HYDRO

Q2

SECOND QUARTER REPORT 2018

Contents

Oslo, July 23, 2018

Overview

Summary underlying financial and operating results and liquidity

Key financial information NOK million, except per share data	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Revenue	**41 254**	24 591	68 %	39 971	3 %	**81 225**	47 617	109 220
Earnings before financial items and tax (EBIT)	**2 986**	2 946	1 %	3 301	(10) %	**6 287**	5 356	12 189
Items excluded from underlying EBIT[1)]	**(274)**	(16)	>(100) %	(155)	(77) %	**(428)**	(141)	(974)
Underlying EBIT[1)]	**2 713**	2 930	(7) %	3 147	(14) %	**5 859**	5 214	11 215
Underlying EBIT :								
Bauxite & Alumina	**364**	662	(45) %	741	(51) %	**1 104**	1 418	3 704
Primary Metal	**755**	1 486	(49) %	823	(8) %	**1 578**	2 386	5 061
Metal Markets	**237**	244	(3) %	178	34 %	**415**	268	544
Rolled Products	**212**	84	>100 %	232	(9) %	**444**	191	380
Extruded Solutions[2)]	**957**			734	30 %	**1 691**		284
Energy	**417**	284	47 %	278	50 %	**695**	707	1 531
Other and eliminations[2)]	**(229)**	170	>(100) %	161	>(100) %	**(68)**	245	(289)
Underlying EBIT[1)]	**2 713**	2 930	(7) %	3 147	(14) %	**5 859**	5 214	11 215
Earnings before financial items, tax, depreciation and amortization (EBITDA)[3)]	**4 860**	4 335	12 %	5 193	(6) %	**10 052**	8 097	18 344
Underlying EBITDA[1)]	**4 586**	4 319	6 %	5 038	(9) %	**9 624**	7 956	17 369
Net income (loss)	**2 073**	1 562	33 %	2 076	-	**4 149**	3 401	9 184
Underlying net income (loss)[1)]	**2 096**	2 214	(5) %	2 201	(5) %	**4 298**	3 795	8 396
Earnings per share	**1.03**	0.73	42 %	1.02	1 %	**2.05**	1.59	4.30
Underlying earnings per share[1)]	**1.02**	1.04	(2) %	1.06	(4) %	**2.07**	1.79	3.95
Financial data:								
Investments[1) 3)]	**1 620**	1 420	14 %	1 319	23 %	**2 939**	2 792	28 848
Adjusted net cash (debt)[1)]	**(20 209)**	(5 146)	>(100) %	(16 890)	(20) %	**(20 209)**	(5 146)	(17 968)

Key Operational information	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Bauxite production (kmt)[4)]	**1 348**	2 943	(54) %	2 326	(42) %	**3 675**	5 343	11 435
Alumina production (kmt)	**829**	1 576	(47) %	1 277	(35) %	**2 106**	3 099	6 397
Primary aluminium production (kmt)	**492**	523	(6) %	514	(4) %	**1 006**	1 039	2 094
Realized aluminium price LME (USD/mt)	**2 183**	1 902	15 %	2 140	2 %	**2 161**	1 828	1 915
Realized aluminium price LME (NOK/mt)	**17 292**	16 265	6 %	16 929	2 %	**17 103**	15 517	15 888
Realized USD/NOK exchange rate	**7.92**	8.55	(7) %	7.91	-	**7.92**	8.49	8.30
Rolled Products sales volumes to external market (kmt)	**251**	239	5 %	245	2 %	**496**	480	940
Extruded Solutions sales volumes to external market (kmt)[5)]	**373**	180	>100 %	362	3 %	**735**	357	845
Power production (GWh)	**2 550**	2 369	8 %	2 433	5 %	**4 983**	5 238	10 835

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 until end of third quarter 2017. Extruded Solutions was fully consolidated from October 2, 2017.

3) EBITDA and investments per segment are specified in Note 2: Operating segment information.

4) Paragominas production, on wet basis.

5) Hydro's 50 percent share of Sapa sales volumes until end of third quarter 2017 and 100 percent of Extruded Solutions sales volumes from the beginning of the fourth quarter 2017.

Following a period of extreme rainfall in February authorities ordered several measures against Alunorte, including that the Alunorte alumina refinery is required to operate at 50 percent of its capacity while authorities review the situation, over concerns that flooding led to harmful spills. Consequently, Alunorte's primary bauxite source Paragominas and Hydro's part-owned subsidiary Albras aluminium plant have also reduced their production by 50 percent. Measures have been initiated to resolve the situation, however, currently it is uncertain when production might be able to revert to normal levels. Findings of an internal and an external task force confirm that there was no overflow from the bauxite residue deposit areas, no indication or evidence of contamination to nearby local communities, or any significant or lasting environmental impact to nearby rivers from Alunorte as a result of the heavy rainfall.

Hydro's underlying earnings before financial items and tax decreased to NOK 2,713 million in the second quarter, down from NOK 2,930 million for the same quarter last year. The effects of the production curtailment at Alunorte and increased raw material costs were partly offset by higher all-in metal price[1)] and a higher realized alumina price as well as improved results from downstream and Energy.

Compared to the first quarter of 2018 the underlying EBIT for Hydro decreased from NOK 3,147 to NOK 2,713 million. The decrease reflects the effects of the production curtailment at Alunorte and increased raw material costs partly offset by higher all-in metal price[1)] and a higher realized alumina price as well as improved results from Extruded Solutions and Energy.

For the first half year of 2018 Hydro's underlying EBIT increased to NOK 5,859 million from NOK 5,214 million for the first half of 2017. The increase reflects a higher all-in metal price and alumina sales price as well as improved results from Extruded Solutions, partly offset by the effects of the production curtailment at Alunorte and increased raw material costs.

Due to the situation in Brazil, Hydro's "Better" improvement program is not expected to reach the 2018 target of NOK 500 million.

Hydro's net debt position increased from NOK 3.6 billion[2)] to NOK 7.5 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 1.5 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.6 billion. During the second quarter dividends paid to Norsk Hydro ASA shareholders amounted to NOK 3.6 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

In addition to the factors discussed above, reported earnings before financial items and tax (EBIT) and net income include effects that are disclosed in the below table. Items excluded from underlying EBIT and underlying net income (loss) are defined and described as part of the APM section in the back of this report.

Items excluded from underlying EBIT and net income 1) NOK million	**Second quarter 2018**	Second quarter 2017	First quarter 2018	**First half 2018**	First half 2017	Year 2017
Unrealized derivative effects on LME related contracts	**(306)**	92	(114)	**(419)**	110	220
Unrealized derivative effects on power and raw material contracts	**92**	(25)	(87)	**5**	148	246
Metal effect, Rolled Products	**(60)**	(138)	47	**(14)**	(424)	(419)
Significant rationalization charges and closure costs 2)	**-**	-	-	**-**	-	210
Other effects 3)	**-**	-	-	**-**	-	212
Transaction related effects (Sapa) 4)	**-**	-	-	**-**	-	(1 463)
Items excluded in equity accounted investments (Sapa) 5)	**-**	56	-	**-**	25	19
Items excluded from underlying EBIT	**(274)**	(16)	(155)	**(428)**	(141)	(974)
Net foreign exchange (gain)/loss	**306**	918	333	**639**	699	875
Calculated income tax effect	**(8)**	(250)	(54)	**(62)**	(164)	(564)
Other adjustments to net income 6)	**-**	-	-	**-**	-	(125)
Items excluded from underlying net income	**24**	652	125	**148**	394	(788)
Income (loss) tax rate	**19 %**	21 %	27 %	**23 %**	25 %	17 %
Underlying income (loss) tax rate	**19 %**	23 %	27 %	**23 %**	25 %	24 %

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

2) Significant rationalization charges and closure costs include environmental liability in Kurri Kurri of NOK 181 million and rationalization costs in Extruded Solutions of NOK 29 million in the fourth quarter 2017.

3) Other effects include a charge of NOK 245 million related to a customs case in Germany and a gain of NOK 33 in relation to remeasurement of environmental liabilities related to closed business in Germany in the fourth quarter 2017.

4) Transaction related effects include the revaluation gain of NOK 2,171 million of Hydro's pre-transactional 50 percent interest in Sapa, as well as the fair value allocated to inventory of finished goods and to the backlog of contractual deliveries as of closure, sold during fourth quarter 2017, reflecting an expense of NOK 707 million.

5) Items excluded in equity accounted investments (Sapa) for the year 2017 include unrealized derivative gains, rationalization charges and net foreign exchange gains.

6) Other adjustments to net income include reduction in tax expense and related interest income of NOK 125 million in total following a closed tax case in September 2017.

Market developments and outlook

Market statistics	Second quarter 2018	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	First half 2018	First half 2017	Year 2017
USD/NOK Average exchange rate	**8.02**	8.51	(6) %	7.84	2 %	**7.93**	8.48	8.26
USD/NOK Period end exchange rate	**8.16**	8.39	(3) %	7.78	5 %	**8.16**	8.39	8.21
BRL/NOK Average exchange rate	**2.23**	2.65	(16) %	2.42	(8) %	**2.32**	2.67	2.59
BRL/NOK Period end exchange rate	**2.12**	2.55	(17) %	2.34	(9) %	**2.12**	2.55	2.48
USD/BRL Average exchange rate	**3.61**	3.22	12 %	3.24	11 %	**3.42**	3.18	3.19
USD/BRL Period end exchange rate	**3.85**	3.29	17 %	3.33	16 %	**3.85**	3.29	3.31
EUR/NOK Average exchange rate	**9.55**	9.38	2 %	9.63	(1) %	**9.59**	9.17	9.33
EUR/NOK Period end exchange rate	**9.51**	9.57	(1) %	9.64	(1) %	**9.51**	9.57	9.84
Bauxite and alumina:								
Average alumina price - Platts PAX FOB Australia (USD/t)	**519**	296	75 %	383	36 %	**451**	318	355
China bauxite import price (USD/mt CIF China)[1)]	**-**	50	-	54	-	**-**	50	51
Global production of alumina (kmt)	**31 715**	31 470	1 %	29 971	6 %	**61 686**	62 153	124 415
Global production of alumina (ex. China) (kmt)	**13 350**	13 915	(4) %	13 626	(2) %	**26 976**	27 607	55 974
Primary aluminium:								
LME three month average (USD/mt)	**2 257**	1 915	18 %	2 164	4 %	**2 210**	1 885	1 980
LME three month average (NOK/mt)	**18 107**	16 303	11 %	16 958	7 %	**17 528**	15 969	16 337
Standard ingot premium (EU DP Cash)	**203**	144	41 %	165	23 %	**183**	145	148
Extrusion ingot premium (DP)	**479**	327	46 %	351	36 %	**412**	318	334
Global production of primary aluminium (kmt)	**16 017**	16 062	-	15 538	3 %	**31 555**	31 643	63 532
Global consumption of primary aluminum (kmt)	**17 442**	16 617	5 %	15 490	13 %	**32 932**	31 584	63 628
Global production of primary aluminium (ex. China) (kmt)	**6 859**	6 721	2 %	6 817	1 %	**13 676**	13 420	27 222
Global consumption of primary aluminum (ex. China) (kmt)	**7 818**	7 538	4 %	7 359	6 %	**15 177**	14 676	29 155
Reported primary aluminium inventories (kmt)	**5 279**	5 164	2 %	5 997	(12) %	**5 279**	5 164	5 370
Rolled products and extruded products:								
Consumption rolled products - Europe (kmt)	**1 336**	1 280	4 %	1 258	6 %	**2 594**	2 500	4 853
Consumption rolled products - USA & Canada (kmt)	**1 369**	1 334	3 %	1 320	4 %	**2 689**	2 568	5 065
Consumption extruded products - Europe (kmt)	**872**	846	3 %	812	7 %	**1 684**	1 636	3 156
Consumption extruded products - USA & Canada (kmt)	**664**	626	6 %	636	4 %	**1 300**	1 233	2 440
Energy:								
Average southern Norway spot price (NO2) (NOK/MWh)	**369**	252	46 %	361	2 %	**365**	265	269
Average mid Norway spot price (NO3) (NOK/MWh)	**376**	262	44 %	374	1 %	**375**	272	275
Average nordic system spot price (NOK/MWh)	**373**	257	45 %	372	-	**372**	268	274

1) As of July 5, 2018, China has not released monthly bauxite and alumina trade statistics data.

Bauxite and alumina

Platts alumina spot prices averaged USD 519 per mt in the second quarter of 2018, an increase of USD 223 per mt compared to the the second quarter 2017 driven by a tight alumina market caused by the Alunorte refinery operating at 50 percent of capacity since March 2018 and US sanctions imposed on UC Rusal potentially reducing alumina availability. The Platts alumina spot price average increased USD 136 per mt in the second quarter from USD 383 per mt in the first quarter 2018. Prices started the quarter at USD 443 per mt and rallied strongly to an all time high of USD 710 per mt in mid-April driven by concerns about the alumina supply on the back of the above mentioned events. Prices retreated to USD 445 per mt at quarter end as the timing of the US sanctions against UC Rusal coming into effect was extended until October 23. Average prices represented 22.9 percent of LME in the quarter compared with 17.8 percent in the previous quarter and 15.5 percent in the second quarter 2017.

Chinese customs has suspended the publication of bauxite and alumina import statistics, as a result no data for the second quarter is available.

Primary aluminium

Three-month LME prices ranged between USD 1,988 and USD 2,587 per mt during the second quarter of 2018. The average LME three-month price was USD 2,257, increasing USD 342 per mt compared to the second quarter of 2017. European average all-in metal prices[1)] increased from USD 2,055 per mt in the second quarter of 2017 to USD 2,462 in the second quarter of 2018, due to an increase in both LME prices and premiums.

The average LME three-month price increased to USD 2,257 per mt in the second quarter of 2018, compared to USD 2,164 in the first quarter. In the first quarter of 2018 the LME three-month gradually trended downwards from USD 2,268 per mt towards USD 2,014, while it experienced high volatility in the second quarter driven by the Alunorte disruption and Rusal sanctions. LME three-month prices have moderated since the peak in April amid escalating trade tensions and ended the quarter at USD 2,160 per mt.

European duty paid standard ingot premiums ended the second quarter of 2018 at USD 155 per mt, compared to USD 164 at the beginning of the quarter, averaging USD 203 per mt for the second quarter compared to USD 144 in the second quarter of 2017. Midwest premiums started the second quarter at USD 419 per mt, and ended at USD 458 per mt, averaging USD 477 per mt compared to USD 199 per mt in the second quarter of 2017. The main reason for the large increase in premiums in North America was the 10 percent import duty that the US administration introduced for aluminium imports from many countries.

Shanghai Futures Exchange (SHFE) prices increased by USD 212 per mt ex. VAT, compared to the second quarter in 2017. The SHFE increase was lower than the equivalent LME increase over the quarter although reported stock levels in China fell from its historical peak in first quarter of this year, reflecting the central Government's efforts to reduce primary production capacity. The US administration's implementation of higher import duties and US sanctions against Rusal also contributed to the differentials in price increases. Consequently, average export arbitrage potential and semis exports increased during the quarter, compared to the second quarter of 2017.

Global primary aluminium consumption increased by 5 percent to 17.4 million mt in the second quarter of this year compared to the second quarter of 2017, due to improved global sentiments and continued strong demand growth in China. Compared to the first quarter of 2018, global demand in the second quarter of 2018 increased by 12.6 percent, largely due to seasonality effects in China. Global demand for primary aluminium grew by 5.8 percent in 2017, and is expected to grow by around 4-5 percent in 2018.

Outside China, demand increased by 3.7 percent in the second quarter compared to the second quarter of 2017, while the increase from the first quarter of 2018 was 6.2 percent. Consumption outside China amounted to 7.8 million mt for the second quarter of 2018. Corresponding production amounted to 6.9 million mt, an increase of 2.1 percent compared to the second quarter of 2017. Demand for primary aluminium outside China grew by around 3.1 percent in 2017, and is expected to grow by 3-4 percent in 2018. Production outside China is expected to increase by 2-3 percent in 2018.

Compared to the second quarter of 2017, Chinese aluminium consumption increased by 6.0 percent to 9.6 million mt. Corresponding aluminium production decreased by 2.0 percent compared to the second quarter last year, but increased 5.0 percent compared to the first quarter of 2018, as production was impacted by supply-side reform and environmental shutdowns in the first quarter. The Chinese government has announced that they may continue with smelter curtailments also during the coming winter, in order to reduce air pollution in a number of Chinese cities around the larger Beijing area.

Production of primary aluminium in China grew by 13.2 percent in 2017, but due to capacity control measures introduced in 2017, production increase is expected to be dampened to around 2-3 percent in 2018. Demand is expected to increase by 4-6 percent in 2018, lower than the growth of 8.3 percent in 2017.

The global primary aluminium market is moving towards a deficit in 2018, and larger than earlier forecasted, driven by slower than expected supply growth.

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

On March 8, the US administration announced a 10 percent tariff on aluminium imports to the US, effective from March 23. Temporary exemptions for the EU, Canada, Brazil and Mexico ended June 1. Argentina and Australia are exempted from the 10 percent tariff, although Argentina will be covered by a quota. The tariff leads to increases in supply cost for the US fabrication sector. However, the increase in US premiums reflecting the duty level is expected to be passed through to the product price, with uncertain effects for US downstream fabrication competitiveness.

On April 6, the US Department of Treasury's Office of Foreign Assets Control issued a sanctions list that included Russian individuals and companies including the Russian aluminium company Rusal, controlled by Oleg Deripaska. The US sanctions have lead to volatility in the LME price and uncertainty surrounding its effects on the global metal flow and future prices remains. The deadline for ending all business with Rusal has been extended until October 23, 2018.

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

Total global stocks at the end of the second quarter were estimated to be 11.1 million mt, 1.5 million mt lower than the level at the end of second quarter last year, and 1.4 million mt lower than first quarter of 2018. LME stocks have declined 0.3 million mt since the second quarter of 2017, amounting to 1.1 million mt at the end of the second quarter 2018. Since the end of first quarter 2018 LME stocks have decreased 0.2 million mt. Chinese reported stocks have increased 0.5 million mt since the second quarter of 2017, and are now at 2.5 million mt. Compared to the first quarter of 2018 the Chinese reported stocks have declined by 0.5 million mt. Estimated unreported global stocks were down 1.6 million mt compared to the second quarter of 2017, and have decreased 0.7 million mt compared to the first quarter of 2018.

Rolled products

European demand for flat rolled products increased by around 4 percent compared to the second quarter 2017, due to improved demand across most segments. Compared to the first quarter of 2018 growth of around 6 percent was mainly driven by seasonality.

Demand in automotive continued to show a positive development due to the increasing substitution of steel by aluminium for automotive body sheet. Demand was also supported by increased car production, which is however, expected to be flat for the remainder of the year. Building and construction demand continued to recover across Europe. As a result of higher production, competition intensified in parts of the building segment. In addition to steel line conversions, the demand in beverage can was driven by favorable weather conditions. European foil demand improved, partly due to increased demand from the US as a result of the imposed anti-dumping duties on China. The demand growth in general engineering was solid despite the intensified competition from China.

The European demand for flat rolled products is expected to show growth of 4 percent for the remainder of the year.

Extruded products

European demand for extrusions increased 3 percent compared to the second quarter of 2017. Compared to the first quarter of 2018 demand increased by 7 percent, supported by seasonality. The building and construction market continues its recovery, and the transportation market is improving across its sub-segments. The output in the automotive market continues to be solid, with a positive outlook in the European production.

The North American demand for extrusion experienced an increase of 6 percent compared to the second quarter of last year. Demand increased 4 percent compared to the first quarter of 2018, supported by seasonality. North America is currently driven by growing transport demand and higher activity in the building and construction market. Continued strong truck and trailer output in the US supports commercial transportation market, while the light vehicle segment is experiencing flat build rates and soft car sales. The demand in the building and construction market has been positive, supported by strong housing starts in residential segment and improved outlook in the commercial sector. Distributors have generally been reporting positive growth rates from their end-customers, while this market has not been as strong as in the first quarter.

The Brazilian extrusion market is expected to grow by around 6 percent in 2018 from the low levels of 2017. Demand growth is driven by high activity in the building and construction market, with 6 percent demand growth compared to 2017, and strong transport demand growth of 10 percent following an increase in automotive production.

The current positive market conditions are expected to continue into the third quarter of 2018.

Energy

Nordic spot prices were on average significantly higher in the second quarter compared to the same period last year and fairly stable compared to the previous quarter. The spot prices have been positively impacted by drier than normal weather. Stronger coal and gas prices contributed further to the high price level for the season.

At the end of the second quarter in 2018, the Nordic hydrological balance was around 15 TWh below normal[1)], which is significantly below the level at 3 TWh below normal at the end of the second quarter last year as well as the previous quarter. Water reservoirs in Norway were 61.7 percent of full capacity at the end of the quarter, which is 5.5 percentage points below the normal level. Snow reservoirs were somewhat below normal level at the end of the quarter.

1) Normal based on long term historical averages.

Additional factors impacting Hydro

Hydro has initiated a NOK 500 million investment to the water treatment system at Alunorte. This aims at increasing the water treatment capacity by 50 percent and improving the robustness of the plant to withstand future extreme weather conditions. In addition, to support broad collaboration for social change in Barcarena, Hydro has committed to BRL 100 million, (around NOK 210 million) in local community investments through the Sustainable Barcarena Initiative. The initiative will establish an independent organization that will provide a public platform for data monitoring and evaluation, and develop social and environmental projects.

On February 26, 2018, Hydro made a binding offer to acquire Rio Tinto's Icelandic aluminium plant Rio Tinto Iceland Ltd (ISAL), its 53 percent share in Dutch anode facility Aluminium & Chemie Rotterdam B.V. (Aluchemie) in which Hydro currently holds 47 percent, and 50 percent of the shares in Swedish aluminium fluoride plant Alufluor AB. ISAL produces 210,000 mt liquid metal and a total of 230,000 mt extrusion ingot for the European building, construction and transportation segments from its newly built casthouse with full ultrasonic testing capabilities. Completion of the transaction is subject to approval from relevant competition authorities, and is expected in the second half of 2018.

Primary Metal has sold forward around 60 percent of its expected primary aluminium production for the third quarter of 2018 at a price level of around USD 2,275 per mt.[1)]

Sapa Profiles Inc. (SPI), a Portland, Oregon based subsidiary of Hydro Extruded Solutions AS (formerly 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, 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.

During the second quarter of 2018 Hydro signed two long-term power contracts which contain embedded Euro currency derivatives. All changes to the fair value of the embedded Euro currency derivatives are included in Financial expenses.

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 to 2 months.

Risks and uncertainties

Hydro is subject to a range of risks and uncertainties which may affect its business operations, financial condition and results of operations. An evaluation of Hydro's major risks has been performed as part of Hydro's semi-annual overall enterprise risk assessment. The description of principal risks and uncertainties in the Financial statements and Board of Directors' Report 2017 gives a fair description of principal risks and uncertainties that may affect Hydro in the second half of 2018, and the company is not aware of any significant new risks or uncertainties or significant changes to those risks or uncertainties, except for those described in this report.

Following a period of extreme rainfall in February, authorities ordered that the Alunorte alumina refinery is required to operate at 50 percent of its capacity while authorities review the situation, over concerns that flooding led to harmful spills. Consequently, Alunorte's primary bauxite source Paragominas and Hydro's part-owned subsidiary Albras aluminium plant have also reduced their production by 50 percent. Measures have been initiated to resolve the situation. However, at the time of issuing this report, the duration of this curtailment is uncertain, as well as the operational and financial impacts for Hydro, depending, amongst other things, on the development of the market prices for aluminum, alumina and other raw materials. Findings of an internal and an external task force confirm that there was no overflow from the bauxite residue deposit areas as well as no indication or evidence of contamination to nearby local communities from Alunorte as a result of the heavy rainfall.

On March 8, the US administration announced a 10 percent tariff on aluminium imports to the US, effective from March 23. Temporary exemptions for the EU, Canada, Brazil and Mexico ended June 1. Argentina and Australia are exempted from the 10 percent tariff, although Argentina will be covered by a quota. On May 23, 2018 the US Secretary of Commerce initiated an investigation to determine the effects on national security of imports of automobiles and automotive parts. The tariff leads to increases in supply cost for the US fabrication sector. However, the increase in US premiums reflecting the duty level is expected to be passed through to the product price, with uncertain effects for US downstream fabrication competitiveness. In the short-term, Hydro does not expect any significant impact on its operational and financial performance.

On April 6, 2018 the US Department of Treasury's Office of Foreign Assets Control issued a new sanctions list that included Russian individuals and companies, including the Russian aluminium company Rusal, controlled by Oleg Deripaska. The deadline for ending all business with Rusal has been extended until October 23, 2018. The US sanctions have lead to volatility in the LME price and uncertainty surrounding its effects on the global metal flow and future prices remains. Hydro has multiple business relations with Rusal throughout the value chain and is initiating mitigating actions to address the situation. In the short-term, Hydro does not expect any significant negative impact on its operational and financial performance.

Related parties

Note 11 to the Financial statements and Board of Director's report 2017 provides details of related parties. During the first half of 2018 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 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**364**	662	(45) %	741	(51) %	**1 104**	1 418	3 704
Underlying EBIT (NOK million)	**364**	662	(45) %	741	(51) %	**1 104**	1 418	3 704
Underlying EBITDA (NOK million)	**937**	1 248	(25) %	1 370	(32) %	**2 307**	2 582	6 190
Alumina production (kmt)	**829**	1 576	(47) %	1 277	(35) %	**2 106**	3 099	6 397
Sourced alumina (kmt)[1)]	**985**	645	53 %	900	9 %	**1 884**	1 245	2 522
Total alumina sales (kmt)	**1 842**	2 196	(16) %	2 071	(11) %	**3 913**	4 325	8 920
Realized alumina price (USD/mt) [2)]	**430**	295	46 %	371	16 %	**398**	302	326
Bauxite production (kmt) [3)]	**1 348**	2 943	(54) %	2 326	(42) %	**3 675**	5 343	11 435
Sourced bauxite (kmt) [4)]	**1 250**	1 809	(31) %	1 317	(5) %	**2 567**	3 484	7 601

1) Sourced alumina volumes have been re-calculated, with Q1 2018 being adjusted accordingly

2) 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.

3) Paragominas production, on wet basis.

4) 40 percent MRN off take from Vale and 5 percent Hydro share on wet basis.

The 50 percent production restriction at Alunorte and subsequent reduction of production at Paragominas had a negative impact on the results for the second quarter. If we had assumed Alunorte and Paragominas at full production and realized alumina price of USD 360 per mt, reflecting the price level just before the production restriction, as well as cost levels as reflected in second quarter 2018 results, underlying EBIT would have been around NOK 1.1 billion. If we assume realized alumina price of USD 430 per mt, as realized in second quarter 2018, underlying EBIT for Bauxite & Alumina would have been around NOK 2 billion. However, it is likely that the Alunorte situation has had an impact on alumina prices in the second quarter. These estimates are also adjusted for other extraordinary costs of approximately NOK 70 million related to the production restrictions reflected in the actual second quarter 2018 results.

Underlying EBIT for Bauxite & Alumina decreased compared to the second quarter of last year. The results were driven by reduced production at both Alunorte and Paragominas and higher raw material prices partly offset by higher realized alumina sales prices.

Due to the situation at Alunorte, Bauxite and Alumina's "Better" improvement program will not reach the 2018 target.

Compared to the first quarter of 2018 the underlying EBIT decreased due to the factors discussed above.

The results for the first half year decreased compared to the first half year of 2017 due to the factors discussed above.

Primary Metal

Operational and financial information [1]	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**776**	1 538	(50) %	917	(15) %	**1 693**	2 335	4 729
Underlying EBIT (NOK million)	**755**	1 486	(49) %	823	(8) %	**1 578**	2 386	5 061
Underlying EBITDA (NOK million)	**1 309**	1 991	(34) %	1 349	(3) %	**2 658**	3 383	7 078
Realized aluminium price LME (USD/mt) [2]	**2 183**	1 902	15 %	2 140	2 %	**2 161**	1 828	1 915
Realized aluminium price LME (NOK/mt) [2]	**17 292**	16 265	6 %	16 929	2 %	**17 103**	15 517	15 888
Realized premium above LME (USD/mt) [3]	**364**	273	33 %	295	23 %	**328**	270	265
Realized premium above LME (NOK/mt) [3]	**2 881**	2 330	24 %	2 335	23 %	**2 600**	2 296	2 197
Realized USD/NOK exchange rate	**7.92**	8.55	(7) %	7.91	-	**7.92**	8.49	8.30
Primary aluminium production (kmt)	**492**	523	(6) %	514	(4) %	**1 006**	1 039	2 094
Casthouse production (kmt)	**523**	551	(5) %	531	(2) %	**1 054**	1 072	2 169
Total sales (kmt)	**549**	579	(5) %	578	(5) %	**1 127**	1 156	2 278

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 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Revenue (NOK million)	**1 592**	1 483	7 %	1 356	17 %	**2 948**	2 838	5 821
Underlying EBIT (NOK million)	**344**	291	18 %	266	29 %	**611**	448	985
Underlying EBITDA (NOK million)	**608**	604	1 %	532	14 %	**1 139**	1 060	2 157
Net income (loss) (NOK million)	**281**	232	21 %	210	34 %	**491**	329	747
Underlying Net income (loss) (NOK million)	**281**	232	21 %	210	34 %	**491**	329	747
Primary aluminium production (kmt)	**78**	78	-	77	1 %	**155**	154	310
Casthouse sales (kmt)	**80**	80	-	73	10 %	**153**	160	325

The impact of the Brazilian curtailments on the financial results for Primary Metal are relatively minor this quarter. However, given the observed increases in alumina prices, and the time lag for these to affect Primary Metal's financial results, cost increases are expected in the coming quarters.

Underlying EBIT for Primary Metal declined compared to the second quarter last year due to higher raw material and fixed costs and negative currency effects, partly offset by higher all-in metal prices[1].

The "Better Primary Metal" improvement program is not expected to reach the target for 2018 due to the production curtailment at Albras. The curtailment is a result of reduced availability of alumina from Alunorte.

Compared to the first quarter of 2018, underlying EBIT for Primary Metal declined slightly. Higher all-in metal prices[1] were offset by lower volumes, negative currency effects, and higher raw material and fixed costs.

Underlying EBIT for Primary Metal for the first half 2018 declined compared to first half 2017 due to higher raw material costs, fixed costs and negative currency effects, partly offset by higher all-in metal prices[1].

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

Metal Markets

Operational and financial information	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**270**	282	(4) %	305	(12) %	**575**	269	485
Underlying EBIT (NOK million)	**237**	244	(3) %	178	34 %	**415**	268	544
Currency effects	**10**	44	(78) %	(11)	>100 %	**(1)**	23	83
Inventory valuation effects	**4**	48	(92) %	50	(92) %	**54**	10	(38)
Underlying EBIT excl. currency and inventory valuation effects	**224**	152	48 %	139	61 %	**363**	235	499
Underlying EBITDA (NOK million)	**262**	268	(2) %	201	30 %	**463**	315	638
Remelt production (kmt)	**153**	152	1 %	150	2 %	**303**	295	568
Metal products sales excluding ingot trading (kmt) [1]	**746**	759	(2) %	745	-	**1 492**	1 493	2 921
Hereof external sales (kmt)	**563**	675	(17) %	580	(3) %	**1 142**	1 348	2 575

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

Underlying EBIT for Metal Markets remained stable compared to the second quarter of last year. Increase in sales volumes and margins from the remelters, and higher results from sourcing and trading activities were offset by lower inventory valuation and currency effects.

Compared to the first quarter of 2018, underlying EBIT for Metal Markets improved. Improved results from remelters, sourcing and trading activities, and positive currency effects are somewhat offset by less positive inventory valuation effects.

Underlying EBIT for Metal Markets improved in first half of 2018 compared to the first half of 2017. An increase in sales volumes and margins from the remelters, higher results from sourcing and trading activities, and positive inventory valuation effects were partly offset by negative currency effects.

Rolled Products

Operational and financial information	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**353**	84	>100 %	78	>100 %	**432**	534	512
Underlying EBIT (NOK million)	**212**	84	>100 %	232	(9) %	**444**	191	380
Underlying EBITDA (NOK million)	**438**	297	48 %	456	(4) %	**894**	604	1 240
Sales volumes to external market (kmt)	**251**	239	5 %	245	2 %	**496**	480	940
Sales volumes to external markets (kmt) - Product areas								
Can & foil	**92**	89	3 %	90	2 %	**183**	174	352
Lithography & automotive	**81**	75	8 %	78	3 %	**159**	153	297
Special products	**77**	75	3 %	77	1 %	**154**	153	291
Rolled Products	**251**	239	5 %	245	2 %	**496**	480	940

Underlying EBIT increased significantly compared to the second quarter of 2017. Increasing margins, higher sales volumes, improved production performance as well as an accrual for employee compensation in 2017 were partly offset by negative currency effects. Results from the Neuss smelter increased mainly due to positive effects from all-in metal price development and new power contracts, partly offset by increasing raw material prices.

Rolled Products is on track with its "Better Rolled Products" improvement program for 2018.

Compared to the first quarter of 2018 underlying EBIT declined somewhat due to a combination of factors. Positive currency and all-in metal price development were more than offset by the annual wage increase in addition to increased raw material prices and higher maintenance cost.

The results for the first half year improved compared to the first half year of 2017 due to the factors discussed above.

Extruded Solutions

Operational and financial information	Second quarter 2018	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	First half 2018	First half 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**1 109**			687	61 %	**1 795**		1 722
Underlying EBIT (NOK million)	**957**			734	30 %	**1 691**		284
Underlying EBITDA (NOK million)	**1 383**			1 155	20 %	**2 538**		728
Sales volumes to external markets (kmt)	**373**			362	3 %	**735**		318
Sales volumes to external markets (kmt) - Business units								
Extrusion Europe	**155**			154	1 %	**309**		130
Extrusion North America	**157**			152	3 %	**309**		134
Building Systems	**20**			20	-	**40**		19
Precision tubing	**41**			37	11 %	**77**		34
Extruded Solutions	**373**			362	3 %	**735**		318

The new Extruded Solutions business area was formed at the beginning of the fourth quarter 2017 following Hydro's acquisition of the remaining 50 percent of Sapa shares. The business areas' financial results are fully consolidated from the closing date October 2, 2017.

Sapa's financial results prior to the transaction were reported as a 50 percent owned joint venture in the Other and eliminations section.

For pro forma information related to the Extruded Solutions business area and a more detailed results explanation please see the corresponding section later in this report.

Energy

Operational and financial information	Second quarter 2018	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	First half 2018	First half 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**417**	284	47 %	278	50 %	**695**	707	1 531
Underlying EBIT (NOK million)	**417**	284	47 %	278	50 %	**695**	707	1 531
Underlying EBITDA (NOK million)	**479**	337	42 %	339	42 %	**818**	814	1 757
Direct production costs (NOK million)[1)]	**140**	125	12 %	163	(14) %	**303**	289	614
Power production (GWh)	**2 550**	2 369	8 %	2 433	5 %	**4 983**	5 238	10 835
External power sourcing (GWh)	**2 247**	2 295	(2) %	2 215	1 %	**4 461**	4 567	9 562
Internal contract sales (GWh)	**3 632**	3 507	4 %	3 622	-	**7 253**	6 978	14 424
External contract sales (GWh)	**205**	161	27 %	263	(22) %	**468**	422	767
Net spot sales (GWh)	**961**	996	(4) %	763	26 %	**1 723**	2 406	5 206

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

Underlying EBIT increased compared to the same quarter in the previous year. The increase was due to significantly higher prices, higher production and improved commercial results, partly offset by negative effects from the repricing of an internal power contract with the Neuss smelter.

Compared to the previous quarter, Underlying EBIT increased mainly due to higher production, improved commercial results and lower transmission cost.

Compared to the first half year of the previous year underlying EBIT remained stable. Lower production and negative impact from the repricing of an internal power contract with the Neuss smelter, were offset mainly by significantly higher prices.

Other and eliminations

Financial information NOK million	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Earnings before financial items and tax (EBIT)	**(303)**	97	>(100) %	295	>(100) %	**(8)**	93	(495)
Sapa (50%) [1]		329					610	819
Other	**(156)**	(71)	>(100) %	(207)	25 %	**(363)**	(211)	(586)
Eliminations	**(74)**	(88)	16 %	368	>(100) %	**294**	(155)	(522)
Underlying EBIT	**(229)**	170	>(100) %	161	>(100) %	**(68)**	245	(289)

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

Other is mainly comprised of head office costs, and costs related to holding companies as well as earnings from Hydro's industrial insurance company. Other also includes integration costs related to the Sapa transaction.

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.

Following the acquisition of the remaining 50 percent interest in Sapa AS completed on October 2, 2017, Sapa AS has been renamed Hydro Extruded Solutions AS and the fully consolidated financial results are presented in the Extruded Solutions business area.

Finance

Financial income (expense) NOK million	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Interest income	**63**	77	(18) %	60	6 %	**123**	170	322
Dividends received and net gain (loss) on securities	**26**	57	(54) %	(2)	>100 %	**24**	68	159
Financial income	**89**	134	(33) %	58	55 %	**147**	238	481
Interest expense	**(148)**	(96)	(55) %	(123)	(20) %	**(271)**	(201)	(378)
Capitalized interest	**-**	25	-	-	-	**-**	46	76
Net foreign exchange gain (loss)	**(306)**	(918)	67 %	(333)	8 %	**(639)**	(699)	(875)
Net interest on pension liability	**(33)**	(34)	5 %	(33)	-	**(65)**	(67)	(152)
Other	**(44)**	(71)	38 %	(44)	-	**(87)**	(140)	(266)
Financial expense	**(530)**	(1 093)	52 %	(533)	1 %	**(1 063)**	(1 061)	(1 596)
Financial income (expense), net	**(441)**	(959)	54 %	(475)	7 %	**(916)**	(823)	(1 114)

The net foreign exchange loss, mainly unrealized, of NOK 306 million reflects primarily a strengthening of USD rates against BRL. This resulted in an unrealized loss on the USD denominated debt in Brazil, this is partly offset by a gain on embedded derivatives denominated in EUR due to weakening of EUR against NOK.

The net foreign exchange loss of NOK 639 million year to date, reflects unrealized losses on the USD denominated debt in Brazil, partly offset by a gain on embedded derivatives denominated in EUR due to weakening of EUR against NOK.

Tax

Income tax expense amounted to NOK 473 million for the second quarter of 2018 or about 19 percent of income before tax. Income tax expense for the first half 2018 amounted to NOK 1,222 million or about 23 percent of income before tax.

Pro forma information

The following section is comprised of selected financial and operating information and a discussion of underlying developments including 100 percent of the acquired Sapa business for the full year 2017 and the first half year 2018 on a comparable basis with the earlier periods presented.

Summary consolidated underlying financial and operating results

Key financial information NOK million	**Second quarter 2018**	Second quarter 2017	Change prior quarter	First quarter 2018	Change prior year quarter	**First half 2018**	First half 2017	Year 2017
Revenue	**41 254**	38 534	7 %	39 971	3 %	**81 225**	74 663	148 920
Earnings before financial items and tax (EBIT)	**2 986**	3 372	(11) %	3 301	(10) %	**6 287**	6 240	11 927
Items excluded from underlying EBIT	**(274)**	52	>(100) %	(155)	(77) %	**(428)**	(130)	510
Underlying EBIT[1)]	**2 713**	3 424	(21) %	3 147	(14) %	**5 859**	6 110	12 437
Earnings before financial items, tax, depreciation and amortization (EBITDA)	**4 860**	5 176	(6) %	5 193	(6) %	**10 052**	9 796	19 294
Underlying EBITDA	**4 586**	5 228	(12) %	5 038	(9) %	**9 624**	9 666	19 786

1) Underlying EBIT includes certain effects of the acquisition such as increased depreciation and amortization following fair value adjustment related to long-lived assets.

Extruded Solutions

Operational and financial information	**Second quarter 2018**	Second quarter 2017	Change prior quarter	First quarter 2018	Change prior year quarter	**First half 2018**	First half 2017	Year 2017
Revenue (NOK million)	**16 980**	15 310	11 %	15 911	7 %	**32 891**	29 633	57 769
Earnings before financial items and tax (EBIT) (NOK million)	**1 109**	703	58 %	687	61 %	**1 795**	1 481	2 265
Unrealized derivative effects (NOK million)	**(151)**	133	>(100) %	47	>(100) %	**(104)**	55	36
Significant rationalization charges and closure costs (NOK million)	**-**	-	-	-	-	**-**	-	29
Items excluded from underlying EBIT (NOK million)	**(151)**	133	>(100) %	47	>(100) %	**(104)**	55	65
Underlying EBIT (NOK million)[1)]	**957**	836	15 %	734	30 %	**1 691**	1 536	2 330
Earnings before financial items, tax, depreciation and amortization (EBITDA)	**1 534**	1 119	37 %	1 108	38 %	**2 642**	2 297	3 917
Underlying EBITDA (NOK million)	**1 383**	1 252	10 %	1 155	20 %	**2 538**	2 352	3 982
Sales volumes to external markets (kmt)	**373**	359	4 %	362	3 %	**735**	714	1 372
Sales volumes to external markets (kmt) - Business units								
Extrusion Europe	**155**	150	3 %	154	1 %	**309**	299	568
Extrusion North America	**157**	151	4 %	152	3 %	**309**	301	584
Building Systems	**20**	21	(5) %	20	-	**40**	41	78
Precision tubing	**41**	37	11 %	37	11 %	**77**	73	143
Extruded Solutions	**373**	359	4 %	362	3 %	**735**	714	1 372

1) Underlying EBIT includes certain effects of the acquisition such as increased depreciation and amortization following fair value adjustment related to long-lived assets.

Underlying EBIT for Extruded Solutions increased compared to the pro forma underlying EBIT in the second quarter 2017, driven by improved sales volumes and margins. The result was also positively influenced by the increase in the Midwest premium.

Compared to the the first quarter 2018 the underlying EBIT increased, primarily due to seasonally higher volumes.

The results for the first half year improved compared to the first half year of 2017 due to the factors discussed above.

Interim financial statements

Condensed consolidated statements of income (unaudited)

NOK million, except per share data	Second quarter 2018	Second quarter 2017	First half 2018	First half 2017	Year 2017
Revenue	**41 254**	24 591	**81 225**	47 617	109 220
Share of the profit (loss) in equity accounted investments	**286**	491	**506**	900	1 527
Other income, net	**184**	184	**339**	348	2 947
Total revenue and income	**41 724**	25 266	**82 070**	48 865	113 693
Raw material and energy expense	**26 496**	15 848	**51 692**	30 669	69 848
Employee benefit expense	**5 828**	2 677	**11 600**	5 291	13 285
Depreciation, amortization and impairment	**1 891**	1 389	**3 799**	2 741	6 162
Other expenses	**4 524**	2 406	**8 692**	4 808	12 209
Total expenses	**38 738**	22 320	**75 783**	43 510	101 504
Earnings before financial items and tax (EBIT)	**2 986**	2 946	**6 287**	5 356	12 189
Financial income	**89**	134	**147**	238	481
Financial expense	**(530)**	(1 093)	**(1 063)**	(1 061)	(1 596)
Financial income (expense), net	**(441)**	(959)	**(916)**	(823)	(1 114)
Income (loss) before tax	**2 545**	1 987	**5 371**	4 533	11 075
Income taxes	**(473)**	(424)	**(1 222)**	(1 132)	(1 891)
Net income (loss)	**2 073**	1 562	**4 149**	3 401	9 184
Net income (loss) attributable to non-controlling interests	**(35)**	78	**(49)**	154	401
Net income (loss) attributable to Hydro shareholders	**2 108**	1 484	**4 199**	3 247	8 783
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) [1)]	**1.03**	0.73	**2.05**	1.59	4.30
Weighted average number of outstanding shares (million)	**2 046**	2 044	**2 045**	2 044	2 044

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 2018	Second quarter 2017 Restated	First half 2018	First half 2017 Restated	Year 2017 Restated
Net income (loss)	**2 073**	1 562	**4 149**	3 401	9 184
Other comprehensive income					
Items that will not be reclassified to income statement:					
Remeasurement postemployment benefits, net of tax	**362**	364	**430**	829	761
Unrealized gain (loss) on securities, net of tax	**38**	(44)	**1**	(64)	(255)
Share of remeasurement postemployement benefits of equity accounted investments, net of tax	**-**	(2)	**-**	(2)	(2)
Total	**400**	318	**431**	763	504
Items that will be reclassified to income statement:					
Currency translation differences, net of tax	**(2 917)**	(2 294)	**(6 064)**	(1 486)	(1 387)
Cash flow hedges, net of tax	**(12)**	(28)	**(98)**	4	174
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	**7**	74	**47**	181	(736)
Total	**(2 922)**	(2 248)	**(6 115)**	(1 302)	(1 949)
Other comprehensive income	**(2 522)**	(1 930)	**(5 684)**	(539)	(1 444)
Total comprehensive income	**(449)**	(368)	**(1 535)**	2 862	7 740
Total comprehensive income attributable to non-controlling interests	**(390)**	(227)	**(677)**	(43)	103
Total comprehensive income attributable to Hydro shareholders	**(59)**	(141)	**(857)**	2 905	7 637

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 2018	June 30 2017	December 31 2017 Restated
Assets			
Cash and cash equivalents	**5 682**	7 993	11 828
Short-term investments	**1 136**	4 896	1 311
Accounts receivables	**23 442**	13 465	19 983
Inventories	**22 337**	12 940	20 711
Other current assets	**978**	290	798
Total current assets	**53 575**	39 584	54 631
Property, plant and equipment	**66 683**	57 610	72 933
Intangible assets	**11 660**	5 577	12 712
Investments accounted for using the equity method	**11 140**	18 800	11 221
Prepaid pension	**6 322**	5 018	5 750
Other non-current assets	**5 780**	5 252	6 028
Total non-current assets	**101 584**	92 256	108 643
Total assets	**155 159**	131 840	163 273
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	**4 969**	3 741	8 245
Trade and other payables	**21 351**	10 472	19 571
Other current liabilities	**4 976**	2 911	5 521
Total current liabilities	**31 296**	17 124	33 337
Long-term debt	**9 377**	3 183	9 012
Provisions	**5 532**	4 452	5 828
Pension liabilities	**14 665**	12 997	15 118
Deferred tax liabilities	**3 456**	2 566	3 501
Other non-current liabilities	**3 673**	3 955	4 269
Total non-current liabilities	**36 702**	27 154	37 728
Total liabilities	**67 998**	44 278	71 064
Equity attributable to Hydro shareholders	**82 676**	82 343	87 032
Non-controlling interests	**4 486**	5 219	5 178
Total equity	**87 162**	87 562	92 209
Total liabilities and equity	**155 159**	131 840	163 273
Total number of outstanding shares (million)	**2 046**	2 045	2 045

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

Condensed consolidated statements of cash flows (unaudited)

NOK million	Second quarter 2018	Second quarter 2017	Six months ended June 30 2018	Six months ended June 30 2017	Year 2017
Operating activities					
Net income	**2 073**	1 562	**4 149**	3 401	9 184
Depreciation, amortization and impairment	**1 891**	1 389	**3 799**	2 741	6 162
Other adjustments	**(2 446)**	1 379	**(4 441)**	(1 144)	(999)
Net cash provided by operating activities	**1 518**	4 330	**3 507**	4 998	14 347
Investing activities					
Purchases of property, plant and equipment	**(1 537)**	(1 350)	**(2 906)**	(2 746)	(7 296)
Purchases of other long-term investments	**(104)**	(29)	**(234)**	(61)	(11 190)
Purchases of short-term investments	**-**	(3 844)	**-**	(5 094)	(5 094)
Proceeds from long-term investing activities	**19**	263	**47**	535	742
Proceeds from sales of short-term investments	**-**	2 850	**-**	4 600	8 402
Net cash used in investing activities	**(1 622)**	(2 110)	**(3 093)**	(2 766)	(14 436)
Financing activities					
Loan proceeds	**2 141**	2 249	**3 735**	4 429	15 271
Principal repayments	**(1 926)**	(2 004)	**(3 291)**	(3 825)	(10 917)
Net increase (decrease) in other short-term debt	**(14)**	(82)	**(2 945)**	(235)	2 515
Proceeds from shares issued	**14**	13	**24**	18	40
Dividends paid	**(3 581)**	(2 625)	**(3 581)**	(2 625)	(3 069)
Net cash provided by (used in) financing activities	**(3 366)**	(2 449)	**(6 058)**	(2 238)	3 840
Foreign currency effects on cash	**(219)**	(111)	**(502)**	(38)	40
Net increase (decrease) in cash and cash equivalents	**(3 689)**	(340)	**(6 146)**	(44)	3 791
Cash and cash equivalents at beginning of period	**9 371**	8 333	**11 828**	8 037	8 037
Cash and cash equivalents at end of period	**5 682**	7 993	**5 682**	7 993	11 828

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, 2017	2 272	29 070	(870)	50 210	1 224	81 906	5 733	87 640
Changes in equity for 2017								
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
December 31, 2017	2 272	29 097	(810)	56 435	80	87 074	5 178	92 252
Effect of change in accounting principle				17	(60)	(43)	-	(43)
January 1, 2018	2 272	29 097	(810)	56 452	20	87 032	5 178	92 209
Changes in equity for 2018								
Treasury shares issued to employees		29	53			83		83
Dividends				(3 581)		(3 581)	(18)	(3 599)
Capital contribution in subsidiaries							3	3
Total comprehensive income for the period				4 199	(5 056)	(857)	(677)	(1 535)
June 30, 2018	2 272	29 126	(756)	57 070	(5 036)	82 676	4 486	87 162

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 and note 3 Changes in accounting principles and new pronouncements in Hydro's Financial Statements - 2017.

IFRS 15 Revenue from Contracts with Customers
Hydro implemented IFRS 15 as of January 1, 2018. The new standard is implemented retrospectively with the cumulative effect of initially applying this standard recognized directly to equity at implementation.

IFRS 15 requires us to, for each contract with a customer, to identify the performance obligations, determine the transaction price, allocate the transaction price to performance obligations to the extent the contract covers more than one performance obligation, determine whether revenue should be recognized over time or at a point in time, and, finally, recognize revenue when or as performance obligations are recognized. The significant judgment in applying IFRS 15 for Hydro is related to which contracts that qualify for recognition over time, versus recognition at a point in time; at delivery to customer.

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

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

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

For products made to customer specifications and orders, we have assessed whether the finished product has an alternative use to Hydro, and whether Hydro has an enforceable right to payment. For contracts where both of these conditions are fulfilled, revenue shall be recognized over the time from start of production of the specialized product until completion of delivery to the customer. For Hydro's products, the alternative use of customer designed products would, in most cases, be as basis for producing other products rather than for sale of the product unchanged. We have assessed whether Hydro has an enforceable right to payment for performance completed to date, including a reasonable margin, throughout the production period. The assessment is primarily related to the segment Extruded Solutions, which was acquired by Hydro in October 2017. The main assessment is related to which compensation Hydro would be entitled to in a situation where firm orders are canceled or amended by the customer. Our conclusion is that for close to all contracts we do not have enforceable right to payment, however, as our conclusions depends both on legal assessment of a large number of contracts in many countries, and on the understanding of what constitutes an enforceable right to payment under IFRS 15, we might reach a different conclusion in the future for some of the contracts or for contracts entered into in the future. The period from contract inception (firm order) to delivery of products to customer in Extruded Solutions is usually not exceeding about six weeks, often considerably shorter. For one unit in Metal Markets selling casthouse equipment, the period from order to final delivery varies from a few months to more than one year.

For some contracts, mainly where products are delivered to the customer's site as consignment stock, control is concluded to pass to the customer at an earlier time than transfer of risk and rewards as assessed under IAS 18.

Sale of electricity from the Energy segment continues to be recognized as electricity is delivered to customers through the relevant grid.

IFRS 9 Financial Instruments

IFRS 9 is applied retrospectively. Some transitional effects were recognized in the opening equity at transition, i.e. January 1, 2018 as required or allowed by the standard. IFRS 9 did not lead to any significant changes in timing of recognition or how to measure assets or liabilities and related income and expense. Hydro has classified the portfolio of equity investments that are not part of trading portfolios, which was held at transition, as instruments at fair value through Other Comprehensive Income (FVOCI). All changes in the fair value of those instruments, including an ultimate gain or loss at divestment of the instrument, will be recognized in OCI. Recognized changes to fair value of such investments of NOK 239 million, after tax, will not be recycled in future periods. There will be some changes to presentation and disclosures, however, the impact for Hydro's current portfolio of instruments is minor. Some additional risk management strategies related to commodity price exposure will qualify for hedge accounting, however, Hydro has decided not to apply hedge accounting for any additional risk management activities utilized as of the end of 2017. For one cash flow hedge program for a previous investment project which is deferred in the hedging reserve in equity and reclassified to income over the depreciation period of the asset, the remaining hedging reserve of NOK 60 million was reclassified to reduce the carrying value of the asset and related deferred tax as a basis adjustment.

	IFRS 15		IFRS 9	Effect of change
Change of accounting principles, amounts in NOK million	Earlier recognition	Later recognition		in accounting principles
Current assets	26	8		34
Property, plant and equipment			(87)	(87)
Total assets	26	8	(87)	(54)
Current liabilities		11		11
Deferred tax liabilities	6	(1)	(27)	(22)
Equity attributable to Hydro shareholders	20	(2)	(60)	(43)
Total liabilities and equity	26	8	(87)	(54)

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 - 2017 that are a part of Hydro's Annual Report - 2017.

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 - 2017 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 Extruded Solutions segment includes the business acquired as a 100 percent owned subsidiary in fourth quarter 2017.

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

	Second quarter		First half		Year
NOK million	**2018**	2017	**2018**	2017	2017
Total revenue					
Bauxite & Alumina	**6 877**	5 858	**13 186**	11 769	25 421
Primary Metal	**10 083**	9 575	**20 253**	18 216	36 466
Metal Markets	**14 205**	13 604	**28 103**	25 753	50 606
Rolled Products	**7 145**	6 569	**13 942**	12 846	25 715
Extruded Solutions[1)]	**16 980**	-	**32 891**	-	14 153
Energy	**2 163**	1 750	**3 926**	3 705	7 705
Other and eliminations	**(16 198)**	(12 765)	**(31 076)**	(24 672)	(50 847)
Total	**41 254**	24 591	**81 225**	47 617	109 220
External revenue					
Bauxite & Alumina	**3 640**	3 417	**7 148**	6 799	15 188
Primary Metal	**1 993**	1 944	**4 011**	3 645	7 578
Metal Markets	**10 905**	12 080	**21 805**	23 175	44 264
Rolled Products	**7 011**	6 629	**13 881**	12 783	25 538
Extruded Solutions[1)]	**16 877**	-	**32 809**	-	14 083
Energy	**823**	514	**1 561**	1 201	2 550
Other and eliminations	**6**	6	**10**	15	18
Total	**41 254**	24 591	**81 225**	47 617	109 220
Internal revenue					
Bauxite & Alumina	**3 237**	2 441	**6 038**	4 970	10 234
Primary Metal	**8 090**	7 631	**16 242**	14 572	28 888
Metal Markets	**3 301**	1 523	**6 298**	2 578	6 341
Rolled Products	**134**	(61)	**61**	64	178
Extruded Solutions[1)]	**103**	-	**82**	-	70
Energy	**1 340**	1 236	**2 365**	2 504	5 155
Other and eliminations	**(16 204)**	(12 772)	**(31 085)**	(24 687)	(50 865)
Total	**-**	-	**-**	-	-
Share of the profit (loss) in equity accounted investments					
Bauxite & Alumina	**-**	-	**-**	-	-
Primary Metal	**280**	231	**490**	328	745
Metal Markets	**-**	-	**-**	-	-
Rolled Products	**-**	-	**-**	-	-
Extruded Solutions[1)]	**11**	273	**29**	585	812
Energy	**(11)**	-	**(20)**	-	(7)
Other and eliminations	**5**	(13)	**8**	(13)	(24)
Total	**286**	491	**506**	900	1 527

NOK million	Second quarter 2018	Second quarter 2017	First half 2018	First half 2017	Year 2017
Depreciation, amortization and impairment					
Bauxite & Alumina	**573**	586	**1 203**	1 164	2 486
Primary Metal	**575**	505	**1 122**	997	2 026
Metal Markets	**25**	24	**49**	47	95
Rolled Products	**227**	212	**450**	413	860
Extruded Solutions[1)]	**425**	-	**846**	-	444
Energy	**59**	54	**116**	107	223
Other and eliminations	**7**	7	**14**	14	28
Total	**1 891**	1 389	**3 799**	2 741	6 162
Earnings before financial items and tax (EBIT) [2)]					
Bauxite & Alumina	**364**	662	**1 104**	1 418	3 704
Primary Metal	**776**	1 538	**1 693**	2 335	4 729
Metal Markets	**270**	282	**575**	269	485
Rolled Products	**353**	84	**432**	534	512
Extruded Solutions[1)]	**1 109**	273	**1 795**	585	2 522
Energy	**417**	284	**695**	707	1 531
Other and eliminations	**(303)**	(176)	**(8)**	(492)	(1 295)
Total	**2 986**	2 946	**6 287**	5 356	12 189
EBITDA					
Bauxite & Alumina	**937**	1 248	**2 307**	2 582	6 190
Primary Metal	**1 330**	2 043	**2 773**	3 332	6 747
Metal Markets	**295**	306	**623**	315	579
Rolled Products	**580**	296	**882**	947	1 372
Extruded Solutions[1)]	**1 534**	273	**2 642**	585	2 966
Energy	**479**	337	**818**	814	1 757
Other and eliminations	**(296)**	(168)	**7**	(478)	(1 268)
Total	**4 860**	4 335	**10 052**	8 097	18 344
Investments [3)]					
Bauxite & Alumina	**293**	358	**533**	676	1 634
Primary Metal	**603**	798	**1 134**	1 626	3 537
Metal Markets	**34**	12	**45**	27	143
Rolled Products	**126**	158	**253**	278	997
Extruded Solutions[1)]	**487**	-	**766**	-	22 137
Energy	**74**	81	**171**	157	361
Other and eliminations	**3**	12	**37**	28	39
Total	**1 620**	1 420	**2 939**	2 792	28 848

1) The Extruded Solutions segment includes the business acquired as a 100 percent owned subsidiary in fourth quarter 2017. For the previous periods, the segment includes the same business reported as 50 percent owned joint venture, reported using the equity method.

2) 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.

3) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments, including amounts recognized in business combinations.

NOK million	EBIT	Depr., amor. and impairment	Other items[2]	EBITDA
EBIT - EBITDA Second quarter 2018				
Bauxite & Alumina	364	573	-	937
Primary Metal	776	575	(21)	1 330
Metal Markets	270	25	-	295
Rolled Products	353	227	-	580
Extruded Solutions[1]	1 109	425	-	1 534
Energy	417	59	3	479
Other and eliminations	(303)	7	-	(296)
Total	2 986	1 891	(17)	4 860

NOK million	EBIT	Depr., amor. and impairment	Other items[2]	EBITDA
EBIT - EBITDA First half 2018				
Bauxite & Alumina	1 104	1 203	-	2 307
Primary Metal	1 693	1 122	(42)	2 773
Metal Markets	575	49	(1)	623
Rolled Products	432	450	-	882
Extruded Solutions[1]	1 795	846	1	2 642
Energy	695	116	7	818
Other and eliminations	(8)	14	-	7
Total	6 287	3 799	(34)	10 052

1) The Extruded Solutions segment includes the business acquired as a 100 percent owned subsidiary in fourth quarter 2017. For the previous periods, the segment includes the same business reported as 50 percent owned joint venture, reported using the equity method.

2) Investment grants, and amortization of excess values in equity accounted investments and impairment loss of such investments.

Note 3: Contingent liabilities

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

Following a period of extreme rainfall in February authorities ordered several measures against Alunorte, including that the Alunorte alumina refinery is required to operate at 50 percent of its capacity while authorities review the situation, over concerns that flooding led to harmful spills. Findings of an internal and an external task force confirms that there was no overflow from the bauxite residue deposit areas, no indication or evidence of contamination to nearby local communities, or any significant or lasting environmental impact to nearby rivers from Alunorte as a result of the heavy rainfall. Authorities have issued, or are preparing to issue, fines related to a breach of regulatory framework.

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

As of the issuance of these interim financial statements, there is a limited financial effect of fines and related costs that is considered probable and thus provided for. In response to the needs in the area, Hydro has decided to increase the social measures for communities close to the plant. Hydro continues to support the communities with immediate needs for water supply and health services, and has committed to contribute to long-term improvements. To support broad collaboration for social change in Barcarena, Hydro has committed BRL 100 million (around NOK 210 million) in local community investments through the Sustainable Barcarena Initiative. The initiative will establish an independent organization that will provide a public platform for data monitoring and evaluation, and develop social and environmental projects. The associated costs to such measures are considered future operating expenses and thus not provided for.

Note 4: Acquisition of Sapa

On July 10, 2017, Hydro entered into a contract to acquire 50 percent of the shares in Sapa AS, which was a joint venture owned 50 percent by Hydro and 50 percent by Orkla, a listed company in Norway. Following completion of the transaction on October 2, 2017, Hydro owns 100 percent of the parent company Hydro Extruded Solutions AS.

Hydro is in the process of identifying the fair value of assets acquired and liabilities assumed. The estimated fair value of net assets of Sapa, which is not yet completed, is unchanged from the amounts recognized at the end of 2017. The valuation of property, plant and equipment and intangible assets is considered good estimates, however, certain quality assurance procedures have not yet been completed.

A preliminary estimate of goodwill in the transaction amounts to NOK 4,119 million, including goodwill recognized in Sapa prior to the acquisition, and is reflected in the preliminary purchase price allocation. Any adjustments in later period will impact deferred tax and goodwill in addition to the item valued. Depreciation and amortization of assets may be impacted should the value of property, plant and equipment or intangible assets, or the remaining useful life of such assets, be reconsidered in later periods. The final fair value assessment is required to be completed within 12 months from completion of the transaction, and may differ from these estimates.

Note 5: Impairment of non-current assets

Hydro has considered whether the requirement to reduce production by 50 percent in the alumina refinery Alunorte, and consequential curtailments in the Paragominas bauxite mine and the Albras smelter, represent impairment indicators as of the end of the second quarter for any of the affected Cash Generating Units (CGUs).

At the time of issuing this report, the duration of the curtailment is still highly uncertain for Alunorte and its primary bauxite source Paragominas, which constitute one, combined CGU for impairment assessment. Hydro has concluded that the current, unresolved requirement to produce at no more than 50 percent of the capacity in the Alunorte alumina refinery constitutes an impairment indicator for this CGU as of the end of the second quarter.

The CGU contains goodwill and was thus subject to an annual impairment test at year-end 2017. See Hydro's Financial statements - 2017 note 19 Impairment of non-current assets for further information about the CGU, significant assumptions and results of the test at that time. The same model is used for the test as of June 30, 2018, with updated assumptions. The recoverable amount has been determined based on a Value In Use (VIU) calculation, and amounts to about NOK 27 billion. As the recoverable amount exceeds the carrying value of NOK 22 billion, a write-down is not required. The calculation used cash flow forecasts in BRL based on internal plans developed in the autumn of 2017 covering a five-year period, amended with updated assumptions for product prices and key input factors as well as specific cost elements and assumed start-up time for full production. All significant price assumptions are internally derived based on external references.

As there is uncertainty related to when the plant will be allowed to restart, the test includes different scenarios for restart, with the earliest time for full production assumed from the beginning of October 2018, and the maximum curtailment period included in the scenarios ending mid 2019.

Alumina prices have been volatile during the first half of 2018, impacted by the shortfall of production at Alunorte and the US sanctions imposed on UC Rusal, potentially reducing the alumina availability. The assumed alumina prices reflect the time we expect the restart of Alunorte, with slightly higher prices in the near term for scenarios with later restart. There is also uncertainty related to prices for raw materials and energy, though unrelated to the timing of a restart of full production at Alunorte. The costs related to initiatives Hydro has committed to during the curtailment period, including the investment in improved water treatment capacity, has been included in the cash flow estimates. Other costs and expenses are expected to remain largely at the same level as in the impairment test as of the end of 2017.

The main assumptions, expressed in real 2018 values, to which the test is sensitive are shown in the table below:

	Assumptions	
	2 H 2018	Long-term
Exchange rate BRL/USD	3.56	3.53
Alumina price (USD/mt)	404	347
Discount rate nominal, pre-tax	17.25 %	17.25 %

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 3.56 for the second half of 2018 with an increase to a nominal rate of 4.10 in 2025, equal to a real exchange rate of 3.53. For future periods the exchange rate is projected with a rate development reflecting the assumed inflation difference of 2.5 percentage points between international inflation and the higher expected Brazil specific inflation. Production volumes are assumed to remain at the same volumes as forecasted in the 2017 annual impairment test after reverting to full production capacity.

If one of the key parameters were changed with no changes to the other assumptions, the estimated recoverable amount for the CGU would equal the carrying amount with the following long-term real 2018 assumptions over the entire 40-year period:

	% change	Value
Exchange rate BRL/USD	(6 %)	3.33
Alumina price (USD/mt)	(3 %)	386
Discount rate (% point)	12 %	19.5 %

In April, Hydro's part-owned subsidiary Albras decided to curtail 50 percent of aluminium production at the Albras aluminium plant. The curtailment represents 230,000 mt on an annualized basis and is a result of the Alunorte alumina refinery not being able to supply more than 50 percent of Albras' alumina needs following Alunorte's forced production cut. The decision to reduce capacity was considered an impairment indicator for the Albras plant for the first quarter interim reporting. Assumptions for an impairment test are highly uncertain, in particular related to timing of restart of production and the cash flows in the near term impacted by both disturbance in market balance and volatile prices for aluminium, alumina and power in the region. In addition, there is uncertainty regarding power prices beyond the current purchase contract, which expires in 2024. The test performed was based on the assumption that full production would be resumed after a limited period; however, reflecting the longer restart period for a smelter compared to the refinery. There is significant uncertainty related to market prices for aluminum, alumina and other raw material. We have assumed that price levels for both raw materials and metal remains at levels similar to those observed prior to the market disruption during March and April 2018, including our long-term price assumptions developed in December 2017. Based on these assumptions, the plant has a limited coverage above carrying value of the assets. Hydro continues to monitor the situation in the periods to come.

Alternative performance measures (APMs)

Alternative performance measures, i.e. financial performance measures not within the applicable financial reporting framework, are used by Hydro to provide supplemental information, by excluding items that, in Hydro's view, does not give an indication of the periodic operating results or cash flows of Hydro. Financial APMs are intended to enhance comparability of the results and cash flows from period to period, and it is Hydro's experience that these are frequently used by analysts, investors and other parties. Management also uses these measures internally to drive performance in terms of long-term target setting and as basis for performance related pay. These measures are adjusted IFRS measures defined, calculated and used in a consistent and transparent manner over the years and across the company where relevant. Operational measures such as, but not limited to, volumes, prices per mt, production costs and improvement programs are not defined as financial APMs. To provide a better understanding of the company's underlying financial performance for the relevant period, Hydro focuses on underlying EBIT in the discussions on periodic underlying financial and operating results and liquidity from the business areas and the group, while effects excluded from underlying EBIT and net income (loss) are discussed separately in the section on reported EBIT and net income. Financial APMs should not be considered as a substitute for measures of performance in accordance with the IFRS. Disclosures of APMs are subject to established internal control procedures.

Hydro's financial APMs

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

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

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

- *Unrealized derivative effects on LME related contracts* include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, where hedge accounting is not applied. Also includes elimination of changes in fair value of certain internal physical aluminium contracts.
- *Unrealized derivative effects on power and raw material contracts* include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.
- *Metal effect in Rolled Products* is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting 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.
- *Transaction related effects (Sapa)* reflect the net measurement gain relating to previously owned shares in Sapa and an inventory valuation expense related to the Sapa transaction.
- *Items excluded in equity accounted investments* reflects Hydro's share of items excluded from underlying net income in Sapa, until end of third quarter 2017, 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 2018**	Second quarter 2017	First quarter 2018	**First half 2018**	First half 2017	Year 2017
Bauxite & Alumina	**-**	-	-	**-**	-	-
Unrealized derivative effects on LME related contracts	**(41)**	(8)	(114)	**(156)**	21	101
Unrealized derivative effects on power contracts	**20**	(44)	20	**40**	29	50
Significant rationalization charges and closure costs	**-**	-	-	**-**	-	181
Primary Metal	**(21)**	(52)	(94)	**(115)**	51	331
Unrealized derivative effects on LME related contracts	**(32)**	(38)	(128)	**(160)**	-	58
Metal Markets	**(32)**	(38)	(128)	**(160)**	-	58
Unrealized derivative effects on LME related contracts	**(82)**	139	108	**26**	81	41
Metal effect	**(60)**	(138)	47	**(14)**	(424)	(419)
Other effects[2]	**-**	-	-	**-**	-	245
Rolled Products	**(142)**	-	154	**12**	(343)	(132)
Unrealized derivative effects on LME related contracts	**(151)**		47	**(104)**		(4)
Significant rationalization charges and closure costs	**-**		-	**-**		29
Transaction related effects (Sapa)[3]	**-**		-	**-**		(1 463)
Extruded Solutions	**(151)**		47	**(104)**		(1 438)
Energy	**-**	-	-	**-**	-	-
Unrealized derivative effects on power contracts[4]	**72**	19	(107)	**(35)**	119	197
Unrealized derivative effects on LME related contracts[4]	**1**	(1)	(26)	**(25)**	8	23
Other effects[5]	**-**	-	-	**-**	-	(33)
Unrealized derivative effects (Sapa)		67			28	20
Significant rationalization charges and closure costs (Sapa)		-			-	-
Net foreign exchange (gain) loss (Sapa)		9			5	5
Calculated income tax effect (Sapa)		(19)			(8)	(6)
Other and eliminations	**73**	74	(134)	**(60)**	151	206
Items excluded from underlying EBIT	**(274)**	(16)	(155)	**(428)**	(141)	(974)

1) Negative figures indicate reversal of a gain and positive figures indicate reversal of a loss.
2) Other effects in Rolled Products reflect a charge related to a customs case in Germany.
3) Transaction related effects include the revaluation gain of Hydro's pre-transactional 50 percent share in Sapa, as well as the fair value allocated to inventory of finished goods and to the backlog of contractual deliveries as of closure, sold during fourth quarter 2017.
4) 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.
5) Other effects in Other and eliminations include the remeasurement of environmental liabilities related to closed business in Germany.

Underlying EBITDA NOK million	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
EBITDA	**4 860**	4 335	12 %	5 193	(6) %	**10 052**	8 097	18 344
Items excluded from underlying EBIT	**(274)**	(16)	>(100) %	(155)	(77) %	**(428)**	(141)	(974)
Underlying EBITDA	**4 586**	4 319	6 %	5 038	(9) %	**9 624**	7 956	17 369

Underlying earnings per share NOK million	**Second quarter 2018**	Second quarter 2017	Change prior year quarter	First quarter 2018	Change prior quarter	**First half 2018**	First half 2017	Year 2017
Net income (loss)	**2 073**	1 562	33 %	2 076	-	**4 149**	3 401	9 184
Items excluded from net income (loss)	**24**	652	(96) %	125	(81) %	**148**	394	(788)
Underlying net income (loss)	**2 096**	2 214	(5) %	2 201	(5) %	**4 298**	3 795	8 396
Underlying net income attributable to non-controlling interests	**17**	94	(82) %	40	(57) %	**58**	138	331
Underlying net income attributable to Hydro shareholders	**2 079**	2 121	(2) %	2 161	(4) %	**4 240**	3 656	8 066
Number of shares	**2 046**	2 044	-	2 045	-	**2 045**	2 044	2 044
Underlying earnings per share	**1.02**	1.04	(2) %	1.06	(4) %	**2.07**	1.79	3.95

Adjusted net cash (debt) NOK million	**Jun 30 2018**	Mar 31 2018	Change prior quarter	Jun 30 2017	Mar 31 2017	Change prior year quarter
Cash and cash equivalents	**5 682**	9 371	(3 689)	7 993	8 333	(341)
Short-term investments [1)]	**1 136**	1 031	105	4 896	4 403	494
Short-term debt	**(4 969)**	(5 269)	300	(3 741)	(3 481)	(260)
Long-term debt	**(9 377)**	(8 746)	(631)	(3 183)	(3 373)	190
Net cash (debt)	**(7 528)**	(3 612)	(3 915)	5 965	5 882	83
Cash and cash equiv. and short-term investm. in captive insurance company [2)]	**(1 059)**	(1 026)	(33)	(1 054)	(1 134)	80
Net pension obligation at fair value, net of expected income tax benefit [3)]	**(6 998)**	(7 517)	519	(6 929)	(6 907)	(21)
Operating lease commitments, net of expected income tax benefit [4)]	**(1 585)**	(1 585)	-	(507)	(507)	-
Short- and long-term provisions net of exp. income tax benefit, and other liab. [5)]	**(3 040)**	(3 150)	110	(2 621)	(2 691)	70
Adjusted net cash (debt)	**(20 209)**	(16 890)	(3 319)	(5 146)	(5 358)	212
Net debt in EAI [6)]	**(5 658)**	(5 666)	8	(7 619)	(6 726)	(893)
Adjusted net cash (debt) incl. EAI	**(25 868)**	(22 556)	(3 311)	(12 764)	(12 084)	(680)

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 1 344 million and NOK 1 460 million for June 2018 and March 2018, respectively.

4) Operating lease commitments are discounted using a rate of 1.14 percent for 2018 (1.29 for 2017). 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. Per June 2018, the adjustment is related to Qatalum.

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, 2018 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 23, 2018

Dag Mejdell Chair	**Irene Rummelhoff** Deputy chair	**Billy Fredagsvik** Board member
Finn Jebsen Board member	**Liselott Kilaas** Board member	**Sten Roar Martinsen** Board member
Thomas Schulz Board member	**Svein Kåre Sund** Board member	**Marianne Wiinholt** Board member

Svein Richard Brandtzæg
President and CEO

Additional information

Financial calendar

October 24	Third quarter results
November 29	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 fully integrated aluminium company with 35,000 employees in 40 countries on all continents, combining local expertise, worldwide reach and unmatched capabilities in R&D. In addition to production of primary aluminium, rolled and extruded products and recycling, Hydro also extracts bauxite, refines alumina and generates energy to be the only 360° company of the global aluminium industry. Hydro is present within all market segments for aluminium, with sales and trading activities throughout the value chain serving more than 30,000 customers. Based in Norway and rooted in more than a century of experience in renewable energy, technology and innovation, Hydro is committed to strengthening the viability of its customers and communities, shaping a sustainable future through innovative aluminium solutions.

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Infinite aluminium