Hydro

Third quarter 2018
Report

Contents

Oslo, October 23, 2018

Overview

Summary underlying financial and operating results and liquidity

Key financial information NOK million, except per share data	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Revenue	**39 766**	22 799	74 %	41 254	(4) %	**120 991**	70 416	109 220
Earnings before financial items and tax (EBIT)	**2 057**	2 323	(11) %	2 986	(31) %	**8 344**	7 678	12 189
Items excluded from underlying EBIT[1]	**620**	123	>100 %	(274)	>100 %	**192**	(18)	(974)
Underlying EBIT[1]	**2 676**	2 446	9 %	2 713	(1) %	**8 535**	7 660	11 215
Underlying EBIT :								
Bauxite & Alumina	**685**	413	66 %	364	88 %	**1 789**	1 831	3 704
Primary Metal	**861**	1 298	(34) %	755	14 %	**2 439**	3 684	5 061
Metal Markets	**(3)**	91	>(100) %	237	>(100) %	**412**	359	544
Rolled Products	**82**	95	(13) %	212	(61) %	**526**	285	380
Extruded Solutions[2]	**497**			957	(48) %	**2 188**		284
Energy	**652**	368	77 %	417	56 %	**1 347**	1 075	1 531
Other and eliminations[2]	**(97)**	181	>(100) %	(229)	58 %	**(165)**	426	(289)
Underlying EBIT[1]	**2 676**	2 446	9 %	2 713	(1) %	**8 535**	7 660	11 215
Earnings before financial items, tax, depreciation and amortization (EBITDA)[3]	**3 890**	3 766	3 %	4 860	(20) %	**13 942**	11 863	18 344
Underlying EBITDA[1]	**4 510**	3 889	16 %	4 586	(2) %	**14 134**	11 845	17 369
Net income (loss)	**925**	2 184	(58) %	2 073	(55) %	**5 074**	5 585	9 184
Underlying net income (loss)[1]	**1 696**	1 785	(5) %	2 096	(19) %	**5 994**	5 580	8 396
Earnings per share	**0.37**	1.00	(63) %	1.03	(64) %	**2.42**	2.59	4.30
Underlying earnings per share[1]	**0.74**	0.82	(10) %	1.02	(27) %	**2.81**	2.61	3.95
Financial data:								
Investments[1,3]	**2 051**	1 424	44 %	1 620	27 %	**4 990**	4 216	28 848
Net cash (debt)[1]	**(6 471)**	7 697	>(100) %	(7 528)	14 %	**(6 471)**	7 697	(4 118)
Adjusted net cash (debt)[1]	**(18 380)**	(2 976)	>(100) %	(20 209)	9 %	**(18 380)**	(2 976)	(17 968)

Key Operational information	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Bauxite production (kmt)[4]	**1 286**	3 043	(58) %	1 348	(5) %	**4 960**	8 386	11 435
Alumina production (kmt)	**821**	1 605	(49) %	829	(1) %	**2 926**	4 704	6 397
Realized alumina price (USD/mt)[5]	**460**	297	55 %	430	7 %	**417**	300	326
Primary aluminium production (kmt)	**497**	527	(6) %	492	1 %	**1 503**	1 566	2 094
Realized aluminium price LME (USD/mt)	**2 194**	1 921	14 %	2 183	-	**2 171**	1 859	1 915
Realized USD/NOK exchange rate	**8.16**	8.07	1 %	7.92	3 %	**7.99**	8.35	8.30
Rolled Products sales volumes to external market (kmt)	**235**	236	-	251	(6) %	**731**	716	940
Extruded Solutions sales volumes to external market (kmt)[6]	**343**	170	>100 %	373	(8) %	**1 078**	527	845
Power production (GWh)	**2 888**	2 509	15 %	2 550	13 %	**7 871**	7 746	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) 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.
6) 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 restricted to 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.

Third quarter 2018 versus third quarter 2017:

Hydro's underlying earnings before financial items and tax increased in the third quarter, reflecting higher all-in metal[1)] and alumina prices as well as positive currency effects, partly offset by the effects of the production curtailment at Alunorte and increased raw material costs. Results were also influenced by the positive effects of the full consolidation of Extruded Solutions, improved results from Energy and sales of excess power following the production curtailment of the Albras smelter in Brazil.

Third quarter 2018 versus second quarter 2018:

Results remained stable as increasing metal and alumina prices and positive currency effects as well as improved Energy results were offset by increasing raw material cost and reduced results from Extruded Solutions mainly due to seasonal effects. Further, the result was positively impacted by sales of excess power following the production curtailment of the Albras smelter in Brazil.

First nine months of 2018 versus first nine months of 2017:

Results increased reflecting a higher all-in metal price and alumina sales price as well as the positive contribution from the full consolidation of Extruded Solutions, partly offset by negative effects relating to the production curtailment at Alunorte and increased raw material costs. Further, the result was positively impacted by sales of excess power following the production curtailment of the Albras smelter in Brazil.

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

Hydro's net debt[2)] position decreased from NOK 7.5 billion to NOK 6.5 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 2.6 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.5 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	**Third quarter 2018**	Third quarter 2017	Second quarter 2018	**First 9 months 2018**	First 9 months 2017	Year 2017
Unrealized derivative effects on LME related contracts	**436**	(30)	(306)	**17**	80	220
Unrealized derivative effects on power and raw material contracts	**(183)**	7	92	**(178)**	155	246
Metal effect, Rolled Products	**(153)**	151	(60)	**(166)**	(273)	(419)
Significant rationalization charges and closure costs[2)]	**-**	-	-	**-**	-	210
Alunorte agreements - provision[3)]	**519**	-	-	**519**	-	-
Other effects[4)]	**-**	-	-	**-**	-	212
Transaction related effects (Sapa)[5)]	**-**	-	-	**-**	-	(1 463)
Items excluded in equity accounted investments (Sapa)[6)]	**-**	(6)	-	**-**	19	19
Items excluded from underlying EBIT	**620**	123	(274)	**192**	(18)	(974)
Net foreign exchange (gain)/loss	**257**	(520)	306	**895**	180	875
Calculated income tax effect	**(105)**	123	(8)	**(167)**	(41)	(564)
Other adjustments to net income[7)]	**-**	(125)	-	**-**	(125)	(125)
Items excluded from underlying net income	**772**	(398)	24	**920**	(5)	(788)
Income (loss) tax rate	**43 %**	22 %	19 %	**28 %**	24 %	17 %
Underlying income (loss) tax rate	**32 %**	26 %	19 %	**26 %**	26 %	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) Alunorte agreements - provision refers to the provision recognized in relation to the TAC and TC agreements with the Government of Parà and Ministèrio Pùblico made on September 5, 2018.
4) 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.
5) 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.
6) Items excluded in equity accounted investments (Sapa) for the year 2017 include unrealized derivative gains, rationalization charges and net foreign exchange gains.
7) 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	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
USD/NOK Average exchange rate	**8.24**	7.96	4 %	8.02	3 %	**8.03**	8.30	8.26
USD/NOK Period end exchange rate	**8.18**	7.97	3 %	8.16	-	**8.18**	7.97	8.21
BRL/NOK Average exchange rate	**2.09**	2.52	(17) %	2.23	(6) %	**2.24**	2.62	2.59
BRL/NOK Period end exchange rate	**2.03**	2.50	(19) %	2.12	(4) %	**2.03**	2.50	2.48
USD/BRL Average exchange rate	**3.95**	3.16	25 %	3.61	9 %	**3.61**	3.17	3.19
USD/BRL Period end exchange rate	**4.02**	3.19	26 %	3.85	4 %	**4.02**	3.19	3.31
EUR/NOK Average exchange rate	**9.58**	9.35	2 %	9.55	-	**9.59**	9.23	9.33
EUR/NOK Period end exchange rate	**9.47**	9.41	1 %	9.51	-	**9.47**	9.41	9.84
Bauxite and alumina:								
Average alumina price - Platts PAX FOB Australia (USD/t)	**542**	334	62 %	519	4 %	**482**	324	355
China bauxite import price (USD/mt CIF China)	**53**	49	7 %	53	(1) %	**53**	50	51
Global production of alumina (kmt)	**31 147**	31 304	(1) %	30 439	2 %	**91 589**	93 390	123 999
Global production of alumina (ex. China) (kmt)	**13 303**	14 029	(5) %	13 004	2 %	**39 595**	41 617	55 687
Primary aluminium:								
LME cash average ((USD/mt)	**2 057**	2 012	2 %	2 259	(9) %	**2 157**	1 924	1 969
LME three month average (USD/mt)	**2 068**	2 028	2 %	2 257	(8) %	**2 162**	1 933	1 980
Standard ingot premium (EU DP Cash)	**157**	141	11 %	203	(23) %	**175**	144	148
Extrusion ingot premium (EU DP)	**500**	345	45 %	479	4 %	**442**	328	334
Chinese production of primary aluminium (kmt)	**9 345**	9 187	2 %	9 081	3 %	**27 110**	27 398	36 234
Chinese consumption of primary aluminium (kmt)	**9 233**	8 760	5 %	9 595	(4) %	**26 916**	25 658	34 397
Global production of primary aluminium (ex. China) (kmt)	**6 984**	6 858	2 %	6 868	2 %	**20 681**	20 279	27 223
Global consumption of primary aluminum (ex. China) (kmt)	**7 429**	7 251	2 %	7 632	(3) %	**22 360**	21 834	29 077
Global production of primary aluminium (kmt)	**16 329**	16 045	2 %	15 949	2 %	**47 790**	47 676	63 457
Global consumption of primary aluminum (kmt)	**16 662**	16 011	4 %	17 226	(3) %	**49 276**	47 492	63 475
Reported primary aluminium inventories (ex. China) (kmt)	**4 990**	5 450	(8) %	5 355	(7) %	**4 990**	5 450	5 370
Reported primary aluminium inventories (China) (kmt)	**2 313**	2 461	(6) %	2 552	(9) %	**2 313**	2 461	2 580
Rolled products and extruded products:								
Consumption rolled products - Europe (kmt)	**1 242**	1 206	3 %	1 325	(6) %	**3 825**	3 706	4 853
Consumption rolled products - USA & Canada (kmt)	**1 325**	1 275	4 %	1 321	-	**3 966**	3 843	5 065
Consumption extruded products - Europe (kmt)	**810**	793	2 %	871	(7) %	**2 494**	2 429	3 156
Consumption extruded products - USA & Canada (kmt)	**641**	625	3 %	666	(4) %	**1 943**	1 859	2 440
Energy:								
Average southern Norway spot price (NO2) (NOK/MWh)	**475**	258	84 %	369	29 %	**402**	263	269
Average mid Norway spot price (NO3) (NOK/MWh)	**487**	267	82 %	376	29 %	**413**	270	275
Average nordic system spot price (NOK/MWh)	**484**	266	82 %	373	30 %	**410**	268	274

On March 8, the US administration announced a 10 percent tariff on aluminium imports to the US, effective from March 23. Argentina and Australia are exempted from the 10 percent tariff, although Argentina will be covered by a quota. On September 30, The US, Canada and Mexico came to an agreement on a revised trade deal, called the United States Mexico Canada Agreement (USMCA), replacing the 1994 NAFTA agreement. The USMCA is expected to be ratified during 2019 and does not address the 10 percent tariff on imported aluminium.

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. In October, the deadline for ending all business with Rusal was extended to December 12, 2018.

Motor vehicle production in Europe declined as manufacturers reduced the pace of output in response to a backlog in certifying vehicles' carbon dioxide emission as part of the new Worldwide Harmonized Light Vehicles Test Procedure (WLTP), introduced by the European Union in 2017, effective September this year.

Bauxite and alumina

The increases in the Platts alumina spot prices in the third quarter of 2018 compared to both the third quarter of 2017 and the second quarter of 2018, were driven by a very tight global alumina market caused by the Alunorte refinery continuing to operate at 50 percent of capacity during the quarter. Strike action by certain workers at Alcoa's Western Australian bauxite and alumina operations towards the end of the quarter and the US sanctions against UC Rusal added to supply worries.

Prices started the quarter at USD 460 per mt, increasing steadily to USD 640 per mt in early September followed by a sharp correction to USD 459 per mt at quarter end as market tightness was alleviated by substantial Chinese alumina exports and the resolution of the above-mentioned strike at some of Alcoa's bauxite and alumina operations. The announcement of the full curtailment of Alunorte on October 3, followed by the reversal of the decision on October 8, lead to significant Platts alumina spot price volatility in the first weeks of October.

Primary aluminium

Three-month LME prices ranged between USD 2,018 and USD 2,149 per mt during the third quarter of 2018, with a more stable price development compared to the very volatile second quarter following the announced Rusal sanctions in April. Prices ended the third quarter at USD 2,034 and have so far in October experienced higher volatility following increased uncertainty related to production at the Alunorte alumina refinery.

European duty paid standard ingot premiums ended the third quarter of 2018 at USD 150 per mt, compared to USD 155 at the beginning of the quarter, while the Midwest premiums started the third quarter at USD 458 per mt, and ended at USD 452 per mt.

Average Shanghai Futures Exchange (SHFE) prices decreased by USD 168 per mt ex. VAT, increasing the difference to the equivalent LME compared to the third quarter in 2017. Compared to the second quarter of 2018, average Shanghai Futures Exchange (SHFE) decreased by USD 135 per mt ex. VAT, compared to a decline of USD 190 per mt in the equivalent LME price. Consequently, average export arbitrage potential decreased during the quarter compared to the second quarter of 2018.

Global primary aluminium consumption increased compared to the third quarter of 2017, due to improved global sentiments and continued strong demand growth in China. Compared to the second quarter of 2018, global demand decreased due to seasonal effects in China. Global demand for primary aluminium grew by 5.7 percent in 2017 and is expected to grow by around 3-4 percent in 2018.

Demand for primary aluminium outside China grew by around 3 percent in 2017 and is expected to grow by 2-3 percent in 2018. Production outside China is expected to increase by 1-2 percent in 2018. Production of primary aluminium in China grew by 13 percent in 2017, but due to capacity control measures introduced in 2017 combined with higher raw material prices in 2018, production increase is expected to be reduced to around 0-1 percent in 2018. Demand is expected to increase by 4-6 percent in 2018, lower than the 8.0 percent demand growth 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.

European demand for extrusion ingot increased in the third quarter compared to the third quarter of 2017. Demand for sheet ingot and primary foundry alloys also continued increasing. However, the demand for casthouse products from the automotive industry, especially demand for primary foundry alloys, has been affected by the Worldwide Harmonized Light Vehicles Test Procedure (WLTP).

Total global stocks at the end of the third quarter were estimated to be 11.2 million mt, down around 0.3 million mt compared to the second quarter of 2018.

Rolled products

European demand for flat rolled products increased by around 3 percent compared to the third quarter 2017 due to improved demand across most segments. Compared to the second quarter of 2018, European demand declined by 6 percent which was 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. However, car production declined as manufacturers reduced the pace of output in response to a backlog in certifying vehicles' carbon dioxide emission as part of the new Worldwide Harmonized Light Vehicles Test Procedure (WLTP). The recovery in building and construction continues across Europe but at lower speed. European demand in beverage can was driven by favorable weather conditions despite increased import pressure. The European foil market improved and producers continue to benefit from a high US demand. The demand growth in general engineering was solid but reduced somewhat through the quarter.

The European demand for flat rolled products is expected to increase by around 3.6 percent for 2018 compared to 2017.

Extruded products

European demand for extrusions increased 2 percent compared to the third quarter of 2017. Compared to the second quarter of 2018 demand decreased by 7 percent, mainly due to seasonality. The building and construction market continues its recovery and the transportation market is improving across most sub-segments. The automotive market growth expectations have been reduced recently, in response to a backlog in certifying vehicles' carbon dioxide emission as part of the Worldwide Harmonized Light Vehicles Test Procedure (WLTP). Despite the downgraded forecast in the automotive, the production of cars in Europe remains at high levels in 2018. The European demand for Extruded products is expected to increase by around 2-3 percent for 2018 compared to 2017.

The North American demand for extrusion experienced an increase of 3 percent compared to the third quarter of last year. Demand decreased 4 percent compared to the second quarter of 2018, driven 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. Despite flat build rates and soft car sales in the light vehicle segment, the extrusion demand is up. 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. The North American demand for Extruded products is expected to increase by around 5 percent for 2018 compared to 2017.

Energy

Nordic prices were on average significantly higher, both compared to the same quarter last year and the previous quarter. Prices increased in July in line with a weaker hydrological balance and high continental spot prices driven by high coal, gas and carbon emission prices. Towards the end of the quarter Nordic spot prices fell as increasing rainfall improved the hydrological balance.

The Nordic hydrological balance ended at around 7 TWh below normal[1)], which is fairly similar to the level at 9 TWh below normal at the end of the third quarter last year and an improvement compared to the level at 15 TWh below normal at the end of the previous quarter. Water reservoirs in Norway were 76.4 percent of full capacity at the end of the quarter, which is 10.6 percentage points below the normal level. Snow reservoirs were somewhat above the normal level at the end of the quarter.

1) Normal based on long term historical averages.

Additional factors impacting Hydro

Following a period of extreme rainfall in February, 2018 authorities ordered several measures against Hydro's alumina refinery Alunorte in Brazil, including that the Alunorte alumina refinery is restricted to 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 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.

On October 3, 2018 Alunorte announced that the plant was preparing for full curtailment of its operation. The decision was taken based on external geotechnical experts' recommendation that the use of the old bauxite residue area (DRS1) utilizing drum filter processing should be discontinued. Due to the embargo enforced by the authorities on the state-of-the-art press filters and the newly developed bauxite residue deposit area (DRS2), Alunorte was limited to disposing bauxite residue in the old DRS1 disposal area using less efficient drum filters.

On October 8, Hydro agreed with the environmental agency of the state of Pará, SEMAS, to resume production at 50 percent capacity under SEMAS' supervision. This follows the exceptional authorization by IBAMA on October 5 to utilize press filter technology to process bauxite residues. DRS1 is already in the process of being reshaped as a first step for the area to be closed and rehabilitated. By using the residue from the press filter technology for the reshaping process, Alunorte is able to safely continue depositing bauxite residue in DRS1 while awaiting approval to continue commissioning of DRS2. The new press filter technology creates stackable residue with considerably less moisture content than the drum filter. Environmental benefits of the press filter include reducing both the storage area required for the residue and the environmental footprint. Alunorte has discontinued the use of drum filters for bauxite residue processing. Using the press filter technology, DRS1's estimated remaining capacity to receive bauxite residue from Alunorte is limited to around 12-18 months, the timing depends on both actual production volumes from Alunorte and DRS1's final regulated capacity, which is currently being subject to geotechnical verifications.

Alunorte has eight press filters which were designed to process 100 percent of Alunorte's bauxite residue. Alunorte was, prior to the embargo imposed in March, 2018, in the process of commissioning the press filters and scaling down use of drum filters. The press filters did not achieve their designed performance during this period. An additional filter is currently being installed and is expected to be in operation during the second or third quarter of 2019. In collaboration with the filter supplier, a comprehensive set of improvement actions is being initiated. The authorities' embargo on the press filter and DRS2 interrupted the commissioning process and the learning curve for use of the new technology. The embargo forced Alunorte to resume disposing drum-filtered residue in DRS1, departing from the plan for commissioning the press filters and DRS2. The embargo also interrupted the use of press-filtered residue for reshaping of DRS1, in preparation for its closure and rehabilitation. As Alunorte has now restarted the commissioning process of the press filters, testing of the initiated improvements can resume. The timing of a return to full production capacity at Alunorte depends on how quickly the improvements can be realized.

On September 5, 2018 Alunorte signed two agreements representing an important step towards resuming normal operations at the alumina refinery in Pará, Brazil. The agreements include a technical Term of Adjusted Conduct (TAC) signed between Alunorte – Alumina do Norte do Brasil S.A, Norsk Hydro do Brasil Ltda, the Ministério Público Federal (MPF), the Pará State Ministério Público (MPPA), the State Government of Pará, represented by the Secretariat of State of Environment and Sustainability (SEMAS). In addition, a social Term of Commitment (TC) has been signed between Alunorte - Alumina do Norte do Brasil S.A and the State Government of Pará. The TAC regulates certain technical improvements, audits, fines, studies and payments for food cards to families living in the hydrographic area of the Murucupi River. The TC addresses additional efforts and investments related to the social development of communities in Barcarena. The combined investments, costs and fines are estimated at BRL 319 million (around NOK 640 million). See Note 3: Contingent liabilities for further information.

In the first quarter Hydro initiated a BRL 195 mill (around NOK 400 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 the third quarter an additional investment of BRL 293 million (around NOK 590 million) was approved, this reflects primarily an extension of the scope of BRL 253 million (around NOK 510 million) and increased costs relating to the original scope of BRL 39 million (around NOK 80 million). In addition, to support broad collaboration for social change in Barcarena, Hydro has committed to BRL 100 million (around NOK 200 million) over the next 10 years, 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 September 14, 2018 Hydro and Rio Tinto signed an agreement to end the acquisition process announced in February for Rio Tinto's Icelandic aluminium plant ISAL, including its interests in Dutch anode facility Aluchemie and Swedish aluminium fluoride plant Alufluor. The European Commission (EC) competition approval process took longer than anticipated. After considering alternative time-lines, outcomes and developments, Hydro requested to terminate the transaction and the parties have signed a termination agreement. Hydro has withdrawn its EC competition filing. Hydro will continue to own 46.7 percent in Aluchemie.

Hydro has made a final build decision to invest NOK 1.4 billion at the aluminium plant in Husnes, Norway, to upgrade and start-up the plant's second production line, which will double the plant's aluminium production and create 90 more jobs. In the restart of the line, which was shut down in 2009, Hydro will introduce new technology elements that will give better performance at the plant. Hydro Husnes today produces about 95,000 mt of primary aluminium per year. With the re-start, the plant will produce 190,000 mt of aluminium annually. The line is expected to begin operations in the first half of 2020.

Hydro and the Australian company Flow Systems Pty Ltd have reached an agreement where Flow Systems will purchase Hydro's former Kurri Kurri primary aluminium site. Flow Systems takes immediate responsibility for the development and transition of the site into residential and commercial real estate and parkland while Hydro will continue the demolition and remediation of the smelter and surrounding land, which is expected to take another three to five years to complete. The containment cell, which holds contaminated soils and non-recyclable waste materials, will remain the responsibility of Hydro for five years after remediation on the site has been completed and validated by an independent auditor. After five years, it will transfer into the ownership and maintenance of Flow Systems in perpetuity.

Primary Metal has sold forward around 64 percent of its expected primary aluminium production for the fourth quarter of 2018 at a price level of around USD 2,050 per mt.[1)]There was a positive contribution from the sale of excess power following the production curtailment of the Albras smelter in Brazil in the third quarter. Future result effects depend on local power price developments and production level in Albras.

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.

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.

Underlying EBIT

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

Bauxite & Alumina

Operational and financial information	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**166**	413	(60) %	364	(54) %	**1 270**	1 831	3 704
Underlying EBIT (NOK million)	**685**	413	66 %	364	88 %	**1 789**	1 831	3 704
Underlying EBITDA (NOK million)	**1 193**	1 057	13 %	937	27 %	**3 500**	3 639	6 190
Alumina production (kmt)	**821**	1 605	(49) %	829	(1) %	**2 926**	4 704	6 397
Sourced alumina (kmt)[1)]	**907**	667	36 %	985	(8) %	**2 791**	1 912	2 522
Total alumina sales (kmt)	**1 711**	2 251	(24) %	1 842	(7) %	**5 625**	6 576	8 920
Realized alumina price (USD/mt) [2)]	**460**	297	55 %	430	7 %	**417**	300	326
Bauxite production (kmt) [3)]	**1 286**	3 043	(58) %	1 348	(5) %	**4 960**	8 386	11 435
Sourced bauxite (kmt) [4)]	**905**	2 013	(55) %	1 250	(28) %	**3 472**	5 497	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 third quarter. If we had assumed Alunorte and Paragominas operating at full production and a 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 third quarter 2018 results, underlying EBIT would have been around NOK 1.3 billion. If we assume a realized alumina price of USD 460 per mt, as realized in third quarter 2018, underlying EBIT would have been around NOK 2.6 billion. However, it is likely that the Alunorte situation has had an impact on alumina prices in the third quarter.

On September 5, Alunorte signed two agreements representing an important step towards resuming normal operations at the alumina refinery in Pará, Brazil. The agreements include a technical Term of Adjusted Conduct (TAC) and a social Term of Commitment (TC). The TAC regulates certain technical improvements, audits, studies and payments for food cards to families living in the hydrographic area of the Murucupi River. The TC addresses additional efforts and investments related to the social development of communities in Barcarena. An expense of NOK 519 million relating to these agreements was recognized as items excluded from underlying EBIT in the third quarter. See Note 3: Contingent liabilities for further information.

Underlying EBIT for Bauxite & Alumina increased compared to the third quarter of last year. Higher realized alumina sales prices and positive currency effects were partly offset by higher raw material prices and the effects of reduced production at both Alunorte and Paragominas.

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

Compared to the second quarter of 2018 the underlying EBIT increased due to positive currency effects and higher realized alumina sales price partly offset by higher raw material prices.

The results for the first nine months slightly decreased compared to the first nine months of 2017 driven by the effects of reduced production at both Alunorte and Paragominas and higher raw material prices partly offset by higher realized alumina sales prices and positive currency effects.

Primary Metal

Operational and financial information [1]	Third quarter 2018	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	First 9 months 2018	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**954**	1 282	(26) %	776	23 %	**2 647**	3 617	4 729
Underlying EBIT (NOK million)	**861**	1 298	(34) %	755	14 %	**2 439**	3 684	5 061
Underlying EBITDA (NOK million)	**1 424**	1 795	(21) %	1 309	9 %	**4 081**	5 178	7 078
Realized aluminium price LME (USD/mt) [2]	**2 194**	1 921	14 %	2 183	-	**2 171**	1 859	1 915
Realized aluminium price LME (NOK/mt) [2]	**17 905**	15 496	16 %	17 292	4 %	**17 359**	15 510	15 888
Realized premium above LME (USD/mt) [3]	**367**	261	41 %	364	1 %	**341**	266	265
Realized premium above LME (NOK/mt) [3]	**2 999**	2 106	42 %	2 881	4 %	**2 722**	2 223	2 197
Realized USD/NOK exchange rate	**8.16**	8.07	1 %	7.92	3 %	**7.99**	8.35	8.30
Primary aluminium production (kmt)	**497**	527	(6) %	492	1 %	**1 503**	1 566	2 094
Casthouse production (kmt)	**507**	548	(7) %	523	(3) %	**1 562**	1 620	2 169
Total sales (kmt)	**516**	568	(9) %	549	(6) %	**1 642**	1 724	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%)	Third quarter 2018	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	First 9 months 2018	First 9 months 2017	Year 2017
Revenue (NOK million)	**1 746**	1 370	27 %	1 592	10 %	**4 694**	4 208	5 821
Underlying EBIT (NOK million)	**301**	220	37 %	344	(13) %	**912**	668	985
Underlying EBITDA (NOK million)	**592**	497	19 %	608	(3) %	**1 731**	1 558	2 157
Net income (loss) (NOK million)	**238**	159	49 %	281	(15) %	**728**	489	747
Underlying Net income (loss) (NOK million)	**238**	159	49 %	281	(15) %	**728**	489	747
Primary aluminium production (kmt)	**79**	78	1 %	78	1 %	**234**	232	310
Casthouse sales (kmt)	**84**	78	8 %	80	5 %	**237**	238	325

Underlying EBIT for Primary Metal declined compared to the third quarter last year due to higher raw material and fixed costs, partly offset by higher all-in metal prices[1]. In addition, there was a positive contribution from the sale of excess power following the production curtailment of the Albras smelter in Brazil.

The "Better Primary Metal" improvement program will not reach the target for 2018 mainly due to the production curtailment at Albras and alumina quality issues at the fully owned smelters. The curtailment and quality issues are a direct result of reduced availability of alumina from Alunorte.

Compared to the second quarter of 2018, underlying EBIT for Primary Metal improved slightly. Higher all-in metal prices[1], positive currency effects were somewhat offset by lower volumes, higher alumina cost and higher fixed costs. In addition, there was a positive contribution from the sale of excess power following the production curtailment of the Albras smelter in Brazil.

Underlying EBIT for Primary Metal for the first nine months in 2018 declined compared to first nine months of 2017 due higher raw material costs and fixed costs, partly offset by higher all-in metal prices[1]. In addition, there was a positive contribution from the sale of excess power following the production curtailment of the Albras smelter in Brazil.

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

Metal Markets

Operational and financial information	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**(107)**	59	>(100) %	270	>(100) %	**467**	328	485
Underlying EBIT (NOK million)	**(3)**	91	>(100) %	237	>(100) %	**412**	359	544
Currency effects	**(81)**	12	>(100) %	10	>(100) %	**(82)**	36	83
Inventory valuation effects	**-**	(29)	100 %	4	(100) %	**53**	(19)	(38)
Underlying EBIT excl. currency and inventory valuation effects	**78**	107	(27) %	224	(65) %	**441**	342	499
Underlying EBITDA (NOK million)	**22**	114	(80) %	262	(92) %	**486**	429	638
Remelt production (kmt)	**126**	136	(8) %	153	(18) %	**428**	431	568
Metal products sales excluding ingot trading (kmt) [1)]	**685**	707	(3) %	746	(8) %	**2 177**	2 201	2 921
Hereof external sales (kmt)	**543**	639	(15) %	563	(4) %	**1 685**	1 987	2 575

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

Underlying EBIT for Metal Markets decreased compared to the third quarter of last year. Negative currency effects and a lower contribution from sourcing and trading activities were somewhat offset by improved results from the remelters.

Compared to the second quarter of 2018, underlying EBIT for Metal Markets declined driven by negative currency effects and lower results from sourcing and trading activities. Results from the remelters declined somewhat mainly due to seasonally lower sales volumes.

Underlying EBIT for Metal Markets improved for the first nine months of 2018 compared to the same period in 2017. Improved results from the remelters and positive inventory valuation effects were partly offset by negative currency effects.

Rolled Products

Operational and financial information	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**223**	(22)	>100 %	353	(37) %	**655**	512	512
Underlying EBIT (NOK million)	**82**	95	(13) %	212	(61) %	**526**	285	380
Underlying EBITDA (NOK million)	**314**	312	1 %	438	(28) %	**1 207**	916	1 240
Sales volumes to external market (kmt)	**235**	236	-	251	(6) %	**731**	716	940
Sales volumes to external markets (kmt) - Product areas								
Can & foil	**87**	91	(5) %	92	(6) %	**269**	265	352
Lithography & automotive	**78**	76	2 %	81	(3) %	**237**	229	297
Special products	**71**	69	3 %	77	(8) %	**225**	222	291
Rolled Products	**235**	236	-	251	(6) %	**731**	716	940

Underlying EBIT decreased slightly compared to the third quarter of 2017. Increasing margins and improved performance from automotive line 3 were offset by cost increases. Results for the Neuss smelter decreased, the positive effects of the new power contract, the UBC line and all-in metal price development were more than offset by increasing raw material prices.

Underlying EBIT decreased significantly compared to the second quarter of 2018 driven by seasonally lower sales volumes, operational performance issues at the Alunorf plant and reduced margins. Results for Neuss decreased driven by higher raw material cost and lower all-in metal prices.

The operational performance issues at the Alunorf plant will not be fully resolved in the fourth quarter. Hence, despite highgrading and other improvements, Rolled Products will not achieve its "Better Rolled Products" program target for 2018.

Results for the first nine months improved significantly compared to the same period in 2017. Higher margins, increased sales volumes and improved performance from automotive line 3 were partly offset by negative currency effects and cost increases. Results for the Neuss smelter improved, the positive development of the new power contract and increased all-in metal prices were only partly offset by significantly higher raw material prices.

Extruded Solutions

Operational and financial information	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**286**			1 109	(74) %	**2 081**		1 722
Underlying EBIT (NOK million)	**497**			957	(48) %	**2 188**		284
Underlying EBITDA (NOK million)	**931**			1 383	(33) %	**3 469**		728
Sales volumes to external markets (kmt)	**343**			373	(8) %	**1 078**		318
Sales volumes to external markets (kmt) - Business units								
Extrusion Europe	**134**			155	(14) %	**443**		130
Extrusion North America	**152**			157	(3) %	**461**		134
Building Systems	**18**			20	(10) %	**58**		19
Precision Tubing	**40**			41	(2) %	**117**		34
Extruded Solutions	**343**			373	(8) %	**1 078**		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	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT) (NOK million)	**652**	368	77 %	417	56 %	**1 347**	1 075	1 531
Underlying EBIT (NOK million)	**652**	368	77 %	417	56 %	**1 347**	1 075	1 531
Underlying EBITDA (NOK million)	**716**	424	69 %	479	49 %	**1 534**	1 237	1 757
Direct production costs (NOK million)[1)]	**158**	154	2 %	140	12 %	**461**	443	614
Power production (GWh)	**2 888**	2 509	15 %	2 550	13 %	**7 871**	7 746	10 835
External power sourcing (GWh)	**2 374**	2 497	(5) %	2 247	6 %	**6 835**	7 064	9 562
Internal contract sales (GWh)	**3 796**	3 723	2 %	3 632	5 %	**11 049**	10 700	14 424
External contract sales (GWh)	**151**	115	32 %	205	(26) %	**619**	537	767
Net spot sales (GWh)	**1 315**	1 168	13 %	961	37 %	**3 038**	3 573	5 206

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

Underlying EBIT increased significantly compared to the same quarter in the previous year. The increase was mainly due to significantly higher prices and higher production, 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 and higher prices.

Compared to the first nine months of the previous year underlying EBIT increased mainly due to higher prices, partly offset by negative effects from the repricing of an internal power contract with the Neuss smelter.

Other and eliminations

Financial information NOK million	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Earnings before financial items and tax (EBIT)	**(117)**	222	>(100) %	(303)	61 %	**(124)**	315	(495)
Sapa (50%) [1]		209					819	819
Other	**(190)**	(96)	(97) %	(156)	(22) %	**(552)**	(307)	(586)
Eliminations	**93**	68	36 %	(74)	>100 %	**387**	(87)	(522)
Underlying EBIT	**(97)**	181	>(100) %	(229)	58 %	**(165)**	426	(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.

Underlying EBIT for Other decreased compared to the same quarter of last year primarily due to lower earnings from industrial insurance.

Compared to the first nine months of 2017 underlying EBIT for Other decreased mainly due to lower earnings from industrial insurance, Sapa integration cost and positive effects from sale of assets previous year.

Finance

Financial income (expense) NOK million	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Interest income	**48**	86	(45) %	63	(25) %	**171**	255	322
Dividends received and net gain (loss) on securities	**16**	16	-	26	(39) %	**40**	84	159
Financial income	**64**	101	(37) %	89	(29) %	**211**	339	481
Interest expense	**(157)**	(62)	>(100) %	(148)	(6) %	**(429)**	(262)	(378)
Capitalized interest	**-**	21	-	-	-	**-**	67	76
Net foreign exchange gain (loss)	**(257)**	520	>(100) %	(306)	16 %	**(895)**	(180)	(875)
Net interest on pension liability	**(32)**	(34)	6 %	(33)	1 %	**(97)**	(101)	(152)
Other	**(40)**	(61)	35 %	(44)	9 %	**(127)**	(201)	(266)
Financial expense	**(486)**	384	>(100) %	(530)	8 %	**(1 549)**	(677)	(1 596)
Financial income (expense), net	**(423)**	485	>(100) %	(441)	4 %	**(1 339)**	(338)	(1 114)

The net foreign exchange loss, mainly unrealized, of NOK 257 million reflects primarily a strengthening of USD against BRL. This resulted in an unrealized loss on the USD denominated debt in Brazil.

The net foreign exchange loss of NOK 895 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 710 million for the third quarter of 2018 or about 43 percent of income before tax. The tax rate reflects the relatively high share of reported income before tax subject to power surtax in addition to provisions related to TAC and TC.

Tax for first nine months amounted to NOK 1,931 million or about 28 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 nine months of 2018 on a comparable basis with the earlier periods presented.

Summary consolidated underlying financial and operating results

Key financial information NOK million	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Revenue	**39 766**	35 454	12 %	41 254	(4) %	**120 991**	110 117	148 920
Earnings before financial items and tax (EBIT)	**2 057**	2 640	(22) %	2 986	(31) %	**8 344**	8 880	11 927
Items excluded from underlying EBIT	**620**	114	>100 %	(274)	>100 %	**192**	(16)	510
Underlying EBIT[1)]	**2 676**	2 754	(3) %	2 713	(1) %	**8 535**	8 864	12 437
Earnings before financial items, tax, depreciation and amortization (EBITDA)	**3 890**	4 482	(13) %	4 860	(20) %	**13 942**	14 278	19 294
Underlying EBITDA	**4 510**	4 596	(2) %	4 586	(2) %	**14 134**	14 262	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	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Revenue (NOK million)	**15 976**	13 983	14 %	16 980	(6) %	**48 866**	43 616	57 769
Earnings before financial items and tax (EBIT) (NOK million)	**286**	525	(46) %	1 109	(74) %	**2 081**	2 006	2 265
Unrealized derivative effects (NOK million)	**211**	(15)	>100 %	(151)	>100 %	**107**	40	36
Significant rationalization charges and closure costs (NOK million)	**-**	-	-	-	-	**-**	-	29
Items excluded from underlying EBIT (NOK million)	**211**	(15)	>100 %	(151)	>100 %	**107**	40	65
Underlying EBIT (NOK million)[1]	**497**	510	(3) %	957	(48) %	**2 188**	2 046	2 330
Earnings before financial items, tax, depreciation and amortization (EBITDA)	**720**	918	(22) %	1 534	(53) %	**3 362**	3 215	3 917
Underlying EBITDA (NOK million)	**931**	903	3 %	1 383	(33) %	**3 469**	3 255	3 982
Sales volumes to external markets (kmt)	**343**	339	1 %	373	(8) %	**1 078**	1 053	1 372
Sales volumes to external markets (kmt) - Business units								
Extrusion Europe	**134**	138	(3) %	155	(14) %	**443**	437	568
Extrusion North America	**152**	148	3 %	157	(3) %	**461**	449	584
Building Systems	**18**	18	(1) %	20	(10) %	**58**	59	78
Precision Tubing	**40**	36	13 %	41	(2) %	**117**	109	143
Extruded Solutions	**343**	339	1 %	373	(8) %	**1 078**	1 053	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 remained stable compared to the pro forma underlying EBIT for the third quarter 2017. The positive effect of higher margins and sales volumes were offset by increased production costs in connection with the ramp-up of new product lines in Europe, in addition to negative effects from a lower Midwest Premium and section 232 tariffs in North America. Additional costs due to the integration and restructuring of the two recently acquired Brazilian extrusion plants also had a negative effect on the quarter.

Compared to the second quarter 2018 the underlying EBIT decreased, primarily due to seasonally lower volumes.

The results for the first nine months increased compared to the first nine months of 2017 due to higher volumes and margins.

Interim financial statements

Condensed consolidated statements of income (unaudited)

	Third quarter		First 9 months		Year
NOK million, except per share data	**2018**	2017	**2018**	2017	2017
Revenue	**39 766**	22 799	**120 991**	70 416	109 220
Share of the profit (loss) in equity accounted investments	**229**	371	**735**	1 271	1 527
Other income, net	**169**	240	**508**	588	2 947
Total revenue and income	**40 163**	23 410	**122 233**	72 276	113 693
Raw material and energy expense	**25 667**	14 768	**77 359**	45 437	69 848
Employee benefit expense	**5 650**	2 416	**17 250**	7 706	13 285
Depreciation, amortization and impairment	**1 851**	1 450	**5 650**	4 192	6 162
Other expenses	**4 939**	2 454	**13 631**	7 262	12 209
Total expenses	**38 106**	21 087	**113 890**	64 597	101 504
Earnings before financial items and tax (EBIT)	**2 057**	2 323	**8 344**	7 678	12 189
Financial income	**64**	101	**211**	339	481
Financial expense	**(486)**	384	**(1 549)**	(677)	(1 596)
Financial income (expense), net	**(423)**	485	**(1 339)**	(338)	(1 114)
Income (loss) before tax	**1 634**	2 808	**7 005**	7 340	11 075
Income taxes	**(710)**	(624)	**(1 931)**	(1 756)	(1 891)
Net income (loss)	**925**	2 184	**5 074**	5 585	9 184
Net income (loss) attributable to non-controlling interests	**174**	147	**124**	301	401
Net income (loss) attributable to Hydro shareholders	**751**	2 037	**4 949**	5 284	8 783
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) [1]	**0.37**	1.00	**2.42**	2.59	4.30
Weighted average number of outstanding shares (million)	**2 046**	2 045	**2 046**	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)

	Third quarter		First 9 months		Year
	2018	2017	**2018**	2017	2017
NOK million		Restated		Restated	Restated
Net income (loss)	**925**	2 184	**5 074**	5 585	9 184
Other comprehensive income					
Items that will not be reclassified to income statement:					
Remeasurement postemployment benefits, net of tax	**632**	209	**1 063**	1 037	761
Unrealized gain (loss) on securities, net of tax	**(21)**	(22)	**(20)**	(85)	(255)
Share of remeasurement postemployement benefits of equity accounted investments, net of tax	**-**	-	**-**	(2)	(2)
Total	**612**	187	**1 043**	950	504
Items that will be reclassified to income statement:					
Currency translation differences, net of tax	**(1 449)**	(1 902)	**(7 513)**	(3 388)	(1 387)
Cash flow hedges, net of tax	**221**	68	**123**	71	174
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	**14**	(198)	**60**	(18)	(736)
Total	**(1 214)**	(2 033)	**(7 330)**	(3 335)	(1 949)
Other comprehensive income	**(602)**	(1 846)	**(6 286)**	(2 384)	(1 444)
Total comprehensive income	**322**	338	**(1 213)**	3 200	7 740
Total comprehensive income attributable to non-controlling interests	**(14)**	(4)	**(691)**	(47)	103
Total comprehensive income attributable to Hydro shareholders	**336**	342	**(522)**	3 247	7 637

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

Condensed balance sheets (unaudited)

Condensed consolidated balance sheets (unaudited)

	September 30		December 31
	2018	2017	2017
NOK million, except number of shares			Restated
Assets			
Cash and cash equivalents	**6 846**	17 853	11 828
Short-term investments	**1 176**	1 985	1 311
Accounts receivables	**21 727**	13 156	19 983
Inventories	**23 916**	13 585	20 711
Other current assets	**738**	255	798
Total current assets	**54 403**	46 834	54 631
Property, plant and equipment	**66 251**	56 500	72 933
Intangible assets	**10 695**	5 427	12 712
Investments accounted for using the equity method	**11 094**	18 178	11 221
Prepaid pension	**6 857**	5 296	5 750
Other non-current assets	**5 962**	5 322	6 028
Total non-current assets	**100 859**	90 723	108 643
Total assets	**155 261**	137 557	163 273
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	**6 607**	9 065	8 245
Trade and other payables	**19 906**	10 347	19 571
Other current liabilities	**5 897**	3 542	5 521
Total current liabilities	**32 410**	22 954	33 337
Long-term debt	**7 886**	3 077	9 012
Provisions	**5 358**	4 507	5 828
Pension liabilities	**14 416**	12 808	15 118
Deferred tax liabilities	**3 952**	2 621	3 501
Other non-current liabilities	**3 756**	3 691	4 269
Total non-current liabilities	**35 368**	26 703	37 728
Total liabilities	**67 778**	49 657	71 064
Equity attributable to Hydro shareholders	**83 012**	82 685	87 032
Non-controlling interests	**4 472**	5 216	5 178
Total equity	**87 484**	87 900	92 209
Total liabilities and equity	**155 261**	137 557	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	Third quarter 2018	Third quarter 2017	Nine months ended September 30 2018	Nine months ended September 30 2017	Year 2017
Operating activities					
Net income	**925**	2 184	**5 074**	5 585	9 184
Depreciation, amortization and impairment	**1 851**	1 450	**5 650**	4 192	6 162
Other adjustments	**(202)**	(684)	**(4 643)**	(1 829)	(999)
Net cash provided by operating activities	**2 574**	2 950	**6 081**	7 948	14 347
Investing activities					
Purchases of property, plant and equipment	**(1 796)**	(1 501)	**(4 702)**	(4 247)	(7 296)
Purchases of other long-term investments	**(53)**	(14)	**(287)**	(75)	(11 190)
Purchases of short-term investments	**-**	-	**-**	(5 094)	(5 094)
Proceeds from long-term investing activities	**336**	166	**383**	701	742
Proceeds from sales of short-term investments	**-**	3 250	**-**	7 850	8 402
Net cash provided by (used in) investing activities	**(1 513)**	1 901	**(4 606)**	(865)	(14 436)
Financing activities					
Loan proceeds	**1 837**	3 342	**5 572**	7 771	15 271
Principal repayments	**(1 763)**	(1 802)	**(5 054)**	(5 627)	(10 917)
Net increase (decrease) in other short-term debt	**151**	4 017	**(2 794)**	3 782	2 515
Proceeds from shares issued	**11**	11	**35**	29	40
Dividends paid	**(19)**	(369)	**(3 600)**	(2 994)	(3 069)
Net cash provided by (used in) financing activities	**217**	5 199	**(5 841)**	2 961	3 840
Foreign currency effects on cash	**(114)**	(190)	**(616)**	(228)	40
Net increase (decrease) in cash and cash equivalents	**1 164**	9 860	**(4 982)**	9 816	3 791
Cash and cash equivalents at beginning of period	**5 682**	7 993	**11 828**	8 037	8 037
Cash and cash equivalents at end of period	**6 846**	17 853	**6 846**	17 853	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				5 284	(2 037)	3 247	(47)	3 200
September 30, 2017	2 272	29 097	(810)	52 948	(823)	82 685	5 216	87 900
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				4 949	(5 471)	(522)	(691)	(1 213)
September 30, 2018	2 272	29 126	(756)	57 820	(5 451)	83 012	4 472	87 484

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, 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 or other market references, 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.

NOK million	Third quarter 2018	Third quarter 2017	First 9 months 2018	First 9 months 2017	Year 2017
Total revenue					
Bauxite & Alumina	**6 749**	5 612	**19 935**	17 381	25 421
Primary Metal	**9 984**	8 958	**30 237**	27 174	36 466
Metal Markets	**13 230**	11 862	**41 334**	37 615	50 606
Rolled Products	**6 791**	6 435	**20 732**	19 281	25 715
Extruded Solutions[1)]	**15 976**	-	**48 866**	-	14 153
Energy	**2 488**	1 831	**6 414**	5 536	7 705
Other and eliminations	**(15 452)**	(11 900)	**(46 528)**	(36 571)	(50 847)
Total	**39 766**	22 799	**120 991**	70 416	109 220
External revenue					
Bauxite & Alumina	**3 016**	3 293	**10 164**	10 092	15 188
Primary Metal	**2 312**	1 865	**6 324**	5 510	7 578
Metal Markets	**10 575**	10 675	**32 380**	33 850	44 264
Rolled Products	**6 773**	6 380	**20 653**	19 163	25 538
Extruded Solutions[1)]	**15 934**	-	**48 743**	-	14 083
Energy	**1 151**	582	**2 712**	1 783	2 550
Other and eliminations	**5**	3	**15**	18	18
Total	**39 766**	22 799	**120 991**	70 416	109 220
Internal revenue					
Bauxite & Alumina	**3 733**	2 320	**9 771**	7 289	10 234
Primary Metal	**7 672**	7 093	**23 914**	21 665	28 888
Metal Markets	**2 656**	1 187	**8 954**	3 765	6 341
Rolled Products	**18**	55	**79**	118	178
Extruded Solutions[1)]	**42**	-	**123**	-	70
Energy	**1 337**	1 249	**3 702**	3 753	5 155
Other and eliminations	**(15 457)**	(11 903)	**(46 542)**	(36 589)	(50 865)
Total	**-**	-	**-**	-	-
Share of the profit (loss) in equity accounted investments					
Bauxite & Alumina	**-**	-	**-**	-	-
Primary Metal	**238**	159	**727**	488	745
Metal Markets	**-**	-	**-**	-	-
Rolled Products	**-**	-	**-**	-	-
Extruded Solutions[1)]	**14**	215	**43**	800	812
Energy	**(4)**	-	**(24)**	-	(7)
Other and eliminations	**(20)**	(3)	**(12)**	(17)	(24)
Total	**229**	371	**735**	1 271	1 527

NOK million	Third quarter 2018	Third quarter 2017	First 9 months 2018	First 9 months 2017	Year 2017
Depreciation, amortization and impairment					
Bauxite & Alumina	**509**	644	**1 711**	1 807	2 486
Primary Metal	**583**	504	**1 705**	1 501	2 026
Metal Markets	**25**	24	**74**	70	95
Rolled Products	**231**	217	**682**	630	860
Extruded Solutions[1)]	**434**	-	**1 280**	-	444
Energy	**61**	56	**177**	163	223
Other and eliminations	**7**	7	**21**	21	28
Total	**1 851**	1 450	**5 650**	4 192	6 162
Earnings before financial items and tax (EBIT) [2)]					
Bauxite & Alumina	**166**	413	**1 270**	1 831	3 704
Primary Metal	**954**	1 282	**2 647**	3 617	4 729
Metal Markets	**(107)**	59	**467**	328	485
Rolled Products	**223**	(22)	**655**	512	512
Extruded Solutions[1)]	**286**	215	**2 081**	800	2 522
Energy	**652**	368	**1 347**	1 075	1 531
Other and eliminations	**(117)**	7	**(124)**	(485)	(1 295)
Total	**2 057**	2 323	**8 344**	7 678	12 189
EBITDA					
Bauxite & Alumina	**674**	1 057	**2 982**	3 639	6 190
Primary Metal	**1 517**	1 779	**4 290**	5 111	6 747
Metal Markets	**(82)**	82	**541**	397	579
Rolled Products	**455**	196	**1 336**	1 143	1 372
Extruded Solutions[1)]	**720**	215	**3 362**	800	2 966
Energy	**716**	424	**1 534**	1 237	1 757
Other and eliminations	**(110)**	13	**(103)**	(465)	(1 268)
Total	**3 890**	3 766	**13 942**	11 863	18 344
Investments [3)]					
Bauxite & Alumina	**392**	296	**925**	972	1 634
Primary Metal	**675**	768	**1 809**	2 394	3 537
Metal Markets	**32**	45	**78**	72	143
Rolled Products	**194**	223	**447**	500	997
Extruded Solutions[1)]	**702**	-	**1 469**	-	22 137
Energy	**52**	90	**223**	247	361
Other and eliminations	**2**	2	**40**	30	39
Total	**2 051**	1 424	**4 990**	4 216	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 Third quarter 2018				
Bauxite & Alumina	166	509	-	674
Primary Metal	954	583	(21)	1 517
Metal Markets	(107)	25	-	(82)
Rolled Products	223	231	-	455
Extruded Solutions[1)]	286	434	-	720
Energy	652	61	4	716
Other and eliminations	(117)	7	-	(110)
Total	2 057	1 851	(17)	3 890

NOK million	EBIT	Depr., amor. and impairment	Other items[2)]	EBITDA
EBIT - EBITDA First nine months 2018				
Bauxite & Alumina	1 270	1 711	-	2 982
Primary Metal	2 647	1 705	(62)	4 290
Metal Markets	467	74	-	541
Rolled Products	655	682	-	1 336
Extruded Solutions[1)]	2 081	1 280	2	3 362
Energy	1 347	177	10	1 534
Other and eliminations	(124)	21	-	(103)
Total	8 344	5 650	(52)	13 942

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 restricted to 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.

In September, Hydro entered into two agreements with authorities. The agreements include a technical Term of Adjusted Conduct (TAC) signed between Alunorte – Alumina do Norte do Brasil S.A, Norsk Hydro do Brasil Ltda, the Ministério Público Federal (MPF), the Pará State Ministério Público (MPPA), the State Government of Pará, represented by the Secretariat of State of Environment and Sustainability (SEMAS). In addition, a social Term of Commitment (TC) has been signed between Alunorte - Alumina do Norte do Brasil S.A and the State Government of Pará. The TAC regulates certain technical studies and improvements, audits, fines and payments for food cards to families living in the hydrographic area of the Murucupi River. The TC addresses additional efforts and investments related to the social development of communities in Barcarena. The combined investments, costs and fines are estimated at BRL 319 million (around NOK 640 million), of which about NOK 65 million relates to fines. About NOK 525 million of the total estimated amount was expensed in the third quarter, and about NOK 50 million was expensed in the first quarter. The remainder is primarily related to improvement of certain monitoring and water treatment equipment at the plant, expected to be capitalized.

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 200 million) in local community investments through the Sustainable Barcarena Initiative, which will be supporting local communities over the next 10 years. 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.

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.

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 completed the process of identifying the fair value of assets acquired and liabilities assumed during the third quarter of 2018. The estimated fair value of net assets of Sapa is updated with the final estimates. Changes compared to the provisional amounts recognized at the end of 2017 as follows:

Changes to fair value estimates	Reported 31.12.17	Adjusted 2018	Final fair value estimate
Property, plant and equipment	14 052	922	14 974
Intangible assets	2 897	(130)	2 767
Other adjustments, net		(67)	
Deferred tax	2 486	287	2 773
Goodwill	4 119	(539)	3 580

The changes mainly relates to completed valuation of land and to some extent buildings. The changes did not result in significant changes to depreciation or amortization; prior periods have thus not been restated.

Note 5: Impairment of non-current assets

Following a period of extreme rainfall in February 2018, authorities ordered several measures against Alunorte, including that the Alunorte alumina refinery is restricted to 50 percent of its capacity while authorities review the situation, over concerns that flooding led to harmful spills. The nearby bauxite mine in Paragominas and the aluminium plant Albras in Barcarena were subsequently curtailed to 50 percent of their capacity.

In early October a new report from external geotechnical consultants recommended that Alunorte should discontinue use of the old bauxite residue area (DRS1), utilizing drum filter processing. Shortly after, Alunorte was authorized to use DRS1 using the newer press filter technology. Alunorte is, however, still not allowed to commission the newly developed bauxite residue deposit area (DRS2). By using the residue from the press filter technology for the reshaping process, Alunorte is able to safely continue depositing a limited capacity of bauxite residue in DRS1 while awaiting approval to continue commissioning of DRS2. Using the press filter technology, DRS1's estimated remaining capacity to receive bauxite residue from Alunorte is limited to around 12-18 months, the timing depends on both actual production volumes from Alunorte and DRS1's final regulated capacity, which is currently being subject to geotechnical verifications.

Alunorte has eight press filters which were designed to process 100 percent of Alunorte's bauxite residue. Alunorte was, prior to the embargo imposed in March, 2018, in the process of commissioning the press filters and scaling down use of drum filters. The press filters did not achieve their designed performance during this period. An additional filter is currently being installed and is expected to be in operation during the second or third quarter of 2019. In collaboration with the filter supplier, a comprehensive set of improvement actions is being initiated. The authorities' embargo on the press filter and DRS2 interrupted the commissioning process and the learning curve for use of the new technology. The embargo forced Alunorte to resume disposing drum-filtered residue in DRS1, departing from the plan for commissioning of press filter and DRS2. The embargo also interrupted the use of press-filtered residue for reshaping of DRS1, in preparation for its closure and rehabilitation. As Alunorte has now restarted the commissioning process of the press filters, testing of the initiated improvements can resume. The timing of a return to full production capacity at Alunorte depends on how quickly the improvements can be realized.

The challenging operational situation has resulted in close monitoring of whether, and when, this situation constitutes impairment indicators for any of our Cash Generating Units (CGUs) in the region, or other CGUs benefiting from alumina produced at Alunorte. The uncertainty surrounding when full production at Alunorte can be reached after commissioning of the press filters adds to the uncertainty already imposed by the embargo. Due to the continued embargo at Alunorte, a return to full capacity of Albras is expected to be achieved at a later time than previously estimated. We thus consider the current situation an impairment indicator for both the CGU comprising Alunorte and its primary bauxite source Paragominas, and for the Albras smelter. Both CGUs have been tested for impairment earlier in 2018. The tests performed as of the end of the third quarter represent updates of the established VIU models with more recent estimates for production volumes, market prices for alumina, aluminium, and certain key raw materials, as well as production volumes in the near-term periods.

The duration of the commissioning phase of the press filters to reach satisfactory operational stability, is uncertain. Market prices are also significantly impacted by the shortfall of alumina in the global market, which has lead to a significant increase in alumina prices. The timing and magnitude of price reactions to the production shortfall for Alunorte is difficult to estimate. Further, other prices impacting the tests are also highly volatile and may change significantly for unrelated reasons.

The CGU comprising the alumina refinery Alunorte and the bauxite mine in Paragominas also 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 was used for the tests as of September 30 and June 30, 2018, with updated assumptions.

The recoverable amount has been determined based on a Value In Use (VIU) calculation. As the recoverable amount in both tests exceeds the carrying value, a write-down is not required. The calculations 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, production volumes until full production can be reached, and assumed start-up time for full production. All significant price assumptions are internally derived based on external references.

Key assumptions and results of the tests are summarized in the table below:

	Results of impairment tests	
NOK million, except ratios	Third quarter	Second quarter
Recoverable amount	25 841	26 713
Carrying amount	21 078	22 350
Recoverable amount in excess of carrying amount	4 763	4 362
Excess, %	23%	20%

	Assumptions third quarter		Assumptions second quarter	
	4 Q 2018	Long-term	2 H 2018	Long-term
Exchange rate BRL/USD	3.95	3.53	3.56	3.53
Alumina price (USD/mt)	500	347	404	347
Discount rate nominal, pre-tax	17.50%	17.50%	17.25 %	17.25 %

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 restart of curtailed capacity assumed during the second quarter of 2019 and the latest scenario during the fourth quarter of 2019. When tested at the end of the second quarter, restart no later than mid 2019 was assumed.

Significant cash flows are denominated in US dollars. These are translated to BRL at a rate of 3.95 for the fourth quarter 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. This is the same methodology and long-term assumptions as included in the test performed in the second quarter. Production volumes are assumed to be at somewhat lower levels than 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:

	Assumptions third quarter		Assumptions second quarter	
	% change	Value	% change	Value
Exchange rate BRL/USD	(8%)	3.26	(6%)	3.33
Alumina price (USD/mt)	(5%)	381	(3%)	386
Discount rate (% point)	15%	20.2%	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. The prolonged period of curtailment made us update the impairment test at the end of the third quarter.

Assumptions for an impairment test are highly uncertain, in particular the timing of restart of production and the cash flows in the near term which are 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 at the end of the first quarter of 2018 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. The updated test performed at the end of the third quarter reflects a restart of the curtailed capacity towards the end of 2019. 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 2018, including our long-term price assumptions developed in December 2017. Based on these assumptions, the plant had a coverage above carrying value of the assets at both points in time. 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.
- *Alunorte agreements - provision* refers to the provision recognized in relation to the TAC and TC agreements with the Government of Parà and Ministèrio Pùblico made on September 5, 2018.
- *(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	**Third quarter 2018**	Third quarter 2017	Second quarter 2018	**First 9 months 2018**	First 9 months 2017	Year 2017
Alunorte agreements - provision[2]	**519**	-	-	**519**	-	-
Bauxite & Alumina	**519**	-	-	**519**	-	-
Unrealized derivative effects on LME related contracts	**101**	(20)	(41)	**(55)**	1	101
Unrealized derivative effects on power contracts	**(194)**	36	20	**(154)**	66	50
Significant rationalization charges and closure costs	**-**	-	-	**-**	-	181
Primary Metal	**(93)**	16	(21)	**(208)**	67	331
Unrealized derivative effects on LME related contracts	**104**	31	(32)	**(56)**	31	58
Metal Markets	**104**	31	(32)	**(56)**	31	58
Unrealized derivative effects on LME related contracts	**11**	(35)	(82)	**37**	46	41
Metal effect	**(153)**	151	(60)	**(166)**	(273)	(419)
Other effects[3]	**-**	-	-	**-**	-	245
Rolled Products	**(141)**	116	(142)	**(129)**	(227)	(132)
Unrealized derivative effects on LME related contracts	**211**		(151)	**107**		(4)
Significant rationalization charges and closure costs	**-**		-	**-**		29
Transaction related effects (Sapa)[4]	**-**		-	**-**		(1 463)
Extruded Solutions	**211**		(151)	**107**		(1 438)
Energy	**-**	-	-	**-**	-	-
Unrealized derivative effects on power contracts[5]	**11**	(29)	72	**(24)**	90	197
Unrealized derivative effects on LME related contracts[5]	**8**	(5)	1	**(17)**	2	23
Other effects[6]	**-**	-	-	**-**	-	(33)
Unrealized derivative effects (Sapa)		(8)			20	20
Significant rationalization charges and closure costs (Sapa)		-			-	-
Net foreign exchange (gain) loss (Sapa)		-			5	5
Calculated income tax effect (Sapa)		2			(6)	(6)
Other and eliminations	**19**	(40)	73	**(41)**	111	206
Items excluded from underlying EBIT	**620**	123	(274)	**192**	(18)	(974)

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

2) Alunorte agreements - provision, refers to the provision recognized in relation to the TAC and TC agreements with the Government of Parà and Ministèrio Pùblico made on September 5 2018.

3) Other effects in Rolled Products reflect a charge related to a customs case in Germany.

4) 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.

5) 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.

6) Other effects in Other and eliminations include the remeasurement of environmental liabilities related to closed business in Germany.

Underlying EBITDA NOK million	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
EBITDA	**3 890**	3 766	3 %	4 860	(20) %	**13 942**	11 863	18 344
Items excluded from underlying EBIT	**620**	123	>100 %	(274)	>100 %	**192**	(18)	(974)
Underlying EBITDA	**4 510**	3 889	16 %	4 586	(2) %	**14 134**	11 845	17 369

Underlying earnings per share NOK million	**Third quarter 2018**	Third quarter 2017	Change prior year quarter	Second quarter 2018	Change prior quarter	**First 9 months 2018**	First 9 months 2017	Year 2017
Net income (loss)	**925**	2 184	(58) %	2 073	(55) %	**5 074**	5 585	9 184
Items excluded from net income (loss)	**772**	(398)	>100 %	24	>100 %	**920**	(5)	(788)
Underlying net income (loss)	**1 696**	1 785	(5) %	2 096	(19) %	**5 994**	5 580	8 396
Underlying net income attributable to non-controlling interests	**182**	102	78 %	17	>100 %	**240**	240	331
Underlying net income attributable to Hydro shareholders	**1 514**	1 684	(10) %	2 079	(27) %	**5 754**	5 340	8 066
Number of shares	**2 046**	2 045	-	2 046	-	**2 046**	2 044	2 044
Underlying earnings per share	**0.74**	0.82	(10) %	1.02	(27) %	**2.81**	2.61	3.95

Adjusted net cash (debt) NOK million	**Sep 30 2018**	Jun 30 2018	Change prior quarter	Sep 30 2017	Jun 30 2017	Change prior year quarter
Cash and cash equivalents	**6 846**	5 682	1 164	17 853	7 993	9 860
Short-term investments [1)]	**1 176**	1 136	40	1 985	4 896	(2 911)
Short-term debt	**(6 607)**	(4 969)	(1 638)	(9 065)	(3 741)	(5 323)
Long-term debt	**(7 886)**	(9 377)	1 491	(3 077)	(3 183)	107
Net cash (debt)	**(6 471)**	(7 528)	1 057	7 697	5 965	1 732
Cash and cash equiv. and short-term investm. in captive insurance company [2)]	**(968)**	(1 059)	90	(1 064)	(1 054)	(11)
Net pension obligation at fair value, net of expected income tax benefit [3)]	**(6 419)**	(6 998)	579	(6 527)	(6 929)	401
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)]	**(2 938)**	(3 040)	102	(2 574)	(2 621)	47
Adjusted net cash (debt)	**(18 380)**	(20 209)	1 829	(2 976)	(5 146)	2 170
Net debt in EAI [6)]	**(5 648)**	(5 658)	10	(6 895)	(7 619)	724
Adjusted net cash (debt) incl. EAI	**(24 028)**	(25 868)	1 839	(9 871)	(12 764)	2 894

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 1 140 million and NOK 1 344 million for September 2018 and June 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 September 2018, the adjustment is related to Qatalum.

Additional information

Financial calendar

November 29	Capital Markets Day

Financial calendar

2019

February 7	Fourth quarter results
March 15	Annual report
April 30	First quarter results
May 7	Annual General Meeting
July 23	Second quarter results
October 23	Third quarter results

Hydro reserves the right to revise these dates.

Cautionary note

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

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

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

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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.