



HYDRO



2016

THIRD QUARTER REPORT

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Oslo, October 25, 2016

Overview

Summary underlying financial and operating results and liquidity

Key financial information	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
NOK million, except per share data								
Revenue	20 174	20 391	(1) %	21 594	(7) %	60 703	67 320	87 694
Earnings before financial items and tax (EBIT)	1 376	1 978	(30) %	1 630	(16) %	5 047	7 533	8 258
Items excluded from underlying EBIT ¹⁾	101	(360)	>100 %	586	(83) %	(451)	557	1 398
Underlying EBIT ¹⁾	1 477	1 618	(9) %	2 215	(33) %	4 596	8 090	9 656
<i>Underlying EBIT :</i>								
Bauxite & Alumina	153	174	(12) %	628	(76) %	516	1 889	2 421
Primary Metal	637	702	(9) %	762	(16) %	1 657	4 221	4 628
Metal Markets	117	75	57 %	291	(60) %	358	227	379
Rolled Products	211	242	(13) %	331	(36) %	701	938	1 142
Energy	285	301	(5) %	191	49 %	983	752	1 105
Other and eliminations ²⁾	75	125	(40) %	12	>100 %	380	63	(19)
Underlying EBIT ¹⁾	1 477	1 618	(9) %	2 215	(33) %	4 596	8 090	9 656
Earnings before financial items, tax, depreciation and amortization (EBITDA) ³⁾								
	2 792	3 222	(13) %	2 808	(1) %	8 922	11 154	13 282
Underlying EBITDA ¹⁾	2 753	2 862	(4) %	3 394	(19) %	8 331	11 711	14 680
Net income (loss)								
	1 119	2 077	(46) %	(1 345)	>100 %	5 578	1 791	2 333
Underlying net income (loss) ¹⁾	958	1 126	(15) %	1 377	(30) %	2 906	5 413	6 709
Earnings per share								
	0.53	0.95	(44) %	(0.65)	>100 %	2.61	0.76	0.99
Underlying earnings per share ¹⁾	0.46	0.52	(11) %	0.61	(25) %	1.37	2.39	2.98
<i>Financial data:</i>								
Investments ¹⁾	1 914	1 711	12 %	1 316	45 %	5 596	3 309	5 865
Adjusted net interest-bearing debt ¹⁾	(8 072)	(8 758)	8 %	(9 272)	13 %	(8 072)	(9 272)	(8 173)
Key Operational information								
	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Bauxite production (kmt) ⁴⁾	2 777	2 609	6 %	2 735	2 %	8 069	7 101	10 060
Alumina production (kmt)	1 635	1 554	5 %	1 498	9 %	4 706	4 385	5 962
Primary aluminium production (kmt)	526	518	2 %	520	1 %	1 559	1 525	2 046
Realized aluminium price LME (USD/mt)	1 612	1 546	4 %	1 685	(4) %	1 552	1 795	1 737
Realized aluminium price LME (NOK/mt)	13 375	12 826	4 %	13 779	(3) %	13 049	14 032	13 813
Realized USD/NOK exchange rate	8.30	8.30	-	8.18	1 %	8.41	7.82	7.95
Rolled Products sales volumes to external market (kmt)	231	238	(3) %	248	(7) %	697	719	948
Sapa sales volumes (kmt) ⁵⁾	170	183	(7) %	171	-	527	526	682
Power production (GWh)	2 946	2 674	10 %	2 839	4 %	8 781	8 012	10 894

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

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

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

4) Paragominas production, on wet basis.

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

Hydro's underlying earnings before financial items and tax declined to NOK 1,477 million in the third quarter, down from NOK 1,618 million in the second quarter. The decrease mainly reflected seasonally lower metal sales and negative currency effects, partly offset by higher realized aluminium prices.

Underlying EBIT for Bauxite & Alumina decreased compared to second quarter. While the realized alumina price remained stable, alumina sourcing costs increased somewhat. Further reduction in raw material consumption and reduced bauxite costs were offset by negative currency effects, as the Brazilian Real continued to strengthen against the USD. Annualized production volume at Alunorte reached a record 6.5 million mt per year, exceeding name-plate capacity of 6.3 million mt per year. Paragominas also increased the production after lower production last quarter due to ball mill maintenance.

Underlying EBIT for Primary Metal declined in the third quarter. Lower premiums and volumes, in addition to slightly higher raw material costs and negative currency effects, were largely offset by higher realized aluminium prices and lower fixed costs. The second quarter was positively influenced by an insurance refund of NOK 50 million related to a power outage in Årdal in January 2016, in addition to a positive effect of NOK 75 million related to a reversal of ICMS tax accrual on sales of surplus power in Brazil in previous periods.

Underlying EBIT for Metal Markets improved in the third quarter mainly due to less negative currency and inventory evaluation effects, in addition to improved results from sourcing and trading activities. Results from remelters declined mainly due to seasonally lower volumes.

Underlying EBIT for Rolled Products was lower compared to the second quarter of 2016, mainly due to seasonally lower volumes and changes in the product mix. The Neuss smelter result was higher due to an increase in the all-in metal price.

Underlying EBIT for Energy declined compared to the previous quarter due to higher production cost and higher area cost, partly offset by higher production. The higher production cost was driven by seasonally higher property taxes⁶⁾, while area cost increased mainly due to export restrictions out of Southern Norway during the quarter.

Underlying EBIT for Sapa decreased compared to the previous quarter, mainly due to seasonally lower market demand.

During the third quarter Hydro made progress in accordance with plan on its "Better" improvement ambition targeting NOK 2.9 billion of annual improvements by 2019.

Hydro's net cash position⁷⁾ increased during the third quarter by NOK 0.6 billion to NOK 5.4 billion at the end of the quarter. Net cash provided by operating activities amounted to NOK 2.3 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.5 billion.

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

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

Reported EBIT and net income

Reported earnings before financial items and tax amounted to NOK 1,376 million in the third quarter. In addition to the factors discussed above, reported EBIT included net unrealized derivative gains of NOK 100 million and positive metal effects of NOK 48 million. Reported earnings also included a charge of NOK 124 million related to the demolition of the Kurri Kurri site and an impairment charge of NOK 140 million related to the decision to divest the Hannover site. In addition, reported earnings included a net gain of NOK 15 million in Sapa (Hydro's share net of tax), relating to unrealized derivative gains, rationalization charges and net foreign exchange gains.

In the previous quarter reported earnings before financial items and tax amounted to NOK 1,978 million including net unrealized derivative gains of NOK 32 million and positive metal effects of NOK 17 million. Reported EBIT also included a charge of NOK 67 million related to environmental commitments in Kurri Kurri, a gain of NOK 342 million for the sale of

certain assets in Grenland, including Herøya Industrial Park, and a negative adjustment of NOK 13 million related to the sale of the Slim rolling mill in the fourth quarter of 2015. In addition, reported EBIT included a net gain of NOK 49 million in Sapa (Hydro's share net of tax), relating to unrealized derivative gains and net foreign exchange gains.

Net income amounted to NOK 1,119 million in the third quarter including a net foreign exchange gain of NOK 358 million mainly reflecting the strengthening Norwegian kroner versus Euro affecting liabilities in Euro in Norway and embedded currency derivatives in power contracts.

In the previous quarter net income was NOK 2,077 million including a net foreign exchange gain of NOK 904 million mainly reflecting the strengthening BRL versus US dollars affecting US dollar liabilities in Brazil, as well as the strengthening Norwegian kroner versus Euro affecting liabilities in Euro in Norway and embedded currency derivatives in power contracts.

Market developments and outlook

Market statistics ¹⁾	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
USD/NOK Average exchange rate	8.32	8.26	1 %	8.22	1 %	8.41	7.92	8.07
USD/NOK Balance sheet date exchange rate	8.05	8.38	(4) %	8.50	(5) %	8.05	8.50	8.81
BRL/NOK Average exchange rate	2.56	2.35	9 %	2.34	10 %	2.38	2.52	2.45
BRL/NOK Balance sheet date exchange rate	2.48	2.59	(4) %	2.13	17 %	2.48	2.13	2.22
USD/BRL Average exchange rate	3.24	3.51	(8) %	3.54	(8) %	3.55	3.17	3.34
USD/BRL Balance sheet date exchange rate	3.24	3.23	-	4.00	(19) %	3.24	4.00	3.96
EUR/NOK Average exchange rate	9.29	9.32	-	9.14	2 %	9.38	8.82	8.95
EUR/NOK Balance sheet date exchange rate	8.99	9.30	(3) %	9.52	(6) %	8.99	9.52	9.62
<i>Bauxite and alumina:</i>								
Average alumina price - Platts PAX FOB Australia (USD/t)	234	252	(7) %	292	(20) %	236	324	301
China bauxite import price (USD/mt CIF China) ²⁾	49	49	(1) %	52	(6) %	49	54	53
Global production of alumina (kmt)	29 258	28 354	3 %	28 658	2 %	85 077	83 262	112 238
Global production of alumina (ex. China) (kmt)	14 108	13 566	4 %	14 013	1 %	41 057	41 553	55 451
<i>Primary aluminium:</i>								
LME three month average (USD/mt)	1 633	1 582	3 %	1 621	1 %	1 578	1 738	1 680
LME three month average (NOK/mt)	13 585	13 055	4 %	13 309	2 %	13 240	13 729	13 508
Standard ingot premium (EU DP Cash)	119	132	(9) %	153	(22) %	132	264	237
Extrusion ingot premium (DP)	316	322	(2) %	399	(21) %	319	580	518
Global production of primary aluminium (kmt)	14 959	14 470	3 %	14 506	3 %	43 543	42 682	57 167
Global consumption of primary aluminium (kmt)	15 227	15 508	(2) %	14 538	5 %	44 371	42 147	56 563
Global production of primary aluminium (ex. China) (kmt)	6 771	6 676	1 %	6 603	3 %	20 116	19 616	26 329
Global consumption of primary aluminium (ex. China) (kmt)	7 002	7 236	(3) %	6 830	3 %	21 156	20 551	27 296
Reported primary aluminium inventories (kmt)	4 975	5 324	(7) %	6 902	(28) %	4 975	6 902	6 305
<i>Rolled products and extruded products:</i>								
Consumption rolled products - Europe (kmt)	1 202	1 214	(1) %	1 172	3 %	3 581	3 485	4 559
Consumption rolled products - USA & Canada (kmt)	1 212	1 212	-	1 182	3 %	3 581	3 582	4 670
Consumption extruded products - Europe (kmt)	749	795	(6) %	734	2 %	2 305	2 267	2 949
Consumption extruded products - USA & Canada (kmt)	597	625	(5) %	593	1 %	1 821	1 774	2 315
<i>Energy:</i>								
Average southern Norway spot price (NO2) (NOK/MWh)	212	213	(1) %	102	>100 %	212	170	177
Average mid Norway spot price (NO3) (NOK/MWh)	271	238	14 %	132	>100 %	244	186	190
Average nordic system spot price (NOK/MWh)	235	223	5 %	122	92 %	229	181	187

1) Industry statistics and other information in the table and text have been derived from analyst reports, trade associations and other public sources including Hydro's own analysis unless otherwise indicated. The information included in this section does not have any direct relationship to the reported figures of Norsk Hydro. Amounts presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

2) The quarterly China bauxite import price is an estimate based on the average of the first 2 months of the quarter.

Bauxite and alumina

Chinese alumina imports amounted to 2.0 million mt in the first eight months of 2016, down 27 percent from the same period in 2015. Chinese bauxite imports increased 4 percent to 33.5 million mt compared to the first eight months of 2015. As a result of the bauxite mining moratorium imposed on January 15, 2016, imports from Malaysia decreased 51 percent to 6.1 million mt compared to the first eight months of 2015; the moratorium is in force until December 31, 2016. Increased supply of bauxite primarily from Guinea to China more than offset the lower imports from Malaysia. Supply from the Atlantic basin accounted for 30 percent of Chinese imports in the first eight months of 2016, up from 6 percent in the same period last year.

Platts alumina spot prices averaged USD 234 per mt in the third quarter of 2016, a decrease of USD 18 per mt compared to the previous quarter. Prices started the quarter at USD 240 per mt, decreased to USD 228 per mt before recovering to USD 249 per mt at the end of the quarter. Average prices represented 14.4 percent of LME in the quarter compared with 16.0 percent in the previous quarter. According to Chinese import statistics, the average delivered China bauxite price was USD 49 per mt for July and August 2016, on the same level as the second quarter 2016 average.

Primary aluminium

Three-month LME prices ranged between USD 1,566 and USD 1,701 per mt throughout the third quarter of 2016. The average LME three-month price was USD 1,633, increasing by USD 51 per mt compared to the second quarter of 2016. In Europe, all-in metal prices including duty paid standard ingot premiums increased in the third quarter driven by higher LME. European all-in metal prices ranged between USD 1,675 and USD 1,805 per mt.

Standard ingot premiums increased slightly during the quarter in Europe, while premiums in the US continued to decline. European duty paid standard ingot premiums ended the quarter at USD 123 per mt, compared to USD 118 at the beginning of the quarter, and averaged USD 119 per mt in the third quarter compared to USD 132 per mt in the second quarter. Midwest premiums started the quarter at USD 160 per mt, and ended the quarter at USD 139 per mt, averaging USD 142 per mt compared to USD 172 per mt in the second quarter.

Shanghai Futures Exchange (SHFE) prices slightly increased in the third quarter compared to the second quarter. The increased prices, together with moderate standard ingot premiums outside China, resulted in continued low export arbitrage opportunities. Compared to July and August 2015, net exports of semi-fabricated products increased 23 percent in July and August 2016, however, year-to-date August 2016 compared to same period last year shows a marginal decline in net exports. The increased SHFE prices are currently leading to restart of Chinese capacity, however, most of the restarted capacity will not have an effect until 2017 due to the timing of the production ramp up.

Global primary aluminium consumption decreased by 1.8 percent to 15.2 million mt in the third quarter compared to the second quarter, mainly due to seasonal effects. Compared to the third quarter of 2015, global demand increased 4.7 percent. Global demand for primary aluminium is expected to grow by around 4-5 percent in 2016.

Outside China, demand decreased by 3.2 percent compared to the second quarter of 2016, and the year-on-year increase from the third quarter of 2015 was 2.5 percent. Quarterly consumption amounted to 7.0 million mt for the third quarter of 2016. Corresponding production amounted to 6.8 million mt, an increase of 1.4 percent compared to the second quarter of 2016. Production outside China experienced a 2.5 percent increase compared to the third quarter of 2015, largely driven by ramp-up of new production capacity in India, Canada and Malaysia. Demand for primary aluminium outside China is expected to grow by around 2-4 percent in 2016.

Compared to the second quarter of 2016, Chinese aluminium consumption decreased by 0.6 percent, to 8.2 million mt, due to seasonal effects. The year-on-year increase compared to the third quarter of 2015 was 6.7 percent. Corresponding aluminium production increased by 5.1 percent compared to the second quarter of 2016, and increased 3.6 percent compared to the third quarter of 2015. The ramp up of new capacity continues in the Northwest regions, Shandong and Inner Mongolia. Demand for primary aluminium in China is expected to grow by around 5-7 percent in 2016.

European demand for extrusion ingot was slightly up in the third quarter of 2016 compared to the same period one year ago. Demand for sheet ingot and primary foundry alloys continued increasing at a higher pace than extrusion ingot, mainly due to the positive developments in the automotive industry.

LME stocks have continued to decline, amounting to 2.15 million mt at the end of the third quarter of 2016, compared to 2.4 million mt at the end of the second quarter of the year. Compared to third quarter of last year, LME stocks are down 1.0 million mt. Estimated unreported stocks increased slightly in the third quarter.

Rolled products

European demand for flat rolled products declined by 1 percent compared to the second quarter due to seasonality. Compared to the third quarter of the previous year, demand increased by around 3 percent.

Despite lower demand in the third quarter due to summer production shutdowns the overall demand in automotive remains positive, driven by increasing substitution of steel by aluminium for automotive body sheet. The building and construction segment continues to recover from a low level. Demand in the beverage can segment remains positive, also influenced by the ongoing conversion of beverage can production lines from steel to aluminium. Demand in the foil segment was relatively weak with increased pressure on margins. The market for general engineering products remains solid.

European demand for flat rolled products is expected to decline further in the fourth quarter due to seasonality.

Extruded products

Demand for extruded products in Europe and North America decreased compared to the previous quarter by 5.8 percent and 4.6 percent respectively, driven by seasonality.

Compared to the same period last year, market demand increased by 0.7 percent in North America and 2.1 percent in Europe. In North America, building and construction activity and automotive demand contributed positively, while the transportation segment experienced slower demand growth. In Europe there were positive developments in automotive and transportation and a mixed picture in building and construction.

Going forward, a continued moderate market growth is expected in Europe, while certain market segments in North America show indications of softening. The fourth quarter is a seasonally weak quarter, and demand traditionally decreases from the third quarter. In both North America and Europe, aluminium substitution in the automotive industry is contributing positively.

Energy

Overall, the Nordic spot prices were fairly stable in the third quarter. Rising fuel prices on the continent and a hydrological deficit provided support to the Nordic system price. During the quarter, Southern Norway power prices were negatively impacted by export cable restrictions. At the same time, power prices in Mid Norway are coupled to power prices in Sweden, which were at a higher level due to a negative hydrological balance and nuclear power maintenance. In line with a dry development and rising fuel prices, Nordic forward prices have increased towards the end of the quarter.

The Nordic hydrological balance improved somewhat in August but weakened again in September back to the level at the beginning of the quarter, at 9 TWh below normal¹⁾. Water reservoirs in Norway were 86 percent of full capacity at the end of the quarter, which is close to normal level, while snow reservoirs were below normal at the end of the quarter.

1) Normal based on long term historical averages.

Additional factors impacting Hydro

Primary Metal has sold forward around 50 percent of its expected primary aluminium production for the fourth quarter of 2016 at a price level of around USD 1,600 per mt.¹⁾ This excludes volumes from Qatalum.

Sapa Profiles Inc. Portland (SPI), a subsidiary of Sapa AS (owned 50 percent by Hydro) is under investigation by the United States Department of Justice (DOJ) Civil and Criminal Divisions regarding aluminum extrusions that SPI manufactured from 1996 to 2015 and 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 DOJ investigations and of the identified quality issues, including financial consequences on Sapa, is uncertain. Based on the information known to Hydro at this stage, Hydro does not expect any resulting liabilities to have a material adverse effect on its consolidated results of operations, liquidity or financial position.

In April 2016, the Norwegian Tax Appeal Board ruled in favor of Hydro in a tax dispute. Taxes related to losses on refinancing of subsidiaries in 2008 were denied for deduction in 2013 and the tax claim was paid in 2014. Following the decision in the Tax Appeal Board, Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100 million in interest income in the first quarter of 2016. Hydro received the reimbursement in the second quarter of 2016. The tax authorities have notified Hydro that they will ask for a re-examination of the case by the National Tax Board (Riksskattenemnda).

The put/call option for Vale's remaining shares in Paragominas has been exercised. Hydro expects completion of the put/call sale to occur within the coming quarters.

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

Underlying EBIT

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

Bauxite & Alumina

Operational and financial information	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	153	174	(12) %	634	(76) %	516	1 897	2 411
Underlying EBIT (NOK million)	153	174	(12) %	628	(76) %	516	1 889	2 421
Underlying EBITDA (NOK million)	664	659	1 %	1 048	(37) %	1 962	3 239	4 404
Alumina production (kmt)	1 635	1 554	5 %	1 498	9 %	4 706	4 385	5 962
Sourced alumina (kmt)	512	615	(17) %	806	(36) %	1 658	2 197	2 787
Total alumina sales (kmt)	2 221	2 078	7 %	2 268	(2) %	6 372	6 503	8 871
Realized alumina price (USD/mt) ¹⁾	240	240	-	273	(12) %	233	288	276
Bauxite production (kmt) ²⁾	2 777	2 609	6 %	2 735	2 %	8 069	7 101	10 060
Sourced bauxite (kmt) ³⁾	2 108	2 233	(6) %	2 377	(11) %	6 265	6 286	8 684

1) Weighted average of own production and third party contracts. The majority of the alumina is sold linked to either the LME prices or alumina index with a one month delay.

2) Paragominas production, on wet basis.

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

Underlying EBIT for Bauxite & Alumina decreased compared to second quarter. While the realized alumina price remained stable, alumina sourcing costs increased somewhat. Further reduction in raw material consumption and reduced bauxite costs were offset by negative currency effects, as the Brazilian Real continued to strengthen against the USD. Annualized production volume at Alunorte reached a record 6.5 million mt per year, exceeding name-plate capacity of 6.3 million mt per year. Paragominas also increased the production after lower production last quarter due to ball mill maintenance.

Bauxite and Alumina remain on track with their improvement program "Better Bauxite & Alumina" targeting NOK 500 million in improvements for 2016.

Compared to the third quarter of 2015 the underlying EBIT declined mainly due to lower realized alumina prices and negative currency effects of a stronger Brazilian Real. This was partly offset by higher production, both at Alunorte and Paragominas, reduced raw material consumption and lower raw material prices for energy and caustic soda.

Compared to the first nine months of 2015 the underlying EBIT declined mainly due to lower realized alumina prices.

Primary Metal

Operational and financial information ¹⁾	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	591	668	(12) %	664	(11) %	1 666	4 148	4 459
Underlying EBIT (NOK million)	637	702	(9) %	762	(16) %	1 657	4 221	4 628
Underlying EBITDA (NOK million)	1 125	1 186	(5) %	1 245	(10) %	3 104	5 698	6 581
Realized aluminium price LME (USD/mt) ²⁾	1 612	1 546	4 %	1 685	(4) %	1 552	1 795	1 737
Realized aluminium price LME (NOK/mt) ²⁾	13 375	12 826	4 %	13 779	(3) %	13 049	14 032	13 813
Realized premium above LME (USD/mt) ³⁾	251	270	(7) %	342	(27) %	269	486	439
Realized premium above LME (NOK/mt) ³⁾	2 082	2 243	(7) %	2 796	(26) %	2 265	3 802	3 492
Realized USD/NOK exchange rate	8.30	8.30	-	8.18	1 %	8.41	7.82	7.95
Primary aluminium production (kmt)	526	518	2 %	520	1 %	1 559	1 525	2 046
Casthouse production (kmt)	541	547	(1) %	524	3 %	1 622	1 535	2 059
Total sales (kmt)	573	596	(4) %	550	4 %	1 720	1 628	2 159

1) Operating and financial information includes Hydro's proportionate share of underlying income (loss), production and sales volumes in equity accounted investments. Realized prices, premiums and exchange rates exclude 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 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Revenue (NOK million)	1 223	1 182	3 %	1 242	(2) %	3 545	4 276	5 502
Underlying EBIT (NOK million)	131	75	75 %	85	54 %	234	693	588
Underlying EBITDA (NOK million)	416	372	12 %	365	14 %	1 121	1 534	1 750
Net income (loss) (NOK million)	74	11	>100 %	26	>100 %	49	554	387
Underlying Net income (loss) (NOK million)	74	11	>100 %	26	>100 %	49	517	350
Primary aluminium production (kmt)	77	76	1 %	77	-	229	228	305
Casthouse sales (kmt)	79	77	3 %	76	4 %	230	235	320

Underlying EBIT for Primary Metal declined in the third quarter. Lower premiums and volumes, in addition to slightly higher raw material costs and negative currency effects, were largely offset by higher realized aluminium prices and lower fixed costs. The second quarter was positively influenced by an insurance refund of NOK 50 million related to a power outage in Årdal in January 2016, in addition to a positive effect of NOK 75 million related to a reversal of ICMS tax accrual on sales of surplus power in Brazil in previous periods.

Primary Metal remain on track with their improvement program "Better Primary Aluminium" targeting roughly NOK 400 million improvements for 2016.

Compared to the third quarter of 2015, underlying EBIT declined mainly due to lower realized all-in metal prices. This was partly offset by decreasing alumina and other raw material costs.

Underlying EBIT for the first nine months of 2016 declined substantially compared with the same period in 2015, due to lower realized all-in metal prices, partly offset by decreasing raw material costs and positive currency effects.

Metal Markets

Operational and financial information	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	131	91	44 %	205	(36) %	457	39	180
Underlying EBIT (NOK million)	117	75	57 %	291	(60) %	358	227	379
Currency effects	(2)	(16)	89 %	71	>(100) %	6	-	(43)
Inventory valuation effects	3	(22)	>100 %	31	(91) %	(22)	(44)	(29)
Underlying EBIT excl. currency and inventory valuation effects	116	113	2 %	189	(39) %	374	270	451
Underlying EBITDA (NOK million)	141	98	43 %	317	(56) %	429	300	480
Remelt production (kmt)	125	146	(14) %	117	7 %	415	403	533
Metal products sales excluding ingot trading (kmt) ¹⁾	720	777	(7) %	676	6 %	2 233	2 052	2 722
Hereof external sales (kmt)	652	694	(6) %	616	6 %	2 010	1 861	2 474

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

Underlying EBIT for Metal Markets improved in the third quarter mainly due to less negative currency and inventory evaluation effects, in addition to improved results from sourcing and trading activities. Results from remelters declined mainly due to seasonally lower volumes.

Compared to the third quarter of 2015, underlying EBIT for Metal Markets declined due to reduced currency and inventory valuation effects, in addition to lower results from sourcing and trading activities. Results from remelters were somewhat weaker in the period, mainly due to lower contribution margins.

Underlying EBIT for the first nine months of 2016 improved substantially compared with the same period in 2015, mainly due to substantial losses from sourcing and trading activities in the first half of 2015 as a result of a decline in standard ingot premiums.

Rolled Products

Operational and financial information	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	255	428	(40) %	(95)	>100 %	863	512	154
Underlying EBIT (NOK million)	211	242	(13) %	331	(36) %	701	938	1 142
Underlying EBITDA (NOK million)	407	432	(6) %	517	(21) %	1 284	1 470	1 873
Sales volumes to external market (kmt)	231	238	(3) %	248	(7) %	697	719	948
Sales volumes to external markets (kmt) - Product areas ¹⁾								
Can & foil	84	82	3 %	87	(3) %	242	251	331
Lithography & automotive	74	79	(6) %	78	(5) %	231	230	300
Special products	72	78	(7) %	84	(14) %	225	238	317
Rolled Products	231	238	(3) %	248	(7) %	697	719	948

1) As of the first quarter of 2016, the reporting structure for Rolled Products Sales volumes to external markets has been changed. All previous periods presented have been adjusted to present the information on a comparable basis.

Underlying EBIT was lower compared to the second quarter of 2016, mainly due to seasonally lower volumes and changes in the product mix. The Neuss smelter result was higher due to an increase in the all-in metal price.

Rolled Products made progress on the "Better Rolled Products" improvement program, however due to further delays in the ramp up of the UBC-line, Rolled Products is not expected to reach the target of NOK 200 million for 2016. The delay is not expected to impact the 2019 target of NOK 900 million.

Compared to the third quarter of 2015 the underlying EBIT declined, influenced by lower realized margins, increased cost and negative currency development.

Underlying EBIT for the first nine months 2016 was lower than in the same period last year mainly as a result of the lower all-in metal price affecting the Neuss smelter result. For our rolling mills we saw higher sales volumes when adjusting for the Slim rolling mill divestment²⁾ but lower realized margins.

2) Slim rolling mill divestment was completed by December 17, 2015.

Energy

Operational and financial information	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Earnings before financial items and tax (EBIT) (NOK million)	295	291	1 %	182	62 %	980	750	1 103
Underlying EBIT (NOK million)	285	301	(5) %	191	49 %	983	752	1 105
Underlying EBITDA (NOK million)	336	352	(5) %	241	39 %	1 141	897	1 300
Direct production costs (NOK million)	164	126	30 %	159	3 %	483	477	610
Power production (GWh)	2 946	2 674	10 %	2 839	4 %	8 781	8 012	10 894
External power sourcing (GWh)	2 248	2 222	1 %	2 242	-	6 697	6 664	8 918
Internal contract sales (GWh)	3 377	3 340	1 %	3 529	(4) %	10 056	10 200	13 731
External contract sales (GWh)	118	163	(28) %	188	(38) %	534	779	1 093
Net spot sales (GWh)	1 699	1 393	22 %	1 363	25 %	4 887	3 697	4 989

Underlying EBIT for Energy declined compared to the previous quarter due to higher production cost and higher area cost, partly offset by higher production. The higher production cost was driven by seasonally higher property taxes¹⁾, while area cost increased mainly due to export restrictions out of Southern Norway during the quarter.

Compared to the third quarter of the previous year, underlying EBIT increased significantly, mainly due to higher prices.

Underlying EBIT for the first nine months of 2016 increased significantly compared to the same period in the previous year, mainly due to higher production and prices.

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

Other and eliminations

Financial information	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
NOK million								
Earnings before financial items and tax (EBIT)	(48)	327	>(100) %	41	>(100) %	566	187	(48)
Sapa (50%) ¹⁾	157	270	(42) %	120	31 %	610	384	454
Other	(66)	(100)	34 %	(95)	31 %	(328)	(362)	(531)
Eliminations	(17)	(45)	63 %	(13)	(31) %	98	41	58
Underlying EBIT	75	125	(40) %	12	>100 %	380	63	(19)

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

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

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

Operational and financial information Sapa (50%)	Third quarter 2016	Second quarter 2016	%change prior quarter	Third quarter 2015	%change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
Revenue (NOK million) ²⁾	6 570	7 036	(7) %	6 948	(5) %	20 558	21 215	27 626
Underlying EBIT (NOK million)	244	402	(39) %	202	21 %	931	639	704
Underlying EBITDA (NOK million)	406	566	(28) %	367	11 %	1 423	1 119	1 364
Net income (loss) (NOK million)	172	319	(46) %	55	>100 %	700	106	123
Underlying net income (loss) (NOK million)	157	270	(42) %	120	31 %	610	384	454
Sales volumes (kmt)	170	183	(7) %	171	-	527	526	682

2) Historical revenues have been reclassified.

Underlying EBIT for Sapa decreased compared to the previous quarter, mainly due to seasonally lower market demand.

Underlying EBIT for Sapa increased compared to the same quarter of the previous year, driven by higher value-add margins and positive effects from continuous improvements. The improvements were partly offset by slightly reduced sales volumes, mainly in the US.

Underlying EBIT for the first nine months of 2016 improved compared with the same period in 2015, influenced by the same factors discussed above.

Finance

Financial income (expense)	Third quarter 2016	Second quarter 2016	% change prior quarter	Third quarter 2015	% change prior year quarter	First 9 months 2016	First 9 months 2015	Year 2015
NOK million								
Interest income	93	87	7 %	56	66 %	352	190	279
Dividends received and net gain (loss) on securities	8	92	(91)%	(10)	>100%	85	3	18
Financial income	102	179	(43)%	47	>100%	437	193	297
Interest expense	(75)	(61)	(23)%	(93)	19 %	(240)	(263)	(337)
Capitalized interest	30	32	(7)%	10	>100%	84	17	34
Net foreign exchange gain (loss)	358	904	(60)%	(3 205)	>100%	2 293	(4 445)	(4 397)
Net interest on pension liability	(45)	(49)	7 %	(38)	(20)%	(146)	(109)	(215)
Other	(51)	(56)	9 %	(62)	18 %	(162)	(156)	(215)
Financial expense	216	769	(72)%	(3 388)	>100%	1 829	(4 956)	(5 130)
Financial income (expense), net	317	948	(67)%	(3 341)	>100%	2 266	(4 763)	(4 834)

The net foreign exchange gain of NOK 358 million reflects strengthening of NOK against EUR affecting both embedded derivatives in power contracts and intercompany debt.

Tax

Income tax expense amounted to NOK 574 million for the third quarter of 2016 or about 34 percent of income before tax.

Interim financial statements

Condensed consolidated statements of income (unaudited)

NOK million, except per share data	Third quarter		First 9 months		Year
	2016	2015	2016	2015	2015
Revenue	20 174	21 594	60 703	67 320	87 694
Share of the profit (loss) in equity accounted investments	256	115	749	657	512
Other income, net	96	167	688	633	461
Total revenue and income	20 526	21 875	62 140	68 610	88 667
Raw material and energy expense	12 886	14 361	38 760	43 397	56 330
Employee benefit expense	2 281	2 172	7 103	6 738	9 048
Depreciation, amortization and impairment	1 416	1 178	3 874	3 620	5 023
Other expenses	2 568	2 535	7 355	7 321	10 008
Total expenses	19 150	20 246	57 092	61 077	80 409
Earnings before financial items and tax (EBIT)	1 376	1 630	5 047	7 533	8 258
Financial income	102	47	437	193	297
Financial expense	216	(3 388)	1 829	(4 956)	(5 130)
Financial income (expense), net	317	(3 341)	2 266	(4 763)	(4 834)
Income (loss) before tax	1 693	(1 711)	7 313	2 770	3 425
Income taxes	(574)	367	(1 736)	(979)	(1 092)
Net income (loss)	1 119	(1 345)	5 578	1 791	2 333
Net income (loss) attributable to non-controlling interests	34	(21)	249	249	313
Net income (loss) attributable to Hydro shareholders	1 085	(1 324)	5 328	1 542	2 020
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) ¹⁾	0.53	(0.65)	2.61	0.76	0.99
Weighted average number of outstanding shares (million)	2 043	2 042	2 042	2 041	2 041

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

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

Condensed consolidated statements of comprehensive income (unaudited)

NOK million	Third quarter		First 9 months		Year
	2016	2015	2016	2015	2015
Net income (loss)	1 119	(1 345)	5 578	1 791	2 333
Other comprehensive income					
Items that will not be reclassified to income statement:					
Remeasurement postemployment benefits, net of tax	(84)	(110)	(1 207)	1 602	764
Share of remeasurement postemployment benefits of equity accounted investments, net of tax	-	-	-	-	126
Total	(84)	(110)	(1 207)	1 602	890
Items that will be reclassified to income statement:					
Currency translation differences, net of tax	(2 296)	(2 960)	445	(5 573)	(2 130)
Unrealized gain (loss) on securities, net of tax	(9)	37	(31)	118	15
Cash flow hedges, net of tax	(11)	16	36	133	72
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	(279)	222	(558)	310	502
Total	(2 595)	(2 686)	(108)	(5 012)	(1 541)
Other comprehensive income	(2 679)	(2 796)	(1 315)	(3 410)	(651)
Total comprehensive income	(1 560)	(4 141)	4 263	(1 618)	1 681
Total comprehensive income attributable to non-controlling interests	(152)	(688)	557	(833)	(418)
Total comprehensive income attributable to Hydro shareholders	(1 408)	(3 452)	3 706	(786)	2 099

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

Condensed balance sheets (unaudited)

NOK million, except number of shares	September 30		December 31
	2016	2015	2015
Assets			
Cash and cash equivalents	7 952	9 372	6 917
Short-term investments	4 438	1 860	5 752
Accounts receivables	11 495	14 417	10 797
Inventories	11 517	11 996	12 192
Other current assets	204	390	502
Total current assets	35 605	38 036	36 160
Property, plant and equipment	54 476	47 850	51 174
Intangible assets	5 469	4 773	5 121
Investments accounted for using the equity method	19 333	19 414	20 150
Prepaid pension	3 227	4 116	3 382
Other non-current assets	6 563	5 476	6 557
Total non-current assets	89 067	81 630	86 384
Total assets	124 672	119 665	122 544
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	3 562	3 509	3 562
Trade and other payables	9 131	10 727	9 375
Other current liabilities	4 193	3 825	4 462
Total current liabilities	16 885	18 061	17 399
Long-term debt	3 409	4 408	3 969
Provisions	3 764	2 850	3 264
Pension liabilities	13 771	12 358	12 782
Deferred tax liabilities	2 480	2 078	1 999
Other non-current liabilities	2 969	3 821	3 801
Total non-current liabilities	26 392	25 514	25 816
Total liabilities	43 277	43 575	43 215
Equity attributable to Hydro shareholders	75 877	71 284	74 169
Non-controlling interests	5 518	4 806	5 159
Total equity	81 395	76 090	79 329
Total liabilities and equity	124 672	119 665	122 544
Total number of outstanding shares (million)	2 043	2 042	2 042

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		Nine months ended		Year 2015
	2016	2015	September 30 2016	2015	
Operating activities					
Net income	1 119	(1 345)	5 578	1 791	2 333
Depreciation, amortization and impairment	1 416	1 178	3 874	3 620	5 023
Other adjustments	(225)	4 594	(3 681)	4 560	7 017
Net cash provided by operating activities	2 310	4 427	5 771	9 971	14 373
Investing activities					
Purchases of property, plant and equipment	(1 611)	(1 182)	(4 351)	(3 151)	(5 254)
Purchases of other long-term investments	(53)	(21)	(122)	(158)	(212)
Purchases of short-term investments	(1 750)	(550)	(3 050)	(1 050)	(5 050)
Proceeds from long-term investing activities	191	43	877	63	125
Proceeds from sales of short-term investments	-	-	4 550	1 000	1 000
Net cash used in investing activities	(3 223)	(1 710)	(2 096)	(3 296)	(9 391)
Financing activities					
Loan proceeds	1 927	250	3 831	2 021	2 340
Principal repayments	(1 789)	(1 623)	(4 609)	(6 124)	(7 042)
Net increase (decrease) in other short-term debt	(237)	46	337	(105)	(344)
Proceeds from shares issued	5	10	24	25	35
Dividends paid	(87)	(166)	(2 246)	(2 309)	(2 370)
Net cash used in financing activities	(181)	(1 483)	(2 663)	(6 492)	(7 381)
Foreign currency effects on cash and bank overdraft	(174)	(57)	23	(112)	68
Net increase (decrease) in cash, cash equivalents and bank overdraft	(1 268)	1 177	1 035	71	(2 331)
Cash, cash equivalents and bank overdraft at beginning of period	9 220	8 142	6 917	9 248	9 248
Cash, cash equivalents and bank overdraft at end of period	7 952	9 319	7 952	9 319	6 917

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, 2015	2 272	29 045	(972)	45 872	(2 187)	74 030	5 911	79 941
<i>Changes in equity for 2015</i>								
Treasury shares reissued to employees		24	58			82		82
Dividends				(2 042)		(2 042)	(272)	(2 314)
Total comprehensive income for the period				1 542	(2 328)	(786)	(833)	(1 618)
September 30, 2015	2 272	29 068	(913)	45 372	(4 514)	71 284	4 806	76 090
January 1, 2016	2 272	29 068	(913)	45 850	(2 107)	74 169	5 159	79 329
<i>Changes in equity for 2016</i>								
Treasury shares reissued to employees		1	44			45		45
Dividends				(2 043)		(2 043)	(203)	(2 246)
Capital contribution in subsidiaries							4	4
Items not reclassified to income statement in subsidiaries sold				16	(16)	-		-
Total comprehensive income for the period				5 328	(1 622)	3 706	557	4 263
September 30, 2016	2 272	29 070	(870)	49 151	(3 746)	75 877	5 518	81 395

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

Notes to the condensed consolidated financial statements

Note 1: Accounting policies

All reported figures in the financial statements are based on International Financial Reporting Standards (IFRS). Hydro's accounting principles are presented in note 2 Significant accounting policies in Hydro's Financial Statements - 2015.

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 - 2015 that are a part of Hydro's Annual Report - 2015.

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 - 2015 note 7 Operating and geographic segment information for a description of Hydro's management model and segments, including a description of Hydro's segment measures and accounting principles used for segment reporting.

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

NOK million	Third quarter		First 9 months		Year
	2016	2015	2016	2015	2015
Total revenue					
Bauxite & Alumina	4 925	5 758	13 709	16 347	21 889
Primary Metal	7 900	7 951	23 600	25 202	32 340
Metal Markets	10 649	11 173	33 137	36 481	46 909
Rolled Products	5 648	6 225	17 370	18 568	24 160
Energy	1 576	1 152	4 865	3 845	5 326
Other and eliminations	(10 525)	(10 666)	(31 979)	(33 123)	(42 931)
Total	20 174	21 594	60 703	67 320	87 694
External revenue					
Bauxite & Alumina	2 997	3 656	8 139	10 021	13 534
Primary Metal	1 459	1 311	3 947	4 159	5 373
Metal Markets	9 678	10 100	29 980	33 277	42 795
Rolled Products	5 637	6 334	17 264	18 668	24 293
Energy	394	176	1 334	1 138	1 623
Other and eliminations	8	17	39	58	77
Total	20 174	21 594	60 703	67 320	87 694
Internal revenue					
Bauxite & Alumina	1 929	2 103	5 570	6 326	8 356
Primary Metal	6 441	6 641	19 653	21 043	26 967
Metal Markets	971	1 073	3 157	3 204	4 114
Rolled Products	11	(109)	106	(99)	(132)
Energy	1 182	976	3 532	2 707	3 703
Other and eliminations	(10 533)	(10 683)	(32 018)	(33 181)	(43 008)
Total	-	-	-	-	-
Share of the profit (loss) in equity accounted investments					
Bauxite & Alumina	-	-	-	-	-
Primary Metal	74	25	48	557	389
Metal Markets	-	-	-	-	-
Rolled Products	-	-	-	-	-
Energy	-	-	-	-	-
Other and eliminations	182	90	701	100	123
Total	256	115	749	657	512

NOK million	Third quarter		First 9 months		Year
	2016	2015	2016	2015	2015
Depreciation, amortization and impairment					
Bauxite & Alumina	511	420	1 447	1 350	1 983
Primary Metal	488	483	1 446	1 476	1 952
Metal Markets	24	26	71	73	101
Rolled Products	196	186	583	532	732
Energy	51	50	157	145	195
Other and eliminations	146	14	171	43	61
Total	1 416	1 178	3 874	3 620	5 023
Earnings before financial items and tax (EBIT) ¹⁾					
Bauxite & Alumina	153	634	516	1 897	2 411
Primary Metal	591	664	1 666	4 148	4 459
Metal Markets	131	205	457	39	180
Rolled Products	255	(95)	863	512	154
Energy	295	182	980	750	1 103
Other and eliminations	(48)	41	566	187	(48)
Total	1 376	1 630	5 047	7 533	8 258
EBITDA					
Bauxite & Alumina	664	1 054	1 962	3 248	4 393
Primary Metal	1 079	1 146	3 113	5 625	6 411
Metal Markets	154	231	528	113	281
Rolled Products	451	91	1 446	1 044	886
Energy	346	231	1 137	895	1 297
Other and eliminations	98	55	737	230	14
Total	2 792	2 808	8 922	11 154	13 282
Investments ²⁾					
Bauxite & Alumina	596	399	1 916	922	1 923
Primary Metal	893	424	2 339	1 236	1 839
Metal Markets	16	55	43	213	280
Rolled Products	228	341	955	697	1 434
Energy	72	73	203	199	290
Other and eliminations	109	23	140	42	99
Total	1 914	1 316	5 596	3 309	5 865

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

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

NOK million	EBIT	Depr., amor. and impairment ¹⁾	EBITDA
EBIT - EBITDA Third quarter 2016			
Bauxite & Alumina	153	511	664
Primary Metal	591	488	1 079
Metal Markets	131	24	154
Rolled Products	255	196	451
Energy	295	51	346
Other and eliminations	(48)	146	98
Total	1 376	1 416	2 792

NOK million	EBIT	Depr., amor. and impairment ¹⁾	EBITDA
EBIT - EBITDA First nine months 2016			
Bauxite & Alumina	516	1 447	1 962
Primary Metal	1 666	1 447	3 113
Metal Markets	457	71	528
Rolled Products	863	583	1 446
Energy	980	157	1 137
Other and eliminations	566	171	737
Total	5 047	3 875	8 922

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

Note 3: Contingent liabilities

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

Note 4: Taxes

In April 2016, the Norwegian Tax Appeal Board ruled in favor of Hydro in a tax dispute. Taxes related to losses on refinancing of subsidiaries in 2008 were denied for deduction in 2013 and the tax claim was paid in 2014. Following the decision in the Tax Appeal Board, Hydro recognized approximately NOK 600 million in reduced tax expense and approximately NOK 100 million in interest income in the first quarter of 2016. Hydro received the reimbursement in the second quarter of 2016. The tax authorities have notified Hydro that they will ask for a re-examination of the case by the National Tax Board (Riksskattenemnda).

Alternative performance measures (APMs)

APMs are used by Hydro for annual and periodic financial reporting in order to provide a better understanding of the company's underlying financial performance for the period and give an indication of future performance. Underlying EBIT is also used by management to drive performance in terms of long-term target setting and 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 volumes and prices per mt are not defined as APMs. Hydro focuses on underlying EBIT in the discussions on periodic operating results from the business areas and the group, while effects excluded from underlying EBIT are discussed separately in the section on reported EBIT and net income. Disclosures of APMs are subject to established internal control procedures.

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.

Items excluded from underlying EBIT and net income ¹⁾	Third quarter 2016	Second quarter 2016	Third quarter 2015	First 9 months 2016	First 9 months 2015	Year 2015
NOK million						
Unrealized derivative effects on LME related contracts	(32)	(146)	249	(314)	420	415
Unrealized derivative effects on power and raw material contracts	(68)	114	(73)	(41)	(386)	(419)
Metal effect, Rolled Products	(48)	(17)	344	(23)	282	458
Significant rationalization charges and closure costs	124	67	-	192	-	-
Impairment charges	140	-	-	140	-	-
(Gains)/losses on divestments	-	(329)	-	(314)	-	365
Other effects	-	-	-	-	-	285
Items excluded in equity accounted investments	(15)	(49)	65	(90)	241	294
Items excluded from underlying EBIT	101	(360)	586	(451)	557	1 398
Net foreign exchange (gain)/loss	(358)	(904)	3 205	(2 293)	4 445	4 397
Calculated income tax effect	95	313	(1 069)	773	(1 380)	(1 418)
Other adjustments to net income	-	-	-	(700)	-	-
Items excluded from underlying net income	(161)	(951)	2 721	(2 671)	3 622	4 377
Income (loss) tax rate	34 %	29 %	21 %	24 %	35 %	32 %
Underlying income (loss) tax rate	33 %	32 %	34 %	36 %	30 %	27 %

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

- Unrealized derivative effects on LME related contracts include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, but where hedge accounting is not applied, as well as for LME derivatives in equity accounted investments and elimination of changes in fair value of certain internal physical aluminium contracts.
- Unrealized derivative effects on power and raw material contracts include unrealized gains and losses on embedded derivatives in raw material and power contracts for Hydro's own use and for financial power contracts used for hedging purposes, as well as elimination of changes in fair value of embedded derivatives within certain internal power contracts.

- Metal effect in Rolled Products is an effect of timing differences resulting from inventory adjustments due to changing aluminium prices during the production, sales and logistics process, lasting two to three months. As a result, margins are impacted by timing differences resulting from the FIFO inventory valuation method (first in, first out), due to changing aluminium prices during the process. The effect of inventory write-downs is included. Decreasing aluminium prices in Euro results in a negative metal effect on margins, while increasing prices have a positive effect.
- Significant rationalization charges and closure costs include costs related to specifically defined major projects, and not considered to reflect periodic performance in the individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc. Costs related to regular and continuous improvement initiatives are included in underlying results.
- Impairment charges (PP&E and equity accounted investments) relate to significant write-downs of assets or groups of assets to estimated recoverable amounts in the event of an identified loss in value. Gains from reversal of impairment charges are simultaneously excluded from underlying results.
- (Gains) losses on divestments include a net gain or loss on divested businesses and/or individual major assets.
- Other effects include recognition of pension plan amendments and related curtailments and settlements, insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.
- Items excluded in equity accounted investments reflects Hydro's share of items excluded from underlying net income in Sapa and Qatalum and are based on Hydro's definitions, including both timing effects and material items not regarded as part of underlying business performance for the period.
- Net foreign exchange (gain) loss: Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payable, funding and deposits, embedded currency derivatives in certain power contracts and forward currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and operating capital.
- Calculated income tax effect: In order to present underlying net income on a basis comparable with our underlying operating performance, the underlying income taxes are adjusted for the expected taxable effects on items excluded from underlying income before tax.
- Other adjustments to net income include other major financial and tax related effects not regarded as part of the underlying business performance of the period.

Items excluded from underlying EBIT per operating segment and for Other and eliminations ¹⁾	Third quarter 2016	Second quarter 2016	Third quarter 2015	First 9 months 2016	First 9 months 2015	Year 2015
NOK million						
Unrealized derivative effects on LME related contracts	-	-	(6)	-	(8)	11
Bauxite & Alumina	-	-	(6)	-	(8)	11
Unrealized derivative effects on LME related contracts	(24)	38	75	(57)	88	95
Unrealized derivative effects on power contracts	(54)	(71)	23	(143)	23	112
Significant rationalization charges and closure costs	124	67	-	192	-	-
Insurance compensation (Qatalum)	-	-	-	-	(37)	(37)
Primary Metal	47	34	99	(9)	73	169
Unrealized derivative effects on LME related contracts	(14)	(16)	86	(99)	187	199
Metal Markets	(14)	(16)	86	(99)	187	199
Unrealized derivative effects on LME related contracts	4	(182)	82	(167)	144	95
Metal effect	(48)	(17)	344	(23)	282	458
(Gains) losses on divestments	-	13	-	28	-	434
Rolled Products	(45)	(186)	426	(161)	426	988
Unrealized derivative effects on power contracts	(10)	10	10	4	2	3
Energy	(10)	10	10	4	2	3
Unrealized derivative effects on power contracts ²⁾	(4)	175	(106)	98	(411)	(533)
Unrealized derivative effects on LME related contracts ²⁾	2	15	12	9	9	15
Impairment charges	140	-	-	140	-	-
(Gains)/losses on divestments	-	(342)	-	(342)	-	(69)
Termination of lease contract Vækerø Park	-	-	-	-	-	285
Unrealized derivative effects (Sapa)	(26)	(59)	48	(125)	199	95
Significant rationalization charges and closure costs (Sapa)	21	-	68	21	241	366
Other effects (Sapa)	-	-	-	-	(20)	(20)
Net foreign exchange (gain) loss (Sapa)	(17)	(12)	(22)	(24)	(22)	33
Calculated income tax effect (Sapa)	7	21	(28)	39	(120)	(142)
Other and eliminations	123	(202)	(29)	(186)	(124)	28
Items excluded from underlying EBIT	101	(360)	586	(451)	557	1 398

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

2) 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.

Underlying EBIT, EBITDA, net income (loss) and earnings per share

- Underlying EBIT is calculated by adjusting earnings before financial items and tax (EBIT) for identified items to be excluded from underlying results as described above.
- Underlying EBITDA is calculated by adding recognized depreciation and amortization to the underlying EBIT. Impairments are excluded from underlying EBIT as described above.
- Underlying net income (loss) is calculated by adjusting net income (loss) for identified items to be excluded from underlying income (loss) as described above.
- Underlying earnings per share is calculated by dividing underlying net income (loss) by the number of shares.

Investments

- Investments are calculated as additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments.

Adjusted net interest-bearing debt

- Adjusted net interest-bearing debt is defined in Note 40 to the Financial statements and Board of Directors' Report 2015. Net debt in equity accounted investments is not included in the below.

Adjusted net interest-bearing debt

NOK million	September 30 2016	June 30 2016	September 30 2015	December 31 2015
Net cash (debt)	5 419	4 781	3 316	5 138
Cash and cash equiv. and short-term investm. in captive insurance company	(1 128)	(1 127)	(1 116)	(1 129)
Net pension obligation at fair value, net of expected income tax benefit	(8 597)	(8 728)	(7 121)	(7 955)
Operating lease commitments, net of expected income tax benefit	(487)	(487)	(1 600)	(1 187)
Short- and long-term provisions net of exp. income tax benefit, and other liab.	(3 279)	(3 197)	(2 750)	(3 040)
Adjusted net interest-bearing debt	(8 072)	(8 758)	(9 272)	(8 173)

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.

Direct power production costs

- Direct power production costs are defined as costs directly related to the power production, except for depreciation, and includes operational and maintenance cost, property taxes, concession fees for Hydro as operator and transmission cost.

Additional information

Financial calendar

December 1-2	Capital Markets Day
February 9	Fourth quarter results
March 17	Annual report
April 28	First quarter results
May 3	Annual General Meeting
July 25	Second quarter results
October 25	Third quarter results

Hydro reserves the right to revise these dates.

Cautionary note

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

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

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

Hydro is a global aluminium company with production, sales and trading activities throughout the value chain, from bauxite, alumina and energy generation to the production of primary aluminium and rolled products as well as recycling. Based in Norway, the company has 13,000 employees involved in activities in more than 40 countries on all continents. Rooted in more than a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

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Infinite aluminium