meeting of Shareholders is sent directly to shareholders with known addresses unless they have consented to receive these documents electronically. All information sent to the shareholders is made available at hydro.com when distributed. Presentation of the quarterly reports as well as the annual shareholder meeting are simultaneously broadcasted through web casts. All relevant information is sent to the Oslo Stock Exchange electronically for public storage.

Hydro has emergency plans in place at the relevant levels in the organization. These plans are exercised regularly. Rules for who can speak on behalf of the company are regulated through Hydro's code of conduct.

References: A financial calendar is available in this report and at www.hydro.com/investor where also more information about web casts and the Hydro share can be found, including key legal information for shareholders in Norsk Hydro ASA. Hydro's code of conduct is available at www.hydro.com/principles

14. Takeovers

The Board of Directors will handle takeover bids in accordance with Norwegian law and the Norwegian Code of Practice for Corporate Governance. There are no defense mechanisms against acquisition offers in our articles of association or in any underlying steering document. We have not implemented any measures to limit the opportunity to acquire shares in the company. See also item 5.

Deviations: See the first page of this section.

15. Auditor

The external auditor annually presents the main features of the audit plan to the audit committee.

The external auditor participates in considering relevant matters in meetings of the audit committee. The minutes from these meetings are distributed to all the board directors. This practice is in line with the EU audit directive. Each year the auditor expresses its opinion on internal control procedures to the audit committee, including identified weaknesses and proposals for improvements.

The external auditor meets with the board of directors when the company's annual financial statements are discussed. In the meetings the auditor reviews material changes in the company's accounting policies, assess material accounting estimates and any other material matters on which the auditor and management may disagree, and identify weaknesses in and suggest improvements to Hydro's internal controls. The board of directors holds meetings with the external auditor without members of the corporate management present.

Hydro places importance on independence and has clear guidelines regarding the use of services from external auditors. All services from the external auditor, including non-audit services, are subject to pre-approval as defined by the audit committee.

Remuneration of the auditor is stated in the annual report. It is also included as a separate agenda item to be approved by the annual general meeting of shareholders.

The new Public Audit Act entered into force on 1 January 2021. Extended tasks related to selection of an external auditor, purchase of audit services and follow-up of the external auditor are handled by the audit committee.

In 2020, the general meeting of shareholders chose KPMG as external auditor for the group with effect from the reporting period 2020 in accordance with a tender process. KPMG has been the auditor for Hydro since 2010.

References: Learn more about the external auditor in the sections Corporate Governance and Viability Performance statements in Hydro's Annual Report 2020, note 10.4 (Auditor's remuneration) to the consolidated financial statements.

Additional information

Terms and definitions

ADRs	American Depositary Receipts, evidencing a specified number of ADSs
ADSs	American Depositary Shares, each ADS representing one deposited ordinary share
Alunorf	Aluminium Norf GmbH
Alunorte	The world's largest Alumina refinery outside China, situated in Barcarena in Northern Brazil. Hydro owns 92 percent
AMPS	Aluminium Metal Production System. Hydro's best practice system and standard for world-class production and improvement in our primary metal business
Articles of Association	The articles of association of the Company, as amended and currently in effect
Audit Committee	The audit committee of the Company's Board of Directors
BABS	Bauxite & Alumina's best practice system, based on AMPS (see above) and adjusted to B&A needs
BAT	Best Available Techniques for pollution prevention and control
B&A	Hydro's Bauxite & Alumina business area
CO2 equivalents (CO2e)	A measure used to compare the emissions from various greenhouse gases based upon their global warming potential
Code	The U.S. Internal Revenue Code of 1986, as amended
Company	Norsk Hydro ASA, a Norwegian public company limited by shares, or Norsk Hydro ASA and its consolidated subsidiaries, as the context requires
Compensation Committee	The compensation committee of the Company's Board of Directors
Consolidated Financial Statements	The consolidated financial statements and notes included in the Company's annual report to shareholders
Corporate Assembly	The corporate assembly, a body contemplated by Norwegian companies' law, with responsibility, among other things, for the election of the members of the Company's Board of Directors and nomination of the external auditor
Corporate Management Board	The corporate management board established by the Company's President and Chief Executive Officer to assist him in discharging his responsibilities
CRU	CRU International Limited
Disclosure Committee	The disclosure committee of the Company, comprised of members of senior management, which is responsible for reviewing financial and extra-financial information before it is made public
DRS1	The old bauxite residue deposit area at Alunorte, still being used to deposit bauxite residue, processed by state-of-the-art press filters
DRS2	The new bauxite residue deposit area at Alunorte, which was under commissioning when Barcarena was flooded following extreme rainfalls in February 2018
EEA	European Economic Area
EEA Agreement	The European Economic Area Agreement
EFTA	European Free Trade Association
EU	European Union
GHG	Greenhouse gas emissions
GRI Standards	Globally recognized standards for sustainability reporting
HSE	Health, security, safety and environment
Hydro	Norsk Hydro ASA and its consolidated subsidiaries
Hydro Aluminium	The aluminium business of Hydro, comprising the segments Bauxite & Alumina, Aluminium Metal, Rolling, Extrusions and Energy
Ibama	Brazilian Institute of the Environment and Renewable Natural Resources is a federal environmental agency under the Ministry of Environment
ILO	International Labor Organization
kWh	Kilowatt hour
LME	London Metal Exchange
mm	Millimeter
Mt (or mt)	Metric tonne (1,000 kilograms)
NOK	Norwegian kroner
Nomination Committee	The nomination committee provided for in the Company's Articles of Association and operating under a charter established by the shareholders' representatives in the Corporate Assembly
OSE	Oslo Stock Exchange
Semas	The Secretary of State for Environment and Sustainability is the environmental agency in the state of Pará
TAC	"Term of Adjustment of Conduct" is an agreement between Alunorte, Ministério Público and the Government of Pará/Semas and regulates certain technical studies and improvements, audits, payments of fines, and payments for food cards to families living in the hydrographic area of the Murucupi river
TC	"Term of Commitment" is a social agreement, in addition to TAC, between Alunorte and the Government of Pará. The agreement addresses efforts and investments related to the social development of communities in Barcarena
tonne, mt	One metric tonne (1,000 kilograms or 2,205 pounds)
TWh	Terawatt hour (one billion kilowatt hours)
VPS or VPS System	The Norwegian Central Securities Depository, Verdipapirsentralen
Workers	Person that performs work directly or indirectly for the company. It includes, but is not limited to, employees
WTO	World Trade Organization

Cautionary note

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

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

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



Industries that matter

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