



HYDRO

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SECOND
QUARTER REPORT

2017

Contents

Financial review	2
Overview	2
Market developments and outlook	5
Additional factors impacting Hydro	8
Underlying EBIT	9
Finance	14
Tax	14
Interim financial statements	15
Condensed consolidated statements of income (unaudited)	15
Condensed consolidated statements of comprehensive income (unaudited)	16
Condensed consolidated balance sheets (unaudited)	17
Condensed consolidated statements of cash flows (unaudited)	18
Condensed consolidated statements of changes in equity (unaudited)	19
Notes to the condensed consolidated financial statements (unaudited)	20
Alternative performance measures	24
Responsibility statement	28
Additional information	29
Financial calendar	29

Oslo, July 25, 2017

Overview

Summary underlying financial and operating results and liquidity

Key financial information	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
NOK million, except per share data								
Revenue	24 591	23 026	7 %	20 391	21 %	47 617	40 529	81 953
Earnings before financial items and tax (EBIT)	2 946	2 410	22 %	1 978	49 %	5 356	3 672	7 011
Items excluded from underlying EBIT ¹⁾	(16)	(126)	87 %	(360)	96 %	(141)	(552)	(586)
Underlying EBIT ¹⁾	2 930	2 284	28 %	1 618	81 %	5 214	3 119	6 425
<i>Underlying EBIT :</i>								
Bauxite & Alumina	662	756	(12) %	174	>100 %	1 418	363	1 227
Primary Metal	1 486	900	65 %	702	>100 %	2 386	1 020	2 258
Metal Markets	244	24	>100 %	75	>100 %	268	241	510
Rolled Products	84	106	(21) %	242	(65) %	191	491	708
Energy	284	423	(33) %	301	(6) %	707	699	1 343
Other and eliminations ²⁾	170	74	>100 %	125	37 %	245	306	380
Underlying EBIT ¹⁾	2 930	2 284	28 %	1 618	81 %	5 214	3 119	6 425
Earnings before financial items, tax, depreciation and amortization (EBITDA) ³⁾	4 335	3 762	15 %	3 222	35 %	8 097	6 131	12 485
Underlying EBITDA ¹⁾	4 319	3 637	19 %	2 862	51 %	7 956	5 578	11 474
Net income (loss)	1 562	1 838	(15) %	2 077	(25) %	3 401	4 459	6 586
Underlying net income (loss) ¹⁾	2 214	1 580	40 %	1 126	97 %	3 795	1 949	3 875
Earnings per share	0.73	0.86	(16) %	0.95	(24) %	1.59	2.08	3.13
Underlying earnings per share ¹⁾	1.04	0.75	38 %	0.52	>100 %	1.79	0.91	1.83
<i>Financial data:</i>								
Investments ¹⁾	1 420	1 372	4 %	1 711	(17) %	2 792	3 681	9 137
Adjusted net cash (debt) ¹⁾	(5 146)	(5 358)	4 %	(8 758)	41 %	(5 146)	(8 758)	(5 598)
<i>Key Operational information</i>								
	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Bauxite production (kmt) ⁴⁾	2 943	2 400	23 %	2 609	13 %	5 343	5 292	11 132
Alumina production (kmt)	1 576	1 523	3 %	1 554	1 %	3 099	3 071	6 341
Primary aluminium production (kmt)	523	516	1 %	518	1 %	1 039	1 032	2 085
Realized aluminium price LME (USD/mt)	1 902	1 757	8 %	1 546	23 %	1 828	1 522	1 574
Realized aluminium price LME (NOK/mt)	16 265	14 798	10 %	12 826	27 %	15 517	12 887	13 193
Realized USD/NOK exchange rate	8.55	8.42	2 %	8.30	3 %	8.49	8.47	8.38
Rolled Products sales volumes to external market (kmt)	239	241	(1) %	238	-	480	467	911
Sapa sales volumes (kmt) ⁵⁾	180	178	1 %	183	(2) %	357	358	682
Power production (GWh)	2 369	2 869	(17) %	2 674	(11) %	5 238	5 835	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 2,930 million in the second quarter, up from NOK 2,284 million in the first quarter. The increase mainly reflects an increase in the all-in metal price¹⁾ and favorable currency developments, partly offset by lower realized alumina prices and increased raw material costs.

Compared to the second quarter of 2016 the underlying EBIT increased significantly from NOK 1,618 million to NOK 2,930 million. The increase reflects a higher all-in metal price¹⁾ and alumina sales price, partly offset by increased raw material costs.

For the first half year of 2017 Hydro's underlying EBIT increased to NOK 5,214 million from NOK 3,119 million for the first half of 2016. The increase reflects a higher all-in metal price¹⁾ and alumina sales price, partly offset by increased raw material costs and unfavorable currency developments.

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 of NOK 2.9 billion.

Hydro's net cash position²⁾ increased by NOK 0.1 billion to NOK 6.0 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 4.3 billion, including dividends received from Sapa of NOK 1.5 billion and operating capital build-up due to seasonality and higher prices. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.1 billion. During the second quarter dividends paid to Norsk Hydro ASA shareholders amounted to NOK 2.6 billion.

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

2) 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 2,946 million for the second quarter. In addition to the factors discussed above, reported EBIT included net unrealized derivative losses of NOK 66 million and positive metal effects of NOK 138 million. Reported earnings also included a net loss of NOK 56 million in Sapa (Hydro's share net of tax) relating to unrealized derivative losses and net foreign exchange losses.

In the previous quarter reported earnings before financial items and tax amounted to NOK 2,410 million, including 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.

For the first half year of 2017 reported earnings before financial items and tax amounted to NOK 5,356 million. Reported EBIT included net unrealized derivative losses of NOK 258 million and positive metal effects of NOK 424 million. Reported earnings also included a net loss of NOK 25 million in Sapa (Hydro's share net of tax) relating to unrealized derivative losses and net foreign exchange losses.

For the first half year of 2016 reported earnings before financial items and tax amounted to NOK 3,672 million. Reported EBIT included net unrealized derivative gains of NOK 256 million and negative metal effects of NOK 26 million. Reported earnings also included a net gain of NOK 75 million in Sapa (Hydro's share net of tax) relating to unrealized derivative gains and net foreign exchange gains. Reported EBIT also included a charge of NOK 67 million related to environmental commitments in Kurri Kurri, a gain of NOK 342 million for the sale of certain assets in Grenland, including Herøya Industrial Park, and a negative adjustment of NOK 28 million related to the sale of the Slim rolling mill in the fourth quarter of 2015.

Net income amounted to NOK 1,562 million in the second quarter. This includes a net foreign exchange loss, mainly unrealized, of NOK 918 million reflecting a weakening of BRL against USD affecting US dollar debt in Brazil, while the strengthening of EUR forward rates against NOK resulted in an unrealized loss on the embedded derivatives in power contracts denominated in EUR.

In the previous quarter net income amounted to NOK 1,838 million including 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.

Net income amounted to NOK 3,401 million for the first half year of 2017. This includes a net foreign exchange loss of NOK 699 million reflecting a weakening of BRL against USD affecting US dollar debt in Brazil, while the strengthening of EUR forward rates against NOK resulted in an unrealized loss on the embedded derivatives in power contracts denominated in EUR.

For the first half year of 2016 net income amounted to NOK 4,459 million. This included a net foreign exchange gain of NOK 1,935 million reflecting the strengthening BRL versus US dollars affecting US dollar liabilities in Brazil, as well as the strengthening Norwegian kroner versus Euro affecting liabilities in Euro in Norway and embedded currency derivatives in power contracts. Net income also included a reduction in tax expense and related interest income of NOK 700 million in total following settlement of a tax case in April 2016.

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	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
USD/NOK Average exchange rate	8.51	8.44	1 %	8.26	3 %	8.48	8.45	8.40
USD/NOK Period end exchange rate	8.39	8.58	(2) %	8.38	-	8.39	8.38	8.62
BRL/NOK Average exchange rate	2.65	2.69	(1) %	2.35	13 %	2.67	2.29	2.42
BRL/NOK Period end exchange rate	2.55	2.71	(6) %	2.59	(2) %	2.55	2.59	2.65
USD/BRL Average exchange rate	3.22	3.14	2 %	3.51	(8) %	3.18	3.71	3.48
USD/BRL Period end exchange rate	3.29	3.16	4 %	3.23	2 %	3.29	3.23	3.25
EUR/NOK Average exchange rate	9.38	8.99	4 %	9.32	1 %	9.17	9.42	9.29
EUR/NOK Period end exchange rate	9.57	9.17	4 %	9.30	3 %	9.57	9.30	9.09
<i>Bauxite and alumina:</i>								
Average alumina price - Platts PAX FOB Australia (USD/t)	296	340	(13) %	252	17 %	318	237	255
China bauxite import price (USD/mt CIF China)	50	49	2 %	49	3 %	50	49	49
Global production of alumina (kmt)	30 655	30 573	-	28 103	9 %	61 228	55 100	114 968
Global production of alumina (ex. China) (kmt)	13 886	13 648	2 %	13 437	3 %	27 534	26 688	54 720
<i>Primary aluminium:</i>								
LME three month average (USD/mt)	1 915	1 856	3 %	1 582	21 %	1 885	1 549	1 610
LME three month average (NOK/mt)	16 303	15 651	4 %	13 055	25 %	15 969	13 061	13 509
Standard ingot premium (EU DP Cash)	144	147	(2) %	132	9 %	145	139	132
Extrusion ingot premium (DP)	327	310	5 %	322	2 %	318	320	317
Global production of primary aluminium (kmt)	15 800	15 410	3 %	14 473	9 %	31 211	28 629	59 054
Global consumption of primary aluminium (kmt)	16 292	14 768	10 %	15 434	6 %	31 060	29 395	60 014
Global production of primary aluminium (ex. China) (kmt)	6 743	6 709	1 %	6 660	1 %	13 451	13 317	26 968
Global consumption of primary aluminium (ex. China) (kmt)	7 510	7 100	6 %	7 273	3 %	14 610	14 177	28 275
Reported primary aluminium inventories (kmt)	5 147	5 594	(8) %	5 324	(3) %	5 147	5 324	5 086
<i>Rolled products and extruded products:</i>								
Consumption rolled products - Europe (kmt)	1 278	1 232	4 %	1 237	3 %	2 509	2 419	4 728
Consumption rolled products - USA & Canada (kmt)	1 307	1 232	6 %	1 233	6 %	2 539	2 407	4 786
Consumption extruded products - Europe (kmt)	822	757	9 %	804	2 %	1 579	1 550	2 976
Consumption extruded products - USA & Canada (kmt)	630	609	3 %	614	3 %	1 239	1 209	2 351
<i>Energy:</i>								
Average southern Norway spot price (NO2) (NOK/MWh)	252	278	(9) %	213	18 %	265	212	233
Average mid Norway spot price (NO3) (NOK/MWh)	262	282	(7) %	238	10 %	272	230	266
Average nordic system spot price (NOK/MWh)	257	280	(8) %	223	15 %	268	226	250

Bauxite and alumina

In the first five months of 2017, Chinese alumina imports were 1.3 million mt, 13 percent lower than the same period in 2016. In the first five months of 2017, Chinese bauxite imports increased 15 percent to 25.2 million mt compared to the first five months of 2016. Driven by the continued ramp-up of a new bauxite mine, imports from Guinea surged to 9.4 million mt in the first five months of the year, compared to 3.6 million mt over the same period in 2016. Supply of bauxite from the Atlantic basin accounted for 46 percent of Chinese imports over the period, up from 25 percent in same period in 2016.

Platts alumina spot prices averaged USD 296 per mt in the second quarter, a decrease of USD 44 per mt compared to the previous quarter. Prices started the quarter at USD 317 per mt, and continued a steady decline to a low of USD 272 in mid-May, before rebounding to USD 307 per mt by quarter end. Average prices represented 15.5 percent of LME in the second

quarter compared with 18.3 percent in the previous quarter. According to Chinese import statistics, the average delivered China bauxite price was USD 49.8 per mt in the first five months of the year, marginally above the USD 49.5 per mt average in corresponding period in 2016.

Primary aluminium

Three-month LME prices ranged between USD 1,863 and USD 1,972 per mt throughout the second quarter of 2017. The average LME three-month price was USD 1,915, increasing by USD 59 per mt compared to the first quarter. European average all-in metal prices¹⁾ increased from USD 1,997 per mt in the first quarter to USD 2,055 in the second quarter.

Both European and US standard ingot premiums decreased during the quarter. European duty paid standard ingot premiums ended the quarter at USD 133 per mt, compared to USD 155 at the beginning of the quarter, and averaged USD 144 per mt in the second quarter compared to USD 147 per mt in the first quarter. Midwest premiums started the second quarter at USD 217 per mt, and ended the quarter at USD 170 per mt, averaging USD 199 per mt compared to USD 214 per mt in the first quarter.

Shanghai Futures Exchange (SHFE) prices increased in the second quarter compared to the first and at a higher growth rate than the LME. As expected, semis exports have increased throughout the quarter as arbitrage has remained at high levels.

Global primary aluminium consumption increased by 10.3 percent to 16.3 million mt in the second quarter compared to the first quarter, mainly due to seasonal effects in China. Compared to the second quarter of 2016, global demand increased 5.6 percent. Global demand for primary aluminium grew by 5.9 percent in 2016, and is expected to grow by around 4-6 percent in 2017.

Outside China, demand seasonally increased by 5.8 percent in the second quarter compared to the first quarter, while the year-on-year increase from the second quarter of 2016 was 3.3 percent. Consumption outside China amounted to 7.5 million mt for the second quarter of 2017. Corresponding production amounted to 6.7 million mt, an increase of 0.5 percent compared to the first quarter. Production outside China experienced a 1.2 percent increase compared to the second quarter of 2016, largely driven by ramp up of new production capacity in India. Demand for primary aluminium outside China grew by around 3.4 percent in 2016, and is expected to grow by 2-4 percent in 2017.

Compared to the first quarter of 2017, Chinese aluminium consumption increased by 14.5 percent, to 8.8 million mt, mainly due to seasonal effects. The year-on-year increase compared to the second quarter of 2016 was 7.6 percent. Corresponding aluminium production increased by 4.1 percent compared to the first quarter, and increased 15.9 percent compared to the second quarter of 2016. The ramp up of new capacity continues in China, but is expected to moderate in the second half of 2017, driven by supply-side reform related curtailments. 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.

The global primary aluminium market is expected to be largely balanced in 2017.

European demand for extrusion ingot increased in the second quarter compared to the second quarter of 2016. 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 further, amounting to 1.4 million mt at the end of the second quarter, down 0.5 million mt from the end of the first quarter. Compared to second quarter of last year, LME stocks are down 1.0 million mt. Estimated unreported global stocks have been stable, both compared to the first quarter of 2017 and to the second quarter of 2016.

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

Rolled products

European demand for flat rolled products increased by around 4 percent compared to the first quarter of 2017 mainly due to seasonality and improved demand in the automotive, beverage can and general engineering segments. Compared to the second quarter of the previous year, demand increased around 3 percent.

The demand development in automotive remained solid due to the ongoing substitution of steel by aluminium for automotive body sheet. Building and construction demand improved, in particular in Northern Europe and Spain. Foil demand was flat but showed some positive signs. The demand growth in general engineering was stable, driven by sound industrial activity.

The European demand for flat rolled products is expected to slightly decline in the third quarter due to seasonality.

Extruded products

Demand for extruded products in Europe and North America increased compared to the previous quarter by 9 and 3 percent respectively, driven by seasonality.

In North America, total demand for extruded products increased by 3 percent compared to the same quarter last year. The increase was driven by stronger automotive demand and higher activity in the building and construction activities whereas demand from commercial transportation was declining. In Europe, total demand for extruded products increased by 2 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 for April and the beginning of May, supported by a delayed start of the snow melt period. However, in the last part of May prices declined as the melting season finally started in Southern Scandinavia.

The Nordic hydrological balance ended at around 3 TWh below normal¹⁾ for the second quarter, similar to the level at the end of the previous quarter. Water reservoirs in Norway were 68 percent of full capacity at the end of the quarter, which is close to the normal level. Snow reservoirs were 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 55 percent of its expected primary aluminium production for the third quarter of 2017 at a price level of around USD 1,900 per mt.¹⁾

On July 10, Hydro announced an agreement to take over Orkla's 50 percent interest in Sapa for a total enterprise value of NOK 27 billion (100 percent of Sapa), giving full ownership in the company. The transaction will be financed through cash positions and issuance of bonds in Norwegian and international markets, and will be temporarily funded by committed undrawn credit lines. Completion of the transaction is subject to approval from relevant competition authorities, and is expected in the second half of 2017.

The information memorandum, that will be published within 30 working days from signing of the share purchase agreement, will provide more detailed information on the transaction.

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Sapa AS 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 for Sapa, is uncertain. SPI also has been temporarily suspended as a federal government contractor. Based on the information currently known to Hydro, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position. As part of the share purchase agreement the parties have agreed that Orkla ASA shall indemnify Hydro for 50 percent of any liability in relation to this case.

In June 2017, Hydro was informed by the Directorate of Taxes that they had withdrawn their request for a re-examination of a favorable decision by the Norwegian Tax Appeal Board from April 2016, making the decision thereby final and legally enforceable. Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100 million in interest income in the first quarter of 2016. Hydro received the reimbursement in the second quarter of 2016.

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.

Risk and uncertainties

Hydro is subject to a range of risks and uncertainties which may affect its business operations, financial condition and results of operations. An evaluation of Hydro's major risks has been performed as part of Hydro's semi-annual overall enterprise risk assessment. The description of principal risks and uncertainties in the Financial statements and Board of Directors' Report 2016 gives a fair description of principal risks and uncertainties that may affect Hydro in the second half of 2017, and the company is not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties, except for those described herein.

On June 5, 2017, Saudi Arabia, United Arab Emirates, Bahrain and Egypt imposed certain measures on Qatar including severing diplomatic ties and cutting off transportation links. Qatalum, a 50/50 joint venture between Hydro and Qatar Petroleum, has been affected causing Qatalum to re-arrange its logistics, so far with limited financial consequences. The development of this situation remains highly uncertain, Qatalum and Hydro may be materially adversely affected if the situation significantly escalates further.

Related parties

Note 11 to the Financial statements and Board of Director's report 2016 provides details of related parties. During the first half of 2017 there have not been any changes or transactions with related parties that significantly impact the group's financial position or result for the period.

Underlying EBIT

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

Bauxite & Alumina

Operational and financial information	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	662	756	(12) %	174	>100 %	1 418	363	1 196
Underlying EBIT (NOK million)	662	756	(12) %	174	>100 %	1 418	363	1 227
Underlying EBITDA (NOK million)	1 248	1 334	(6) %	659	89 %	2 582	1 299	3 221
Alumina production (kmt)	1 576	1 523	3 %	1 554	1 %	3 099	3 071	6 341
Sourced alumina (kmt)	645	600	7 %	615	5 %	1 245	1 146	2 541
Total alumina sales (kmt)	2 196	2 129	3 %	2 078	6 %	4 325	4 151	8 843
Realized alumina price (USD/mt) ¹⁾	295	309	(5) %	240	23 %	302	229	240
Bauxite production (kmt) ²⁾	2 943	2 400	23 %	2 609	13 %	5 343	5 292	11 132
Sourced bauxite (kmt) ³⁾	1 809	1 675	8 %	2 233	(19) %	3 484	4 157	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 decreased compared to the first quarter. Lower realized alumina prices, driven by a lower alumina index and higher raw material consumption were partly offset by higher sales volumes. Alunorte and Paragominas increased their production in the second quarter following planned maintenance in the first quarter. The ongoing ramp-up process of the new press filter operation caused additional cost at the alumina refinery.

Bauxite & Alumina is ahead of schedule with its "Better Bauxite & Alumina" improvement program.

Compared to the second quarter of 2016 the underlying EBIT increased, mainly due to higher realized alumina prices. This was partly offset by higher raw material prices and negative currency effects.

Compared to the first half year of 2016 the underlying EBIT increased mainly due to higher realized alumina prices. This was partly offset by higher raw material prices and negative currency effects.

Primary Metal

Operational and financial information ¹⁾	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	1 538	797	93 %	668	>100 %	2 335	1 076	2 285
Underlying EBIT (NOK million)	1 486	900	65 %	702	>100 %	2 386	1 020	2 258
Underlying EBITDA (NOK million)	1 991	1 392	43 %	1 186	68 %	3 383	1 978	4 172
Realized aluminium price LME (USD/mt) ²⁾	1 902	1 757	8 %	1 546	23 %	1 828	1 522	1 574
Realized aluminium price LME (NOK/mt) ²⁾	16 265	14 798	10 %	12 826	27 %	15 517	12 887	13 193
Realized premium above LME (USD/mt) ³⁾	273	266	3 %	270	1 %	270	279	263
Realized premium above LME (NOK/mt) ³⁾	2 330	2 236	4 %	2 243	4 %	2 296	2 359	2 201
Realized USD/NOK exchange rate	8.55	8.42	2 %	8.30	3 %	8.49	8.47	8.38
Primary aluminium production (kmt)	523	516	1 %	518	1 %	1 039	1 032	2 085
Casthouse production (kmt)	551	521	6 %	547	1 %	1 072	1 081	2 146
Total sales (kmt)	579	577	-	596	(3) %	1 156	1 148	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.

Operational and financial information Qatalum (50%)	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Revenue (NOK million)	1 483	1 355	9 %	1 182	25 %	2 838	2 322	4 801
Underlying EBIT (NOK million)	291	157	85 %	75	>100 %	448	103	341
Underlying EBITDA (NOK million)	604	457	32 %	372	62 %	1 060	705	1 528
Net income (loss) (NOK million)	232	98	>100 %	11	>100 %	329	(26)	98
Underlying Net income (loss) (NOK million)	232	98	>100 %	11	>100 %	329	(26)	98
Primary aluminium production (kmt)	78	76	3 %	76	3 %	154	152	306
Casthouse sales (kmt)	80	80	-	77	4 %	160	150	310

Underlying EBIT for Primary Metal increased in the second quarter due to higher realized all-in metal prices¹⁾, partly offset by higher raw material 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 second quarter of 2016, underlying EBIT improved, mainly due to higher realized all-in metal prices partly offset by higher raw material costs.

Underlying EBIT for the first half year of 2017 improved substantially compared with the same period in 2016, mainly due to the factors discussed above.

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

Metal Markets

Operational and financial information	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	282	(13)	>100 %	91	>100 %	269	326	629
Underlying EBIT (NOK million)	244	24	>100 %	75	>100 %	268	241	510
Currency effects	44	(21)	>100 %	(16)	>100 %	23	8	-
Inventory valuation effects	48	(38)	>100 %	(22)	>100 %	10	(25)	(13)
Underlying EBIT excl. currency and inventory valuation effects	152	83	82 %	113	34 %	235	259	524
Underlying EBITDA (NOK million)	268	47	>100 %	98	>100 %	315	289	604
Remelt production (kmt)	152	143	6 %	146	4 %	295	290	548
Metal products sales excluding ingot trading (kmt) ¹⁾	759	735	3 %	777	(2) %	1 493	1 513	2 893
Hereof external sales (kmt)	675	672	-	694	(3) %	1 348	1 359	2 627

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

Underlying EBIT for Metal Markets improved significantly in the second quarter, mainly due to positive inventory valuation and currency effects, in addition to better results from sourcing and trading activities. Results from remelters also improved in the second quarter driven by increased sales volumes and contribution margins.

Compared to the second quarter of 2016, underlying EBIT for Metal Markets increased significantly due to positive inventory valuation and currency effects, in addition to positive results from sourcing and trading activities. Results from remelters were stable.

Underlying EBIT for the first half year of 2017 improved somewhat compared with the same period in 2016, mainly due to positive inventory valuation and currency effects, in addition to positive results from sourcing and trading activities, partly offset by lower results from the remelters.

Rolled Products

Operational and financial information	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	84	450	(81) %	428	(80) %	534	607	953
Underlying EBIT (NOK million)	84	106	(21) %	242	(65) %	191	491	708
Underlying EBITDA (NOK million)	297	307	(3) %	432	(31) %	604	878	1 507
Sales volumes to external market (kmt)	239	241	(1) %	238	-	480	467	911
Sales volumes to external markets (kmt) - Product areas								
Can & foil	89	85	5 %	82	9 %	174	157	321
Lithography & automotive	75	78	(4) %	79	(5) %	153	157	298
Special products	75	78	(4) %	78	(3) %	153	153	292
Rolled Products	239	241	(1) %	238	-	480	467	911

Underlying EBIT for the second quarter decreased compared to the first quarter of 2017. The decrease was primarily due to reduced average margins driven by product mix, and an accrual for employee compensation mainly relating to previous years. The operational issues in the first quarter were partly resolved, reducing the negative cost effects on the second quarter results. The Neuss smelter benefited from the all-in metal price development and lower alumina cost.

Progress on the "Better Rolled Products" program is behind the 2017 target due to the same factors as discussed above. The delay is not expected to impact the 2019 target of NOK 0.9 billion.

Compared to the second quarter of 2016 the underlying EBIT declined. The decrease was primarily due to reduced margins in certain product segments as well as an accrual for employee compensation mainly relating to previous years. Further, the second quarter result was negatively influenced by depreciation and ramp-up costs for the new automotive line 3, and a number of other smaller cost elements. The Neuss smelter benefited from the all-in metal price development.

The result for the first half year was weaker than the first half year of 2016 mainly due to the same factors as discussed above.

Energy

Operational and financial information	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Earnings before financial items and tax (EBIT) (NOK million)	284	423	(33) %	291	(2) %	707	685	1 343
Underlying EBIT (NOK million)	284	423	(33) %	301	(6) %	707	699	1 343
Underlying EBITDA (NOK million)	337	476	(29) %	352	(4) %	814	805	1 553
Direct production costs (NOK million) ¹⁾	125	164	(23) %	126	-	289	319	639
Power production (GWh)	2 369	2 869	(17) %	2 674	(11) %	5 238	5 835	11 332
External power sourcing (GWh)	2 295	2 272	1 %	2 222	3 %	4 567	4 449	8 935
Internal contract sales (GWh)	3 507	3 470	1 %	3 340	5 %	6 978	6 679	13 435
External contract sales (GWh)	161	261	(38) %	163	(1) %	422	416	769
Net spot sales (GWh)	996	1 409	(29) %	1 393	(28) %	2 406	3 188	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 decreased compared to the previous quarter, mainly due to seasonally lower production and prices.

Compared to the second quarter of the previous year underlying EBIT decreased due to lower production, partly offset by higher prices, improved commercial results and lower area cost.

Compared to the first half year of the previous year underlying EBIT was close to the same level. Lower production was offset mainly by higher prices, improved commercial results and lower production cost.

Other and eliminations

Financial information	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
NOK million								
Earnings before financial items and tax (EBIT)	97	(3)	>100 %	327	(70) %	93	614	605
Sapa (50%) ¹⁾	329	281	17 %	270	22 %	610	453	777
Other	(71)	(140)	49 %	(100)	29 %	(211)	(262)	(458)
Eliminations	(88)	(67)	(30) %	(45)	(93) %	(155)	115	61
Underlying EBIT	170	74	>100 %	125	37 %	245	306	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%)	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
Revenue (NOK million)	7 655	7 162	7 %	7 036	9 %	14 816	13 988	26 663
Underlying EBIT (NOK million)	457	389	17 %	402	14 %	846	687	1 099
Underlying EBITDA (NOK million)	626	550	14 %	566	11 %	1 176	1 017	1 749
Net income (loss) (NOK million)	273	313	(13) %	319	(15) %	585	528	889
Underlying net income (loss) (NOK million)	329	281	17 %	270	22 %	610	453	777
Sales volumes (kmt)	180	178	1 %	183	(2) %	357	358	682

Underlying EBIT for Sapa increased compared to the previous quarter, in line with general seasonality in the industry but also related to improved performance.

Underlying EBIT for Sapa increased compared to the same quarter of the previous year. The quarterly result is the best in Sapa's history. The increase was driven by a higher share of value add business and internal improvements for all business areas.

Underlying EBIT for the first half of 2017 improved compared to the same period in 2016, influenced by the same factors as discussed above.

Finance

Financial income (expense)	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
NOK million								
Interest income	77	93	(17)%	87	(12)%	170	259	468
Dividends received and net gain (loss) on securities	57	11	>100%	92	(38)%	68	77	105
Financial income	134	104	30 %	179	(25)%	238	336	574
Interest expense	(96)	(105)	9 %	(61)	(56)%	(201)	(165)	(362)
Capitalized interest	25	21	17 %	32	(22)%	46	54	97
Net foreign exchange gain (loss)	(918)	218	>(100)%	904	>(100)%	(699)	1 935	2 266
Net interest on pension liability	(34)	(33)	(4)%	(49)	30 %	(67)	(100)	(210)
Other	(71)	(69)	(2)%	(56)	(26)%	(140)	(111)	(240)
Financial expense	(1 093)	33	>(100)%	769	>(100)%	(1 061)	1 613	1 552
Financial income (expense), net	(959)	136	>(100)%	948	>(100)%	(823)	1 949	2 126

The net foreign exchange loss, mainly unrealized, of NOK 918 million reflects a weakening of BRL against USD affecting US dollar debt in Brazil, while the strengthening of EUR forward rates against NOK resulted in an unrealized loss on the embedded derivatives in power contracts denominated in EUR.

Tax

Income tax expense amounted to NOK 424 million for the second quarter of 2017 or about 21 percent of income before tax.

Interim financial statements

Condensed consolidated statements of income (unaudited)

NOK million, except per share data	Second quarter		First half		Year
	2017	2016	2017	2016	2016
Revenue	24 591	20 391	47 617	40 529	81 953
Share of the profit (loss) in equity accounted investments	491	323	900	493	985
Other income, net	184	481	348	592	1 030
Total revenue and income	25 266	21 195	48 865	41 614	83 969
Raw material and energy expense	15 848	13 145	30 669	25 874	52 151
Employee benefit expense	2 677	2 442	5 291	4 823	9 485
Depreciation, amortization and impairment	1 389	1 244	2 741	2 459	5 474
Other expenses	2 406	2 386	4 808	4 787	9 848
Total expenses	22 320	19 217	43 510	37 942	76 958
Earnings before financial items and tax (EBIT)	2 946	1 978	5 356	3 672	7 011
Financial income	134	179	238	336	574
Financial expense	(1 093)	769	(1 061)	1 613	1 552
Financial income (expense), net	(959)	948	(823)	1 949	2 126
Income (loss) before tax	1 987	2 926	4 533	5 621	9 137
Income taxes	(424)	(849)	(1 132)	(1 162)	(2 551)
Net income (loss)	1 562	2 077	3 401	4 459	6 586
Net income (loss) attributable to non-controlling interests	78	129	154	215	199
Net income (loss) attributable to Hydro shareholders	1 484	1 948	3 247	4 244	6 388
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) ¹⁾	0.73	0.95	1.59	2.08	3.13
Weighted average number of outstanding shares (million)	2 044	2 043	2 044	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	Second quarter		First half		Year
	2017	2016	2017	2016	2016
Net income (loss)	1 562	2 077	3 401	4 459	6 586
Other comprehensive income					
Items that will not be reclassified to income statement:					
Remeasurement postemployment benefits, net of tax	364	(457)	829	(1 123)	178
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	(2)	-	(2)	-	(41)
Total	362	(457)	827	(1 123)	137
Items that will be reclassified to income statement:					
Currency translation differences, net of tax	(2 294)	3 701	(1 486)	2 741	4 114
Unrealized gain (loss) on securities, net of tax	(44)	9	(64)	(22)	(47)
Cash flow hedges, net of tax	(28)	95	4	47	115
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	74	(21)	181	(279)	(281)
Total	(2 292)	3 783	(1 366)	2 488	3 901
Other comprehensive income	(1 930)	3 327	(539)	1 364	4 038
Total comprehensive income	(368)	5 404	2 862	5 823	10 624
Total comprehensive income attributable to non-controlling interests	(227)	644	(43)	709	889
Total comprehensive income attributable to Hydro shareholders	(141)	4 759	2 905	5 114	9 735

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

Condensed balance sheets (unaudited)

NOK million, except number of shares	June 30 2017	2016	December 31 2016
Assets			
Cash and cash equivalents	7 993	9 220	8 037
Short-term investments	4 896	2 629	4 611
Accounts receivables	13 465	12 085	10 884
Inventories	12 940	11 820	12 381
Other current assets	290	158	457
Total current assets	39 584	35 911	36 371
Property, plant and equipment	57 610	55 378	58 734
Intangible assets	5 577	5 622	5 811
Investments accounted for using the equity method	18 800	19 841	19 807
Prepaid pension	5 018	3 198	4 195
Other non-current assets	5 252	6 798	5 875
Total non-current assets	92 256	90 838	94 422
Total assets	131 840	126 749	130 793
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	3 741	3 593	3 283
Trade and other payables	10 472	9 719	10 108
Other current liabilities	2 911	3 822	3 716
Total current liabilities	17 124	17 135	17 106
Long-term debt	3 183	3 474	3 397
Provisions	4 452	3 630	4 384
Pension liabilities	12 997	13 837	12 871
Deferred tax liabilities	2 566	2 477	2 384
Other non-current liabilities	3 955	3 154	3 011
Total non-current liabilities	27 154	26 572	26 047
Total liabilities	44 278	43 707	43 153
Equity attributable to Hydro shareholders	82 343	77 285	81 906
Non-controlling interests	5 219	5 757	5 733
Total equity	87 562	83 042	87 640
Total liabilities and equity	131 840	126 749	130 793
Total number of outstanding shares (million)	2 045	2 043	2 043

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

Condensed consolidated statements of cash flows (unaudited)

NOK million	Six months ended				
	Second quarter		June 30		Year
	2017	2016	2017	2016	2016
Operating activities					
Net income	1 562	2 077	3 401	4 459	6 586
Depreciation, amortization and impairment	1 389	1 244	2 741	2 459	5 474
Other adjustments	1 379	382	(1 144)	(3 457)	(2 042)
Net cash provided by operating activities	4 330	3 703	4 998	3 461	10 018
Investing activities					
Purchases of property, plant and equipment	(1 350)	(1 345)	(2 746)	(2 740)	(6 913)
Purchases of other long-term investments	(29)	(37)	(61)	(69)	(183)
Purchases of short-term investments	(3 844)	(1 300)	(5 094)	(1 300)	(4 650)
Proceeds from long-term investing activities	263	525	535	686	1 115
Proceeds from sales of short-term investments	2 850	4 000	4 600	4 550	5 850
Net cash provided by (used in) investing activities	(2 110)	1 843	(2 766)	1 127	(4 781)
Financing activities					
Loan proceeds	2 249	911	4 429	1 904	5 208
Principal repayments	(2 004)	(1 405)	(3 825)	(2 820)	(7 525)
Net increase (decrease) in other short-term debt	(82)	131	(235)	574	265
Proceeds from shares issued	13	9	18	19	28
Dividends paid	(2 625)	(2 159)	(2 625)	(2 159)	(2 362)
Net cash used in financing activities	(2 449)	(2 513)	(2 238)	(2 482)	(4 386)
Foreign currency effects on cash and bank overdraft	(111)	241	(38)	197	269
Net increase (decrease) in cash, cash equivalents and bank overdraft	(340)	3 274	(44)	2 303	1 120
Cash, cash equivalents and bank overdraft at beginning of period	8 333	5 946	8 037	6 917	6 917
Cash, cash equivalents and bank overdraft at end of period	7 993	9 220	7 993	9 220	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>								
Treasury shares issued to employees		1	44			45		45
Dividends				(2 043)		(2 043)	(116)	(2 159)
Capital contribution in subsidiaries							4	4
Items not reclassified to income statement in subsidiaries sold				16	(16)	-		-
Total comprehensive income for the period				4 244	870	5 114	709	5 823
June 30, 2016	2 272	29 070	(870)	48 067	(1 253)	77 285	5 757	83 042
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>								
Treasury shares issued to employees		27	60			87		87
Dividends				(2 556)		(2 556)	(474)	(3 029)
Capital contribution in subsidiaries							3	3
Items not reclassified to income statement in subsidiaries sold				10	(10)	-		-
Total comprehensive income for the period				3 247	(342)	2 905	(43)	2 862
June 30, 2017	2 272	29 097	(810)	50 911	872	82 343	5 219	87 562

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	Second quarter		First half		Year
	2017	2016	2017	2016	2016
Total revenue					
Bauxite & Alumina	5 858	4 572	11 769	8 784	19 543
Primary Metal	9 575	8 006	18 216	15 700	30 862
Metal Markets	13 604	11 239	25 753	22 488	43 254
Rolled Products	6 569	5 985	12 846	11 722	22 632
Sapa	-	-	-	-	-
Energy	1 750	1 670	3 705	3 289	7 180
Other and eliminations	(12 765)	(11 080)	(24 672)	(21 454)	(41 517)
Total	24 591	20 391	47 617	40 529	81 953
External revenue					
Bauxite & Alumina	3 417	2 699	6 799	5 142	12 059
Primary Metal	1 944	1 312	3 645	2 488	5 529
Metal Markets	12 080	10 169	23 175	20 302	39 420
Rolled Products	6 629	5 831	12 783	11 627	22 469
Sapa	-	-	-	-	-
Energy	514	364	1 201	940	2 426
Other and eliminations	6	15	15	31	50
Total	24 591	20 391	47 617	40 529	81 953
Internal revenue					
Bauxite & Alumina	2 441	1 873	4 970	3 642	7 484
Primary Metal	7 631	6 693	14 572	13 212	25 333
Metal Markets	1 523	1 070	2 578	2 186	3 834
Rolled Products	(61)	153	64	95	163
Sapa	-	-	-	-	-
Energy	1 236	1 306	2 504	2 350	4 753
Other and eliminations	(12 772)	(11 095)	(24 687)	(21 485)	(41 567)
Total	-	-	-	-	-
Share of the profit (loss) in equity accounted investments					
Bauxite & Alumina	-	-	-	-	-
Primary Metal	231	10	328	(26)	96
Metal Markets	-	-	-	-	-
Rolled Products	-	-	-	-	-
Sapa	273	319	585	528	889
Energy	-	-	-	-	-
Other and eliminations	(13)	(6)	(13)	(9)	-
Total	491	323	900	493	985

NOK million	Second quarter		First half		Year
	2017	2016	2017	2016	2016
Depreciation, amortization and impairment					
Bauxite & Alumina	586	485	1 164	936	2 279
Primary Metal	505	484	997	958	1 913
Metal Markets	24	24	47	47	94
Rolled Products	212	189	413	387	799
Sapa	-	-	-	-	-
Energy	54	51	107	106	210
Other and eliminations	7	11	14	25	178
Total	1 389	1 244	2 741	2 459	5 474
Earnings before financial items and tax (EBIT) ¹⁾					
Bauxite & Alumina	662	174	1 418	363	1 196
Primary Metal	1 538	668	2 335	1 076	2 285
Metal Markets	282	91	269	326	629
Rolled Products	84	428	534	607	953
Sapa	273	319	585	528	889
Energy	284	291	707	685	1 343
Other and eliminations	(176)	8	(492)	87	(285)
Total	2 946	1 978	5 356	3 672	7 011
EBITDA					
Bauxite & Alumina	1 248	659	2 582	1 299	3 475
Primary Metal	2 043	1 152	3 332	2 034	4 199
Metal Markets	306	114	315	373	723
Rolled Products	296	618	947	994	1 752
Sapa	273	319	585	528	889
Energy	337	341	814	791	1 553
Other and eliminations	(168)	19	(478)	111	(107)
Total	4 335	3 222	8 097	6 131	12 485
Investments ²⁾					
Bauxite & Alumina	358	462	676	1 320	3 544
Primary Metal	798	895	1 626	1 446	3 396
Metal Markets	12	18	27	27	101
Rolled Products	158	252	278	727	1 615
Sapa	-	-	-	-	-
Energy	81	75	157	130	318
Other and eliminations	12	9	28	31	162
Total	1 420	1 711	2 792	3 681	9 137

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 ¹⁾	EBITDA
EBIT - EBITDA Second quarter 2017			
Bauxite & Alumina	662	586	1 248
Primary Metal	1 538	505	2 043
Metal Markets	282	24	306
Rolled Products	84	212	296
Sapa	273	-	273
Energy	284	54	337
Other and eliminations	(176)	7	(168)
Total	2 946	1 389	4 335

NOK million	EBIT	Depr., amor. and impairment ¹⁾	EBITDA
EBIT - EBITDA First half 2017			
Bauxite & Alumina	1 418	1 164	2 582
Primary Metal	2 335	997	3 332
Metal Markets	269	47	315
Rolled Products	534	413	947
Sapa	585	-	585
Energy	707	107	814
Other and eliminations	(492)	14	(478)
Total	5 356	2 742	8 097

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.

Note 4: Subsequent events

On July 10, Hydro announced an agreement to take over Orkla's 50 percent interest in Sapa for a total enterprise value of NOK 27 billion (100 percent of Sapa), giving full ownership in the company. The transaction will be financed through cash positions and issuance of bonds in Norwegian and international markets, and will be temporarily funded by committed undrawn credit lines. Completion of the transaction is subject to approval from relevant competition authorities, and is expected in the second half of 2017.

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 ¹⁾	Second quarter 2017	First quarter 2017	Second quarter 2016	First half 2017	First half 2016	Year 2016
NOK million						
Unrealized derivative effects on LME related contracts	92	18	(146)	110	(283)	(401)
Unrealized derivative effects on power and raw material contracts	(25)	173	114	148	27	(61)
Metal effect, Rolled Products	(138)	(286)	(17)	(424)	26	(91)
Significant rationalization charges and closure costs	-	-	67	-	67	192
Impairment charges	-	-	-	-	-	426
(Gains)/losses on divestments	-	-	(329)	-	(314)	(314)
Other effects	-	-	-	-	-	(223)
Items excluded in equity accounted investments	56	(32)	(49)	25	(75)	(113)
Items excluded from underlying EBIT	(16)	(126)	(360)	(141)	(552)	(586)
Net foreign exchange (gain)/loss	918	(218)	(904)	699	(1 935)	(2 266)
Calculated income tax effect	(250)	86	313	(164)	678	841
Other adjustments to net income	-	-	-	-	(700)	(700)
Items excluded from underlying net income	652	(258)	(951)	394	(2 510)	(2 712)
Income (loss) tax rate	21 %	28 %	29 %	25 %	21 %	28 %
Underlying income (loss) tax rate	23 %	28 %	32 %	25 %	38 %	38 %

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 ¹⁾ NOK million	Second quarter 2017	First quarter 2017	Second quarter 2016	First half 2017	First half 2016	Year 2016
Impairment charges	-	-	-	-	-	285
Other effects ²⁾	-	-	-	-	-	(254)
Bauxite & Alumina	-	-	-	-	-	31
Unrealized derivative effects on LME related contracts	(8)	29	38	21	(34)	(93)
Unrealized derivative effects on power contracts	(44)	73	(71)	29	(90)	(125)
Significant rationalization charges and closure costs	-	-	67	-	67	192
Primary Metal	(52)	103	34	51	(56)	(27)
Unrealized derivative effects on LME related contracts	(38)	38	(16)	-	(85)	(119)
Metal Markets	(38)	38	(16)	-	(85)	(119)
Unrealized derivative effects on LME related contracts	139	(58)	(182)	81	(170)	(183)
Metal effect	(138)	(286)	(17)	(424)	26	(91)
(Gains) losses on divestments	-	-	13	-	28	28
Rolled Products	-	(344)	(186)	(343)	(117)	(246)
Unrealized derivative effects on power contracts	-	-	10	-	14	-
Energy	-	-	10	-	14	-
Unrealized derivative effects on power contracts ³⁾	19	100	175	119	102	64
Unrealized derivative effects on LME related contracts ³⁾	(1)	9	15	8	6	(6)
Impairment charges	-	-	-	-	-	140
(Gains)/losses on divestments	-	-	(342)	-	(342)	(342)
Other effects ⁴⁾	-	-	-	-	-	32
Unrealized derivative effects (Sapa)	67	(39)	(59)	28	(101)	(166)
Significant rationalization charges and closure costs (Sapa)	-	-	-	-	-	55
Net foreign exchange (gain) loss (Sapa)	9	(4)	(12)	5	(8)	(49)
Calculated income tax effect (Sapa)	(19)	11	21	(8)	33	48
Other and eliminations	74	78	(202)	151	(309)	(225)
Items excluded from underlying EBIT	(16)	(126)	(360)	(141)	(552)	(586)

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	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
NOK million								
EBITDA	4 335	3 762	15 %	3 222	35 %	8 097	6 131	12 485
Items excluded from underlying EBIT	(16)	(126)	87 %	(360)	96 %	(141)	(552)	(586)
Reversal of impairments	-	-	-	-	-	-	-	(426)
Underlying EBITDA	4 319	3 637	19 %	2 862	51 %	7 956	5 578	11 474

Underlying earnings per share	Second quarter 2017	First quarter 2017	Change prior quarter	Second quarter 2016	Change prior year quarter	First half 2017	First half 2016	Year 2016
NOK million								
Net income (loss)	1 562	1 838	(15) %	2 077	(25) %	3 401	4 459	6 586
Items excluded from net income (loss)	652	(258)	>100 %	(951)	>100 %	394	(2 510)	(2 712)
Underlying net income (loss)	2 214	1 580	40 %	1 126	97 %	3 795	1 949	3 875
Underlying net income attributable to non-controlling interests	94	44	>100 %	72	31 %	138	95	129
Underlying net income attributable to Hydro shareholders	2 121	1 536	38 %	1 055	>100 %	3 656	1 853	3 746
Number of shares	2 044	2 043	-	2 043	-	2 044	2 042	2 042
Underlying earnings per share	1.04	0.75	38 %	0.52	>100 %	1.79	0.91	1.83

Adjusted net cash (debt)	Jun 30 2017	Mar 31 2017	Change prior quarter	Jun 30 2016	Mar 31 2016	Change prior quarter
NOK million						
Cash and cash equivalents	7 993	8 333	(341)	9 220	5 946	3 274
Short-term investments ¹⁾	4 896	4 403	494	2 629	5 479	(2 850)
Short-term debt	(3 741)	(3 481)	(260)	(3 593)	(3 753)	160
Long-term debt	(3 183)	(3 373)	190	(3 474)	(3 735)	261
Net cash (debt)	5 965	5 882	83	4 781	3 937	844
Cash and cash equiv. and short-term investm. in captive insurance company ²⁾	(1 054)	(1 134)	80	(1 127)	(1 189)	61
Net pension obligation at fair value, net of expected income tax benefit ³⁾	(6 929)	(6 907)	(21)	(8 728)	(8 409)	(319)
Operating lease commitments, net of expected income tax benefit ⁴⁾	(507)	(507)	-	(487)	(487)	-
Short- and long-term provisions net of exp. income tax benefit, and other liab. ⁵⁾	(2 621)	(2 691)	70	(3 197)	(3 059)	(138)
Adjusted net cash (debt)	(5 146)	(5 358)	212	(8 758)	(9 206)	449
Net debt in EAI ⁶⁾	(7 619)	(6 726)	(893)	(7 164)	(7 619)	455
Adjusted net cash (debt) incl. EAI	(12 764)	(12 084)	(680)	(15 922)	(16 825)	903

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 1,050 million and NOK 1,179 million for June 2017 and March 2017, respectively.

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.

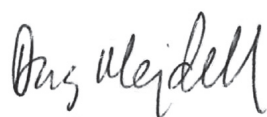
5) Consists of Hydro's short and long-term provisions related to asset retirement obligations, net of an expected tax benefit estimated at 30 percent, and other non-current financial liabilities.

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.

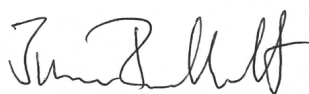
Responsibility statement

We confirm to the best of our knowledge that the condensed set of financial statements for the period January 1 to June 30, 2017 has been prepared in accordance with IAS 34 - Interim Financial Reporting, and gives a true and fair view of the Hydro Group's assets, liabilities, financial position and result for the period. We also confirm to the best of our knowledge that the financial review includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the financial statements, any major related parties transactions, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

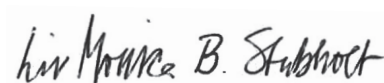
Oslo, July 24, 2017




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Chair



IRENE RUMMELHOFF
Deputy chair



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Board member



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Board member



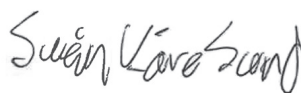
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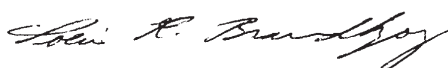
THOMAS SCHULZ
Board member



SVEIN KÅRE SUND
Board member



MARIANNE WIINHOLT
Board member



SVEIN RICHARD BRANDTZÆG
President and CEO

Additional information

Financial calendar

October 25	Third quarter results
November 30	Capital Markets Day

Hydro reserves the right to revise these dates.

Cautionary note

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

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

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

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.

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Infinite aluminium