



HYDRO



FIRST  
QUARTER REPORT

2017

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Oslo, April 28, 2017

# Overview

## Summary underlying financial and operating results and liquidity

### Key financial information

NOK million, except per share data	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Revenue	23 026	21 250	8 %	20 138	14 %	81 953
Earnings before financial items and tax (EBIT)	2 410	1 964	23 %	1 693	42 %	7 011
Items excluded from underlying EBIT <sup>1)</sup>	(126)	(135)	7 %	(192)	35 %	(586)
Underlying EBIT <sup>1)</sup>	2 284	1 829	25 %	1 501	52 %	6 425
<i>Underlying EBIT :</i>						
Bauxite & Alumina	756	711	6 %	189	>100 %	1 227
Primary Metal	900	601	50 %	318	>100 %	2 258
Metal Markets	24	152	(84) %	167	(85) %	510
Rolled Products	106	6	>100 %	248	(57) %	708
Energy	423	359	18 %	398	6 %	1 343
Other and eliminations <sup>2)</sup>	74	(1)	>100 %	181	(59) %	380
Underlying EBIT <sup>1)</sup>	2 284	1 829	25 %	1 501	52 %	6 425
Earnings before financial items, tax, depreciation and amortization (EBITDA) <sup>3)</sup>	3 762	3 563	6 %	2 908	29 %	12 485
Underlying EBITDA <sup>1)</sup>	3 637	3 143	16 %	2 716	34 %	11 474
Net income (loss)	1 838	1 008	82 %	2 382	(23) %	6 586
Underlying net income (loss) <sup>1)</sup>	1 580	968	63 %	822	92 %	3 875
Earnings per share	0.86	0.52	66 %	1.12	(23) %	3.13
Underlying earnings per share <sup>1)</sup>	0.75	0.47	60 %	0.39	92 %	1.83
<i>Financial data:</i>						
Investments <sup>1)</sup>	1 372	3 541	(61) %	1 970	(30) %	9 137
Adjusted net cash (debt) <sup>1)</sup>	(5 358)	(5 598)	4 %	(9 206)	42 %	(5 598)

### Key Operational information

	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Bauxite production (kmt) <sup>4)</sup>	2 400	3 063	(22) %	2 682	(11) %	11 132
Alumina production (kmt)	1 523	1 635	(7) %	1 517	-	6 341
Primary aluminium production (kmt)	516	526	(2) %	514	-	2 085
Realized aluminium price LME (USD/mt)	1 757	1 647	7 %	1 497	17 %	1 574
Realized aluminium price LME (NOK/mt)	14 798	13 659	8 %	12 950	14 %	13 193
Realized USD/NOK exchange rate	8.42	8.29	2 %	8.65	(3) %	8.38
Rolled Products sales volumes to external market (kmt)	241	213	13 %	229	5 %	911
Sapa sales volumes (kmt) <sup>5)</sup>	178	155	15 %	174	2 %	682
Power production (GWh)	2 869	2 551	12 %	3 160	(9) %	11 332

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

2) Other and eliminations includes Hydro's 50 percent share of underlying net income from Sapa.

3) EBITDA per segment is specified in Note 2: Operating segment information.

4) Paragominas production, on wet basis.

5) Hydro's 50 percent share of Sapa sales volumes.

Hydro's underlying earnings before financial items and tax increased to NOK 2,284 million in the first quarter, up from NOK 1,829 million in the fourth quarter. The increase mainly reflected higher realized all-in metal<sup>1)</sup> and alumina prices, somewhat offset by higher raw material costs.

Underlying EBIT for Bauxite & Alumina increased compared to the fourth quarter. Higher realized alumina prices, driven by a higher alumina index and LME were partly offset by lower sales volumes, an increase in fuel oil and caustic prices, and negative currency effects as the BRL strengthened against the USD. Planned maintenance programs at Paragominas and Alunorte reduced the bauxite and alumina production volume for the quarter. The fourth quarter was positively influenced by NOK 151 million relating to outstanding contractual arrangements with Vale.

Underlying EBIT for Primary Metal increased in the first quarter due to higher realized all-in metal prices and higher volumes. This was partly offset by significantly higher alumina costs.

Underlying EBIT for Metal Markets declined significantly in the first quarter due to lower results from sourcing and trading activities in addition to negative inventory valuation effects and currency effects.

Underlying EBIT for Rolled Products increased compared with the fourth quarter 2016. Seasonally higher sales volumes were partly offset by various operational issues primarily related to the start up of production after year end maintenance and implementation of new equipment.

Underlying EBIT for Energy increased compared to the previous quarter. Higher production and lower area cost were somewhat offset by lower prices and higher production cost. Production costs increased mainly due to seasonally higher property taxes<sup>2)</sup>, these costs were partly offset by lower transmission cost.

Underlying EBIT for Sapa increased compared to the previous quarter, in line with general seasonality in the industry.

Hydro made progress on its "Better" improvement program, while slightly behind plan, Hydro still expects to reach both the year-end target of NOK 500 million and the 2019 target NOK 2.9 billion.

Hydro's net cash position<sup>3)</sup> decreased during the first quarter by NOK 0.1 billion to NOK 5.9 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 0.7 billion, impacted by operating capital build-up due to seasonality and higher prices. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.2 billion.

1) The all-in metal price refers to the LME aluminium price plus premiums.

2) From 2015 property tax is charged to the period it becomes an unconditional payment obligation (in Norway when invoiced). This leads to periodic variations within the year without affecting the annual property tax level.

3) Net cash (debt) includes Cash and cash equivalents and Short-term investments less Bank loans and other interest bearing Short-term debt and Long-term debt.

## Reported EBIT and net income

Reported earnings before financial items and tax amounted to NOK 2,410 million in the first quarter. In addition to the factors discussed above, reported EBIT included net unrealized derivative losses of NOK 192 million and positive metal effects of NOK 286 million. Reported earnings also included a net gain of NOK 32 million in Sapa (Hydro's share net of tax) relating to unrealized derivative gains, and net foreign exchange gains.

In the previous quarter reported earnings before financial items and tax amounted to NOK 1,964 million including net unrealized derivative gains of NOK 106 million and positive metal effects of NOK 68 million. Reported earnings also included a charge of NOK 285 million reflecting partial write-down of capitalized costs due to a design review of the part-owned projected CAP alumina refinery and a compensation of NOK 254 million relating to the completion of outstanding contractual arrangements with Vale, both within Bauxite & Alumina. In addition, reported earnings included a charge of NOK 32 million relating to a change in interest rate used in the calculation of environmental liabilities linked to idled sites in Germany, and a net gain of NOK 23 million in Sapa (Hydro's share net of tax) relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

Net income amounted to NOK 1,838 million in the first quarter. This includes a net foreign exchange gain of NOK 218 million mainly reflecting the strengthening of BRL against USD affecting USD debt in Brazil, while the weakening of EUR forward rates against NOK gives an unrealized gain on the embedded derivatives in power contracts denominated in EUR.

In the previous quarter net income was NOK 1,008 million including a net foreign exchange loss of NOK 26 million mainly reflecting the strengthening Euro versus Norwegian kroner affecting liabilities in Euro in Norway and embedded currency derivatives in power contracts.

## Market developments and outlook

Industry statistics, commentary and other information in the table and text in this section have been derived from analyst reports, trade associations and other public sources as well as Hydro's own analysis unless otherwise indicated. The information in this section is intended to provide an overview of the main developments in the key markets Hydro is exposed to, and does not have any direct relationship to the reported figures of Norsk Hydro. Statistics presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

Market statistics	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
USD/NOK Average exchange rate	8.44	8.38	1 %	8.65	(2) %	8.40
USD/NOK Period end exchange rate	8.58	8.62	-	8.27	4 %	8.62
BRL/NOK Average exchange rate	2.69	2.54	6 %	2.21	22 %	2.42
BRL/NOK Period end exchange rate	2.71	2.65	2 %	2.29	18 %	2.65
USD/BRL Average exchange rate	3.14	3.30	(5) %	3.91	(20) %	3.48
USD/BRL Period end exchange rate	3.16	3.25	(3) %	3.62	(13) %	3.25
EUR/NOK Average exchange rate	8.99	9.04	(1) %	9.53	(6) %	9.29
EUR/NOK Period end exchange rate	9.17	9.09	1 %	9.41	(3) %	9.09
<i>Bauxite and alumina:</i>						
Average alumina price - Platts PAX FOB Australia (USD/t)	340	308	10 %	222	53 %	254
China bauxite import price (USD/mt CIF China)	48	49	(3) %	50	(3) %	49
Global production of alumina (kmt)	29 941	30 135	(1) %	26 701	12 %	113 942
Global production of alumina (ex. China) (kmt)	13 701	14 164	(3) %	13 251	3 %	54 720
<i>Primary aluminium:</i>						
LME three month average (USD/mt)	1 856	1 709	9 %	1 516	22 %	1 610
LME three month average (NOK/mt)	15 651	14 320	9 %	13 066	20 %	13 509
Standard ingot premium (EU DP Cash)	147	131	12 %	146	1 %	132
Extrusion ingot premium (DP)	310	312	(1) %	319	(3) %	317
Global production of primary aluminium (kmt)	15 357	15 374	-	14 076	9 %	58 751
Global consumption of primary aluminium (kmt)	14 696	15 214	(3) %	13 883	6 %	59 674
Global production of primary aluminium (ex. China) (kmt)	6 707	6 865	(2) %	6 655	1 %	26 978
Global consumption of primary aluminium (ex. China) (kmt)	7 124	6 989	2 %	6 888	3 %	28 234
Reported primary aluminium inventories (kmt)	5 603	5 086	10 %	6 295	(11) %	5 086
<i>Rolled products and extruded products:</i>						
Consumption rolled products - Europe (kmt)	1 205	1 113	8 %	1 169	3 %	4 719
Consumption rolled products - USA & Canada (kmt)	1 204	1 128	7 %	1 159	4 %	4 720
Consumption extruded products - Europe (kmt)	766	691	11 %	753	2 %	2 994
Consumption extruded products - USA & Canada (kmt)	608	547	11 %	598	2 %	2 363
<i>Energy:</i>						
Average southern Norway spot price (NO2) (NOK/MWh)	278	296	(6) %	212	31 %	233
Average mid Norway spot price (NO3) (NOK/MWh)	282	333	(15) %	221	28 %	266
Average nordic system spot price (NOK/MWh)	280	311	(10) %	229	22 %	250

## Bauxite and alumina

Chinese alumina imports amounted to 0.5 million mt in the first two months of 2017, down 43 percent from the same period in 2016. Chinese bauxite imports increased 4 percent to 8.9 million mt compared to the first two months of 2016. Driven by the ramp-up of a new bauxite mine during 2016 imports from Guinea surged to 3.0 million mt from 0.8 million mt in the first quarter 2016, but remained stable compared to the fourth quarter. Supply of bauxite from the Atlantic basin accounted for 42 percent of Chinese imports in the first two months in the year, up from 17 percent in 2016.

Platts alumina spot prices averaged USD 340 per mt in the first quarter of 2017, an increase of USD 32 per mt compared to the previous quarter. Prices started the quarter at USD 348.5 per mt, remained relatively stable until the middle of March before falling rapidly to USD 317 per mt at the end of the quarter. Average prices represented 18.3 percent of LME in the quarter compared with 18.0 percent in the previous quarter. According to Chinese import statistics, the average delivered China bauxite price was USD 47.8 per mt in the first two months of 2017, 3 percent below the the fourth quarter 2016 average of USD 49.2 per mt.

## Primary aluminium

Three-month LME prices ranged between USD 1,689 and USD 1,960 per mt throughout the first quarter of 2017. The average LME three-month price was USD 1,856, increasing by USD 147 per mt compared to the fourth quarter of 2016. European average all-in metal prices increased from USD 1,841 per mt in the fourth quarter of 2016 to USD 1,997 in the first quarter of 2017.

Both European and US standard ingot premiums increased during the quarter. European duty paid standard ingot premiums ended the quarter at USD 155 per mt, compared to USD 128 at the beginning of the quarter, and averaged USD 147 per mt in the first quarter compared to USD 131 per mt in the fourth quarter of 2016. Midwest premiums started the quarter at USD 184 per mt, and ended the quarter at USD 217 per mt, averaging USD 214 per mt compared to USD 168 per mt in the fourth quarter of 2016.

Shanghai Futures Exchange (SHFE) prices increased in the first quarter compared to the fourth quarter of 2016, although not as much as LME prices. As expected, semis exports picked up in March as the arbitrage has gradually improved throughout the quarter. However, the average semis export in first quarter was lower than in the same period in 2016. The increased SHFE prices have lead to the continued restart of Chinese capacity, in addition to new greenfield projects being commissioned. While the majority of these starts and restarts took place in 2016, the main effect on production will be seen during 2017, due to the lead time for production ramp ups.

Global primary aluminium consumption decreased by 3.4 percent to 14.7 million mt in the first quarter compared to the fourth quarter of 2016, mainly due to seasonal effects with the Chinese New Year and customer destocking. Compared to the first quarter of 2016, global demand increased 5.9 percent. Global demand for primary aluminium grew by 5.4 percent in 2016, and is expected to grow by around 4-6 percent in 2017.

Outside China, demand seasonally increased by 1.9 percent in the first quarter of 2017 compared to the fourth quarter of 2016, while the year-on-year increase from the first quarter of 2016 was 3.4 percent. Consumption outside China amounted to 7.1 million mt for the first quarter of 2017. Corresponding production amounted to 6.7 million mt, a decrease of 2.3 percent compared to the fourth quarter of 2016. Production outside China experienced a 0.8 percent increase compared to the first quarter of 2016, largely driven by ramp up of new production capacity in India. Demand for primary aluminium outside China grew by around 3 percent in 2016, and is expected to grow by 2-4 percent in 2017.

Compared to the fourth quarter of 2016, Chinese aluminium consumption decreased by 7.9 percent, to 7.6 million mt, due to seasonal effects. The year-on-year increase compared to the first quarter of 2016 was 8.3 percent. Corresponding aluminium production increased by 1.7 percent compared to the fourth quarter of 2016, and increased 16.6 percent compared to the first

quarter of 2016. The ramp up of new capacity continues in the Northwest regions, in Shandong in the East, in Guizhou in the South East of China and in Inner Mongolia in the North. Demand for primary aluminium in China is expected to grow by around 6-8 percent in 2017 and production is expected to increase by 10-12 percent.

European demand for extrusion ingot increased in the first quarter of 2017 compared to the same period one year ago. Demand for sheet ingot and primary foundry alloys also continued increasing, mainly due to the positive developments in the automotive industry.

LME stocks have declined, amounting to 1.9 million mt at the end of the first quarter of 2017, 0.3 million mt down compared to the level at the end of the fourth quarter of 2016. Compared to first quarter of last year, LME stocks are down 0.9 million mt. Estimated unreported global stocks have been stable, both compared to the first quarter of 2016 and compared to the fourth quarter of 2016.

## Rolled products

European demand for flat rolled products increased by 8.2 percent in the first quarter of 2017 compared to the previous quarter mainly due to seasonality. Compared to the first quarter of last year, European consumption for flat rolled products increased by 3.1 percent.

Demand in automotive continued to show a positive development, driven by increasing substitution of steel by aluminium for automotive body sheet. Building and construction is still recovering, driven by improved demand in Northern Europe. Demand in the beverage can segment showed solid growth whereas foil was flat. The market for general engineering remains solid.

European demand for flat rolled products is expected to be higher in the second quarter of 2017 due to seasonal effects.

## Extruded products

Demand for extruded products in Europe and North America increased compared to the previous quarter by 10.9 percent and 11.1 percent respectively, driven by seasonality.

In North America, total demand for extruded products increased by 1.7 percent compared to the same quarter last year. The increase was driven by stronger automotive demand and higher building and construction activities whereas demand from commercial transportation was declining. In Europe, total demand for extruded products increased by 1.8 percent compared to the same quarter last year. Europe experienced stronger automotive and transportation demand, as well as an improved building and construction market.

## Energy

Nordic spot prices were stable and on average lower in the first quarter compared to the previous quarter. On average, the Nordic hydrological balance improved compared to the previous quarter resulting in somewhat lower prices. Higher continental power prices resulted in net export of power from the Nordic area and gave a certain support to prices.

The Nordic hydrological balance ended at around 3 TWh below normal<sup>1)</sup> for the first quarter, compared to 6 TWh below normal for the previous quarter. Water reservoirs in Norway were 35 percent of full capacity at the end of the quarter, which is 4 percentage points below normal level. Snow reservoirs were also somewhat lower than normal at the end of the quarter.

1) Normal based on long term historical averages.

## *Additional factors impacting Hydro*

Primary Metal has sold forward around 50 percent of its expected primary aluminium production for the second quarter of 2017 at a price level of around USD 1,875 per mt.<sup>1)</sup>

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Sapa AS (owned 50 percent by Hydro) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding certain aluminum extrusions that SPI manufactured from 1996 to 2015, including extrusions that were delivered to a supplier to NASA. SPI is cooperating fully in these investigations. The investigations are currently ongoing, and, at this point, the outcome of the investigations and of any identified quality issues, including financial consequences on Sapa, is uncertain. SPI also has been temporarily suspended as a federal government contractor. Based on the information known to Hydro at this stage, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position.

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



## Underlying EBIT

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

## Bauxite & Alumina

Operational and financial information	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	756	680	11 %	189	>100 %	1 196
Underlying EBIT (NOK million)	756	711	6 %	189	>100 %	1 227
Underlying EBITDA (NOK million)	1 334	1 258	6 %	640	>100 %	3 221
Alumina production (kmt)	1 523	1 635	(7) %	1 517	-	6 341
Sourced alumina (kmt)	600	883	(32) %	531	13 %	2 541
Total alumina sales (kmt)	2 129	2 472	(14) %	2 073	3 %	8 843
Realized alumina price (USD/mt) <sup>1)</sup>	309	257	20 %	219	41 %	240
Bauxite production (kmt) <sup>2)</sup>	2 400	3 063	(22) %	2 682	(11) %	11 132
Sourced bauxite (kmt) <sup>3)</sup>	1 675	2 235	(25) %	1 924	(13) %	8 499

1) 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 a one month delay.

2) Paragominas production, on wet basis.

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

Underlying EBIT for Bauxite & Alumina increased compared to the fourth quarter. Higher realized alumina prices, driven by a higher alumina index and LME were partly offset by lower sales volumes, an increase in fuel oil and caustic prices, and negative currency effects as the BRL strengthened against the USD. Planned maintenance programs at Paragominas and Alunorte reduced the bauxite and alumina production volume for the quarter. The fourth quarter was positively influenced by NOK 151 million relating to outstanding contractual arrangements with Vale.

Bauxite & Alumina remain on track with their "Better Bauxite & Alumina" improvement program.

Compared to the first quarter of 2016 the underlying EBIT increased mainly due to higher realized alumina prices. This was partly offset by negative currency effects from a stronger BRL.

## Primary Metal

<b>Operational and financial information <sup>1)</sup></b>	<b>First quarter 2017</b>	<b>Fourth quarter 2016</b>	<b>Change prior quarter</b>	<b>First quarter 2016</b>	<b>Change prior year quarter</b>	<b>Year 2016</b>
Earnings before financial items and tax (EBIT) (NOK million)	797	619	29 %	408	95 %	2 285
Underlying EBIT (NOK million)	900	601	50 %	318	>100 %	2 258
Underlying EBITDA (NOK million)	1 392	1 068	30 %	792	76 %	4 172
Realized aluminium price LME (USD/mt) <sup>2)</sup>	1 757	1 647	7 %	1 497	17 %	1 574
Realized aluminium price LME (NOK/mt) <sup>2)</sup>	14 798	13 659	8 %	12 950	14 %	13 193
Realized premium above LME (USD/mt) <sup>3)</sup>	266	240	11 %	288	(8) %	263
Realized premium above LME (NOK/mt) <sup>3)</sup>	2 236	1 993	12 %	2 488	(10) %	2 201
Realized USD/NOK exchange rate	8.42	8.29	2 %	8.65	(3) %	8.38
Primary aluminium production (kmt)	516	526	(2) %	514	-	2 085
Casthouse production (kmt)	521	523	-	534	(2) %	2 146
Total sales (kmt)	577	528	9 %	552	5 %	2 248

1) Operating and financial information includes Hydro's proportionate share of underlying income (loss) of equity accounted investments.

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

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

<b>Operational and financial information Qatalum (50%)</b>	<b>First quarter 2017</b>	<b>Fourth quarter 2016</b>	<b>Change prior quarter</b>	<b>First quarter 2016</b>	<b>Change prior year quarter</b>	<b>Year 2016</b>
Revenue (NOK million)	1 355	1 256	8 %	1 140	19 %	4 801
Underlying EBIT (NOK million)	157	107	47 %	28	>100 %	341
Underlying EBITDA (NOK million)	457	407	12 %	333	37 %	1 528
Net income (loss) (NOK million)	98	49	99 %	(36)	>100 %	98
Underlying Net income (loss) (NOK million)	98	49	99 %	(36)	>100 %	98
Primary aluminium production (kmt)	76	77	(1) %	76	-	306
Casthouse sales (kmt)	80	80	-	73	10 %	310

Underlying EBIT for Primary Metal increased in the first quarter due to higher realized all-in metal prices and higher volumes. This was partly offset by significantly higher alumina costs.

Progress on the "Better Primary Metal" program is currently behind plan for the year due to slower than expected progress on the improvement program in Albras. The delay is not expected to impact the 2019 target of NOK 1.0 billion.

Compared to the first quarter of 2016, underlying EBIT improved, mainly due to higher realized all-in metal prices partly offset by higher alumina costs and negative currency effects.

## Metal Markets

Operational and financial information	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	(13)	172	>(100) %	235	>(100) %	629
Underlying EBIT (NOK million)	24	152	(84) %	167	(85) %	510
Currency effects	(21)	(6)	>(100) %	24	>(100) %	-
Inventory valuation effects	(38)	9	>(100) %	(3)	>(100) %	(13)
Underlying EBIT excl. currency and inventory valuation effects	83	149	(44) %	145	(43) %	524
Underlying EBITDA (NOK million)	47	175	(73) %	191	(75) %	604
Remelt production (kmt)	143	133	8 %	144	-	548
Metal products sales excluding ingot trading (kmt) <sup>1)</sup>	735	660	11 %	736	-	2 893
Hereof external sales (kmt)	672	616	9 %	664	1 %	2 627

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

Underlying EBIT for Metal Markets declined significantly in the first quarter mainly due to lower results from sourcing and trading activities in addition to negative inventory valuation effects and currency effects.

Compared to the first quarter of 2016, underlying EBIT for Metal Markets decreased significantly influenced by negative ingot valuation effects and currency effects. Results from remelters declined mainly due to lower contribution margins both in Europe and US.

## Rolled Products

Operational and financial information	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	450	91	>100 %	179	>100 %	953
Underlying EBIT (NOK million)	106	6	>100 %	248	(57) %	708
Underlying EBITDA (NOK million)	307	222	38 %	446	(31) %	1 507
Sales volumes to external market (kmt)	241	213	13 %	229	5 %	911
<b>Sales volumes to external markets (kmt) - Product areas</b>						
Can & foil	85	79	8 %	76	12 %	321
Lithography & automotive	78	67	15 %	78	-	298
Special products	78	67	17 %	75	3 %	292
Rolled Products	241	213	13 %	229	5 %	911

Underlying EBIT for the first quarter increased compared with the fourth quarter 2016. Seasonally higher sales volumes were partly offset by effects of various operational issues primarily related to the start up of production after year end maintenance and implementation of new equipment.

Progress on the "Better Rolled Products" program is slightly behind plan for the first quarter due to the operational issues described above. The delay is not expected to impact either the 2017 year-end target or the 2019 target of NOK 0.9 billion.

Compared to the first quarter of 2016 the underlying EBIT declined. In addition to the operational issues described above, depreciation and ramp-up costs for automotive line 3 increased, and there were a number of smaller cost elements that influenced the result. Results from the Neuss smelter improved due to the all-in metal price development.

## Energy

Operational and financial information	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	423	364	16 %	394	7 %	1 343
Underlying EBIT (NOK million)	423	359	18 %	398	6 %	1 343
Underlying EBITDA (NOK million)	476	412	16 %	453	5 %	1 553
Direct production costs (NOK million) <sup>1)</sup>	164	156	5 %	193	(15) %	639
Power production (GWh)	2 869	2 551	12 %	3 160	(9) %	11 332
External power sourcing (GWh)	2 272	2 238	2 %	2 227	2 %	8 935
Internal contract sales (GWh)	3 470	3 379	3 %	3 339	4 %	13 435
External contract sales (GWh)	261	235	11 %	253	3 %	769
Net spot sales (GWh)	1 409	1 176	20 %	1 795	(21) %	6 063

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

Underlying EBIT for Energy increased compared to the previous quarter. Higher production and lower area cost were partly offset by lower prices and higher production cost. Production costs increased mainly due to seasonally higher property taxes<sup>2)</sup>, partly offset by lower transmission cost.

Compared to the first quarter of the previous year underlying EBIT increased, mainly due to lower transmission cost and property tax as well as improved commercial results. Higher prices largely offset the impact from lower production.

2) Property tax is charged to the period it becomes an unconditional payment obligation (in Norway when invoiced). This leads to periodic variations within the year without affecting the annual property tax level.

## Other and eliminations

### Financial information

NOK million	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Earnings before financial items and tax (EBIT)	(3)	38	>(100) %	288	>(100) %	605
Sapa (50%) <sup>1)</sup>	281	167	69 %	183	54 %	777
Other	(140)	(130)	(8) %	(162)	14 %	(458)
Eliminations	(67)	(38)	(78) %	160	>(100) %	61
Underlying EBIT	74	(1)	>100 %	181	(59) %	380

1) Hydro's share of Sapa's underlying net income.

Other is mainly comprised of head office costs, costs related to holding companies and service centers related to Hydro's operations.

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

Operational and financial information Sapa (50%)	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Revenue (NOK million) <sup>2)</sup>	7 162	6 105	17 %	6 953	3 %	26 663
Underlying EBIT (NOK million)	389	168	>100 %	286	36 %	1 099
Underlying EBITDA (NOK million)	550	327	68 %	450	22 %	1 749
Net income (loss) (NOK million)	313	190	65 %	209	50 %	889
Underlying net income (loss) (NOK million)	281	167	69 %	183	54 %	777
Sales volumes (kmt)	178	155	15 %	174	2 %	682

2) Historical revenues have been reclassified.

Underlying EBIT for Sapa increased compared to the previous quarter, in line with general seasonality in the industry.

Underlying EBIT for Sapa increased compared to the same quarter of the previous year. The increase was driven by a higher share of value add business and internal improvements for all business areas, as well as higher volumes in Europe. All business areas improved its underlying EBIT.

## Finance

Financial income (expense)	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
NOK million						
Interest income	93	116	(20)%	172	(46)%	468
Dividends received and net gain (loss) on securities	11	20	(47)%	(15)	>100%	105
Financial income	104	137	(24)%	157	(34)%	574
Interest expense	(105)	(121)	14 %	(103)	(2)%	(362)
Capitalized interest	21	14	57 %	22	(2)%	97
Net foreign exchange gain (loss)	218	(26)	>100%	1 032	(79)%	2 266
Net interest on pension liability	(33)	(64)	49 %	(51)	35 %	(210)
Other	(69)	(78)	12 %	(55)	(26)%	(240)
Financial expense	33	(277)	>100%	844	(96)%	1 552
Financial income (expense), net	136	(140)	>100%	1 001	(86)%	2 126

The net foreign exchange gain of NOK 218 million reflects strengthening of BRL against USD affecting US dollar debt in Brazil, while the weakening of EUR forward rates against NOK gives an unrealized gain on the embedded derivatives in power contracts denominated in EUR.

## Tax

Income tax expense amounted to NOK 707 million for the first quarter of 2017 or about 28 percent of income before tax. The first quarter of 2016 was positively influenced by NOK 600 million related to a favorable decision from the Norwegian Tax Appeal Board in a tax dispute.

## Interim financial statements

### Condensed consolidated statements of income (unaudited)

NOK million, except per share data	First quarter 2017	2016	Year 2016
Revenue	23 026	20 138	81 953
Share of the profit (loss) in equity accounted investments	409	170	985
Other income, net	164	111	1 030
Total revenue and income	23 599	20 419	83 969
Raw material and energy expense	14 822	12 729	52 151
Employee benefit expense	2 613	2 381	9 485
Depreciation, amortization and impairment	1 352	1 215	5 474
Other expenses	2 402	2 401	9 848
Total expenses	21 190	18 725	76 958
Earnings before financial items and tax (EBIT)	2 410	1 693	7 011
Financial income	104	157	574
Financial expense	33	844	1 552
Financial income (expense), net	136	1 001	2 126
Income (loss) before tax	2 546	2 694	9 137
Income taxes	(707)	(313)	(2 551)
Net income (loss)	1 838	2 382	6 586
Net income (loss) attributable to non-controlling interests	76	86	199
Net income (loss) attributable to Hydro shareholders	1 762	2 296	6 388
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) <sup>1)</sup>	0.86	1.12	3.13
Weighted average number of outstanding shares (million)	2 043	2 042	2 042

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

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

## Condensed consolidated statements of comprehensive income (unaudited)

NOK million	First quarter 2017	2016	Year 2016
Net income (loss)	1 838	2 382	6 586
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to income statement:</b>			
Remeasurement postemployment benefits, net of tax	465	(667)	178
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	-	-	(41)
<b>Total</b>	<b>465</b>	<b>(667)</b>	<b>137</b>
<b>Items that will be reclassified to income statement:</b>			
Currency translation differences, net of tax	808	(960)	4 114
Unrealized gain (loss) on securities, net of tax	(20)	(30)	(47)
Cash flow hedges, net of tax	32	(48)	115
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	107	(257)	(281)
<b>Total</b>	<b>927</b>	<b>(1 296)</b>	<b>3 901</b>
<b>Other comprehensive income</b>	<b>1 391</b>	<b>(1 962)</b>	<b>4 038</b>
<b>Total comprehensive income</b>	<b>3 230</b>	<b>419</b>	<b>10 624</b>
Total comprehensive income attributable to non-controlling interests	184	65	889
<b>Total comprehensive income attributable to Hydro shareholders</b>	<b>3 046</b>	<b>354</b>	<b>9 735</b>

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



## Condensed balance sheets (unaudited)

NOK million, except number of shares	March 31		December 31
	2017	2016	2016
<b>Assets</b>			
Cash and cash equivalents	8 333	5 946	8 037
Short-term investments	4 403	5 479	4 611
Accounts receivables	12 851	12 699	10 884
Inventories	12 557	11 684	12 381
Other current assets	301	128	457
<b>Total current assets</b>	<b>38 445</b>	<b>35 936</b>	<b>36 371</b>
Property, plant and equipment	59 627	51 828	58 734
Intangible assets	5 919	5 132	5 811
Investments accounted for using the equity method	19 937	19 455	19 807
Prepaid pension	4 718	3 319	4 195
Other non-current assets	5 630	6 845	5 875
<b>Total non-current assets</b>	<b>95 831</b>	<b>86 579</b>	<b>94 422</b>
<b>Total assets</b>	<b>134 276</b>	<b>122 515</b>	<b>130 793</b>
<b>Liabilities and equity</b>			
Bank loans and other interest-bearing short-term debt	3 481	3 753	3 283
Trade and other payables	10 224	8 857	10 108
Other current liabilities	3 337	3 864	3 716
<b>Total current liabilities</b>	<b>17 041</b>	<b>16 474</b>	<b>17 106</b>
Long-term debt	3 373	3 735	3 397
Provisions	4 526	3 443	4 384
Pension liabilities	12 804	13 457	12 871
Deferred tax liabilities	2 567	2 222	2 384
Other non-current liabilities	3 174	3 436	3 011
<b>Total non-current liabilities</b>	<b>26 444</b>	<b>26 294</b>	<b>26 047</b>
<b>Total liabilities</b>	<b>43 486</b>	<b>42 767</b>	<b>43 153</b>
Equity attributable to Hydro shareholders	84 952	74 524	81 906
Non-controlling interests	5 838	5 224	5 733
<b>Total equity</b>	<b>90 790</b>	<b>79 748</b>	<b>87 640</b>
<b>Total liabilities and equity</b>	<b>134 276</b>	<b>122 515</b>	<b>130 793</b>
<b>Total number of outstanding shares (million)</b>	<b>2 043</b>	<b>2 042</b>	<b>2 043</b>

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

## Condensed consolidated statements of cash flows (unaudited)

NOK million	First quarter		Year
	2017	2016	2016
<b>Operating activities</b>			
Net income	1 838	2 382	6 586
Depreciation, amortization and impairment	1 352	1 215	5 474
Other adjustments	(2 522)	(3 839)	(2 042)
Net cash provided by (used in) operating activities	668	(242)	10 018
<b>Investing activities</b>			
Purchases of property, plant and equipment	(1 396)	(1 395)	(6 913)
Purchases of other long-term investments	(32)	(32)	(183)
Purchases of short-term investments	(1 250)	-	(4 650)
Proceeds from long-term investing activities	272	161	1 115
Proceeds from sales of short-term investments	1 750	550	5 850
Net cash used in investing activities	(656)	(716)	(4 781)
<b>Financing activities</b>			
Loan proceeds	2 180	993	5 208
Principal repayments	(1 821)	(1 415)	(7 525)
Net increase (decrease) in other short-term debt	(153)	443	265
Proceeds from shares issued	5	10	28
Dividends paid	-	-	(2 362)
Net cash provided by (used in) financing activities	211	31	(4 386)
Foreign currency effects on cash and bank overdraft	73	(44)	269
Net increase (decrease) in cash, cash equivalents and bank overdraft	296	(971)	1 120
Cash, cash equivalents and bank overdraft at beginning of period	8 037	6 917	6 917
Cash, cash equivalents and bank overdraft at end of period	8 333	5 946	8 037

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

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

NOK million	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other components of equity	Equity attributable to Hydro shareholders	Non-controlling interests	Total equity
January 1, 2016	2 272	29 068	(913)	45 850	(2 107)	74 169	5 159	79 329
<i>Changes in equity for 2016</i>								
Total comprehensive income for the period				2 296	(1 941)	354	65	419
March 31, 2016	2 272	29 068	(913)	48 145	(4 048)	74 524	5 224	79 748
January 1, 2017	2 272	29 070	(870)	50 210	1 224	81 906	5 733	87 640
<i>Changes in equity for 2017</i>								
Dividends				-		-	(79)	(79)
Total comprehensive income for the period				1 762	1 283	3 046	184	3 230
March 31, 2017	2 272	29 070	(870)	51 973	2 508	84 952	5 838	90 790

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

## *Notes to the condensed consolidated financial statements*

### **Note 1: Accounting policies**

All reported figures in the financial statements are based on International Financial Reporting Standards (IFRS). Hydro's accounting principles are presented in note 2 Significant accounting policies in Hydro's Financial Statements - 2016.

The interim accounts are presented in accordance with IAS 34 Interim Financial Reporting. The condensed consolidated interim financial information should be read in conjunction with Hydro's Financial Statements - 2016 that are a part of Hydro's Annual Report - 2016.

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

## Note 2: Operating segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. This standard requires Hydro to identify its segments according to the organization and reporting structure used by management. See Hydro's Financial statements - 2016 note 7 Operating and geographic segment information for a description of Hydro's management model and segments, including a description of Hydro's segment measures and accounting principles used for segment reporting.

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

NOK million	First quarter		Year
	2017	2016	2016
<b>Total revenue</b>			
Bauxite & Alumina	5 911	4 212	19 543
Primary Metal	8 641	7 694	30 862
Metal Markets	12 149	11 248	43 254
Rolled Products	6 277	5 737	22 632
Sapa	-	-	-
Energy	1 955	1 620	7 180
Other and eliminations	(11 906)	(10 373)	(41 517)
<b>Total</b>	<b>23 026</b>	<b>20 138</b>	<b>81 953</b>
<b>External revenue</b>			
Bauxite & Alumina	3 382	2 443	12 059
Primary Metal	1 700	1 175	5 529
Metal Markets	11 094	10 133	39 420
Rolled Products	6 153	5 795	22 469
Sapa	-	-	-
Energy	687	575	2 426
Other and eliminations	9	17	50
<b>Total</b>	<b>23 026</b>	<b>20 138</b>	<b>81 953</b>
<b>Internal revenue</b>			
Bauxite & Alumina	2 528	1 769	7 484
Primary Metal	6 941	6 519	25 333
Metal Markets	1 054	1 116	3 834
Rolled Products	124	(58)	163
Sapa	-	-	-
Energy	1 267	1 044	4 753
Other and eliminations	(11 915)	(10 390)	(41 567)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Share of the profit (loss) in equity accounted investments</b>			
Bauxite & Alumina	-	-	-
Primary Metal	98	(37)	96
Metal Markets	-	-	-
Rolled Products	-	-	-
Sapa	313	209	889
Energy	-	-	-
Other and eliminations	(1)	(3)	-
<b>Total</b>	<b>409</b>	<b>170</b>	<b>985</b>

NOK million	First quarter 2017	2016	Year 2016
<b>Depreciation, amortization and impairment</b>			
Bauxite & Alumina	577	451	2 279
Primary Metal	492	474	1 913
Metal Markets	23	24	94
Rolled Products	201	197	799
Sapa	-	-	-
Energy	53	55	210
Other and eliminations	6	13	178
<b>Total</b>	<b>1 352</b>	<b>1 215</b>	<b>5 474</b>
<b>Earnings before financial items and tax (EBIT) <sup>1)</sup></b>			
Bauxite & Alumina	756	189	1 196
Primary Metal	797	408	2 285
Metal Markets	(13)	235	629
Rolled Products	450	179	953
Sapa	313	209	889
Energy	423	394	1 343
Other and eliminations	(316)	79	(285)
<b>Total</b>	<b>2 410</b>	<b>1 693</b>	<b>7 011</b>
<b>EBITDA</b>			
Bauxite & Alumina	1 334	640	3 475
Primary Metal	1 289	882	4 199
Metal Markets	9	259	723
Rolled Products	651	376	1 752
Sapa	313	209	889
Energy	476	450	1 553
Other and eliminations	(310)	92	(107)
<b>Total</b>	<b>3 762</b>	<b>2 908</b>	<b>12 485</b>
<b>Investments <sup>2)</sup></b>			
Bauxite & Alumina	318	858	3 544
Primary Metal	827	551	3 396
Metal Markets	14	8	101
Rolled Products	120	475	1 615
Sapa	-	-	-
Energy	75	56	318
Other and eliminations	16	22	162
<b>Total</b>	<b>1 372</b>	<b>1 970</b>	<b>9 137</b>

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

2) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments.

NOK million	EBIT	Depr., amor. and impairment <sup>1)</sup>	EBITDA
<b>EBIT - EBITDA First quarter 2017</b>			
Bauxite & Alumina	756	577	1 334
Primary Metal	797	492	1 289
Metal Markets	(13)	23	9
Rolled Products	450	201	651
Sapa	313	-	313
Energy	423	53	476
Other and eliminations	(316)	6	(310)
<b>Total</b>	<b>2 410</b>	<b>1 353</b>	<b>3 762</b>

1) Depreciation, amortization and impairment write-down of tangible and intangible assets, and amortization of excess values in equity accounted investments and impairment loss of such investments.

### Note 3: Contingent liabilities

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that it is not probable that the resulting liabilities, if any, will have a material adverse effect on its consolidated results of operations, liquidity or financial position.

## *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**

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



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

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

### Items excluded from underlying EBIT and net income <sup>1)</sup>

NOK million	First quarter 2017	Fourth quarter 2016	First quarter 2016	Year 2016
Unrealized derivative effects on LME related contracts	18	(87)	(137)	(401)
Unrealized derivative effects on power and raw material contracts	173	(20)	(87)	(61)
Metal effect, Rolled Products	(286)	(68)	43	(91)
Significant rationalization charges and closure costs	-	-	-	192
Impairment charges	-	285	-	426
(Gains)/losses on divestments	-	-	15	(314)
Other effects	-	(223)	-	(223)
Items excluded in equity accounted investments	(32)	(23)	(26)	(113)
Items excluded from underlying EBIT	(126)	(135)	(192)	(586)
Net foreign exchange (gain)/loss	(218)	26	(1 032)	(2 266)
Calculated income tax effect	86	68	365	841
Other adjustments to net income	-	-	(700)	(700)
Items excluded from underlying net income	(258)	(40)	(1 559)	(2 712)

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

- *Unrealized derivative effects on LME related contracts* include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, where hedge accounting is not applied. Also includes elimination of changes in fair value of certain internal physical aluminium contracts.
- *Unrealized derivative effects on power and raw material contracts* include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.
- *Metal effect in Rolled Products* is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting two to three months. As a result, margins are impacted by timing differences resulting from the FIFO inventory valuation method (first in, first out), due to changing aluminium prices during the process. The effect of inventory write-downs is included. Decreasing aluminium prices in Euro results in a negative metal effect on margins, while increasing prices have a positive effect.
- *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.
- *(Gains) losses on divestments* include a net gain or loss on divested businesses and/or individual major assets.
- *Other effects* include recognition of pension plan amendments and related curtailments and settlements, insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.

- *Items excluded in equity accounted investments* reflects Hydro's share of items excluded from underlying net income in Sapa and Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- *Net foreign exchange (gain) loss*: Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.
- *Calculated income tax effect*: In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax.
- *Other adjustments to net income* include other major financial and tax related effects not regarded as part of the underlying business performance of the period.

Items excluded from underlying EBIT per operating segment and for Other and eliminations <sup>1)</sup>	First quarter 2017	Fourth quarter 2016	First quarter 2016	Year 2016
NOK million				
Impairment charges	-	285	-	285
Other effects <sup>2)</sup>	-	(254)	-	(254)
<b>Bauxite &amp; Alumina</b>	-	31	-	31
Unrealized derivative effects on LME related contracts	29	(36)	(72)	(93)
Unrealized derivative effects on power contracts	73	18	(18)	(125)
Significant rationalization charges and closure costs	-	-	-	192
<b>Primary Metal</b>	103	(18)	(90)	(27)
Unrealized derivative effects on LME related contracts	38	(20)	(68)	(119)
<b>Metal Markets</b>	38	(20)	(68)	(119)
Unrealized derivative effects on LME related contracts	(58)	(16)	12	(183)
Metal effect	(286)	(68)	43	(91)
(Gains) losses on divestments	-	-	15	28
<b>Rolled Products</b>	(344)	(85)	69	(246)
Unrealized derivative effects on power contracts	-	(4)	4	-
<b>Energy</b>	-	(4)	4	-
Unrealized derivative effects on power contracts <sup>3)</sup>	100	(34)	(73)	64
Unrealized derivative effects on LME related contracts <sup>3)</sup>	9	(14)	(8)	(6)
Impairment charges	-	-	-	140
(Gains)/losses on divestments	-	-	-	(342)
Other effects <sup>4)</sup>	-	32	-	32
Unrealized derivative effects (Sapa)	(39)	(41)	(42)	(166)
Significant rationalization charges and closure costs (Sapa)	-	34	-	55
Net foreign exchange (gain) loss (Sapa)	(4)	(25)	4	(49)
Calculated income tax effect (Sapa)	11	10	11	48
<b>Other and eliminations</b>	78	(39)	(107)	(225)
<b>Items excluded from underlying EBIT</b>	<b>(126)</b>	<b>(135)</b>	<b>(192)</b>	<b>(586)</b>

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

2) Other effects in Bauxite & Alumina include a compensation relating to the completion of outstanding contractual arrangements with Vale.

3) 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.

4) Other effects in Other and eliminations include the re measurement of environmental liabilities, due to changes in interest rate, related to closed business in Germany.

## Underlying EBITDA

NOK million	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
EBITDA	3 762	3 563	6 %	2 908	29 %	12 485
Items excluded from underlying EBIT	(126)	(135)	7 %	(192)	35 %	(586)
Reversal of impairments	-	(285)	100 %	-	-	(426)
<b>Underlying EBITDA</b>	<b>3 637</b>	<b>3 143</b>	<b>16 %</b>	<b>2 716</b>	<b>34 %</b>	<b>11 474</b>

**Underlying earnings per share**

NOK million	First quarter 2017	Fourth quarter 2016	Change prior quarter	First quarter 2016	Change prior year quarter	Year 2016
Net income (loss)	1 838	1 008	82 %	2 382	(23) %	6 586
Items excluded from net income (loss)	(258)	(40)	>(100) %	(1 559)	83 %	(2 712)
Underlying net income (loss)	1 580	968	63 %	822	92 %	3 875
Underlying net income attributable to non-controlling interests	44	12	>100 %	23	89 %	129
Underlying net income attributable to Hydro shareholders	1 536	956	61 %	799	92 %	3 746
Number of shares	2 043	2 043	-	2 042	-	2 042
Underlying earnings per share	0.75	0.47	60 %	0.39	92 %	1.83

**Adjusted net cash (debt)**

NOK million	Mar 31 2017	Dec 31 2016	Change prior quarter	Mar 31 2016	Dec 31 2015	Change prior quarter
Cash and cash equivalents	8 333	8 037	296	5 946	6 917	(971)
Short-term investments <sup>1)</sup>	4 403	4 611	(209)	5 479	5 752	(273)
Short-term debt	(3 481)	(3 283)	(198)	(3 753)	(3 562)	(191)
Long-term debt	(3 373)	(3 397)	23	(3 735)	(3 969)	234
Net cash (debt)	5 882	5 969	(88)	3 937	5 138	(1 201)
Cash and cash equiv. and short-term investm. in captive insurance company <sup>2)</sup>	(1 134)	(1 103)	(31)	(1 189)	(1 129)	(60)
Net pension obligation at fair value, net of expected income tax benefit <sup>3)</sup>	(6 907)	(7 338)	431	(8 409)	(7 955)	(454)
Operating lease commitments, net of expected income tax benefit <sup>4)</sup>	(507)	(507)	-	(487)	(1 187)	701
Short- and long-term provisions net of exp. income tax benefit, and other liab. <sup>5)</sup>	(2 691)	(2 619)	(72)	(3 059)	(3 040)	(19)
Adjusted net cash (debt)	(5 358)	(5 598)	240	(9 206)	(8 173)	(1 033)
Net debt in EAI <sup>6)</sup>	(6 726)	(6 887)	161	(7 619)	(8 011)	392
Adjusted net cash (debt) incl. EAI	(12 084)	(12 485)	401	(16 825)	(16 184)	(641)

1) Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet.

2) Cash and cash equivalents and short-term investments in Hydro's captive insurance company Industriforsikring AS are assumed to not be available to service or repay future Hydro debt, and are therefore excluded from the measure Adjusted net debt.

3) The expected income tax benefit related to the pension liability is NOK 1,179 million and NOK 1,338 million, respectively, for 2017 and 2016.

4) Operating lease commitments are discounted using a rate of 1.29 percent for both 2017 and 2016. The expected tax benefit on operating lease commitments is estimated at 30 percent. The net present value of operating lease commitments is re-calculated once a year in connection with full year reporting.

5) 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.

6) Net debt in equity accounted investments is defined as the total of Hydro's relative ownership percentage of each equity accounted investment's short and long-term interest bearing debt less their cash position, reduced by total outstanding loans from Hydro to the equity accounted investment. Net debt per individual equity accounted investment is limited to a floor of zero. Currently, the adjustment is related to Qatalum and Sapa.

## *Additional information*

### Financial calendar

May 3	Annual General Meeting
July 25	Second quarter results
October 25	Third quarter results

Hydro reserves the right to revise these dates.

### Cautionary note

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

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

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



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 products as well as recycling. Based in Norway, the company has 13,000 employees involved in activities in more than 40 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

**Norsk Hydro ASA**  
NO-0240 Oslo  
Norway

Tel.: +47 22 53 81 00  
[www.hydro.com](http://www.hydro.com)

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