

Hydro

First quarter 2019
Report



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Oslo, June 4, 2019

Overview

Summary underlying financial and operating results and liquidity

Key financial information NOK million, except per share data	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Revenue	37,583	39,971	(6) %	38,386	(2) %	159,377
Earnings before financial items and tax (EBIT)	20	3,301	(99) %	178	(89) %	8,522
Items excluded from underlying EBIT ¹⁾	539	(155)	>100 %	356	52 %	547
Underlying EBIT ¹⁾	559	3,147	(82) %	534	5 %	9,069
<i>Underlying EBIT :</i>						
Bauxite & Alumina	153	741	(79) %	493	(69) %	2,282
Primary Metal	(771)	823	>(100) %	(677)	(14) %	1,762
Metal Markets	190	178	7 %	275	(31) %	686
Rolled Products	138	232	(41) %	(113)	>100 %	413
Extruded Solutions	593	734	(19) %	202	>100 %	2,390
Energy	517	278	86 %	500	3 %	1,846
Other and eliminations	(261)	161	>(100) %	(145)	(80) %	(310)
Underlying EBIT ¹⁾	559	3,147	(82) %	534	5 %	9,069
Earnings before financial items, tax, depreciation and amortization (EBITDA) ²⁾	2,094	5,193	(60) %	1,854	13 %	15,796
Underlying EBITDA ¹⁾	2,633	5,038	(48) %	2,210	19 %	16,344
Net income (loss)	(124)	2,076	>(100) %	(750)	83 %	4,323
Underlying net income (loss) ¹⁾	124	2,201	(94) %	(175)	>100 %	5,819
Earnings per share	0	1.02	(100) %	(0.34)	>100 %	2.08
Underlying earnings per share ¹⁾	0.13	1.06	(84) %	(0.06)	>100 %	2.75
<i>Financial data:</i>						
Investments ^{1) 2)}	1,753	1,319	33 %	2,624	(33) %	7,614
Net cash (debt) ¹⁾	(12,099)	(3,612)	>(100) %	(11,745)	(3) %	(11,745)
Adjusted net cash (debt) ¹⁾	(24,394)	(16,890)	(44) %	(24,511)	-	(24,511)
Key Operational information						
Bauxite production (kmt) ³⁾	1,361	2,326	(41) %	1,254	9 %	6,214
Alumina production (kmt)	805	1,277	(37) %	786	2 %	3,712
Realized alumina price (USD/mt) ⁴⁾	373	371	-	463	(19) %	429
Primary aluminium production (kmt)	485	514	(6) %	490	(1) %	1,993
Realized aluminium price LME (USD/mt)	1,912	2,140	(11) %	2,041	(6) %	2,140
Realized USD/NOK exchange rate	8.52	7.91	8 %	8.35	2 %	8.08
Rolled Products sales volumes to external market (kmt)	246	245	-	220	12 %	951
Extruded Solutions sales volumes to external market (kmt)	333	362	(8) %	318	5 %	1,396
Power production (GWh)	2,553	2,433	5 %	2,822	(10) %	10,693

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

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

3) Paragominas production on wet basis.

4) 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.

Key developments first quarter 2019

The Alunorte situation

The federal court in Belem, Brazil, lifted the production embargo on the Alunorte alumina refinery under the criminal lawsuit on Monday, May 20, allowing Alunorte to ramp up towards normal production after running at half capacity for more than a year. This decision came after the decision on Wednesday, May 15, to lift the production embargo under the civil lawsuit. The federal court decided to keep the embargoes on the new bauxite residue disposal area (DRS2). For more information on the background of the Alunorte situation please see the 2018 Annual report.

Cyber attack

The cyber attack that hit Hydro on March 19 affected our entire global organization, with Extruded Solutions having suffered the most significant operational challenges and financial losses. The overall financial impact of the cyber attack is estimated at NOK 300-350 million in the first quarter. Hydro has a robust cyber insurance in place with recognized insurers. Hydro has not yet recognized any insurance compensation. This will be recorded when deemed virtually certain.

First quarter 2019 versus first quarter 2018

Hydro's underlying earnings before financial items and tax decreased in the first quarter, mainly reflecting a decrease in realized aluminium prices, increased raw material costs, effects from the cyber attack and the effects of the production curtailment at Alunorte partly offset by positive currency effects.

First quarter 2019 versus fourth quarter 2018

Results were stable mainly reflecting a lower alumina sales price and all-in metal price¹, effects from the cyber attack offset by a decrease in raw material prices and positive seasonality effects in our downstream business.

Hydro's "Better" improvement program will not reach its original 2019 target. This is mainly due to the production embargo at Alunorte and subsequent production curtailments at Alunorte's bauxite source Paragominas and Hydro's part owned subsidiary Albras aluminium plant.

Hydro's net debt² position increased from NOK 8.7 billion to NOK 12.1 billion at the end of the quarter, this included a debt increase of NOK 3.1 billion as a result of implementation of IFRS 16 – Leases³. Net cash provided by operating activities amounted to NOK 0.8 billion. Net cash used in investment activities, excluding short term investments, amounted to NOK 1.6 billion.

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

² Net cash (debt) includes Cash and cash equivalents and Short-term investments less Bank loans and other interest bearing Short-term debt and Long-term debt. Due to the implementation of IFRS 16, the Net cash (debt) position per December 31, 2018 is restated to NOK 11.7 billion.

³ For more information see note 1: Accounting policies.

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 income¹⁾	First quarter 2019	First quarter 2018	Fourth quarter 2018	Year 2018
NOK million				
Unrealized derivative effects on LME related contracts	200	(114)	22	39
Unrealized derivative effects on power and raw material contracts	12	(87)	(82)	(260)
Metal effect, Rolled Products	267	47	93	(73)
Significant rationalization charges and closure costs ²⁾	-	-	79	79
Alunorte agreements - provision ³⁾	35	-	-	519
Other effects ⁴⁾	26	-	203	203
Pension ⁵⁾	-	-	40	40
Items excluded from underlying EBIT	539	(155)	356	547
Net foreign exchange (gain)/loss	(208)	333	408	1,303
Calculated income tax effect	(83)	(54)	(188)	(355)
Other adjustments to net income	-	-	-	-
Items excluded from underlying net income	248	125	575	1,495
Income (loss) tax rate	585%	27%	(38)%	33%
Underlying income (loss) tax rate	65%	27%	179%	30%

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

2) Significant rationalization charges and closure costs include in the fourth quarter 2018 rationalization costs in Rolled products of NOK 39 million and closure costs in Extruded Solutions of NOK 40 million.

3) Alunorte agreements - provision refers to adjustments in the first quarter 2019 to the provision recognized in 2018 in relation to the TAC and TC agreements with the Government of Pará and Ministério Público made on September 5, 2018.

4) Other effects include a charge of NOK 26 million due to adjustments to the value of certain assets in relation to the Sapa acquisition. In the fourth quarter 2018 Other effects include a charge of NOK 80 million due to adjustments to the value of certain assets in relation to the Sapa acquisition and a gain of NOK 34 million due to remeasurement of environmental liabilities related to closed business in Germany. Subsequent to the release of fourth quarter 2018 on February 7, 2019, an agreement in principle was reached between Sapa Profiles Inc. (SPI) and the United States Department of Justice (DOJ) Civil and Criminal Divisions. Following the agreement, an increase, NOK 157 million, of the provision was recognized in the final annual results of 2018 (see note 35 in the 2018 Annual report).

5) Pension includes in the fourth quarter 2018 a charge of NOK 40 million due to remeasurement of all UK schemes with Guaranteed Minimum Pensions (GMP) required to be adjusted to equalize pension benefits for gender. The remeasurement is based on the accrued pension benefits in the period between 1990 and 1997.

Market developments and outlook

Market statistics	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
USD/NOK Average exchange rate	8.58	7.84	9 %	8.43	2 %	8.13
USD/NOK Period end exchange rate	8.60	7.78	11 %	8.69	(1) %	8.69
BRL/NOK Average exchange rate	2.28	2.42	(6) %	2.22	3 %	2.23
BRL/NOK Period end exchange rate	2.20	2.34	(6) %	2.24	(2) %	2.24
USD/BRL Average exchange rate	3.77	3.24	16 %	3.80	(1) %	3.66
USD/BRL Period end exchange rate	3.90	3.33	17 %	3.88	1 %	3.88
EUR/NOK Average exchange rate	9.74	9.63	1 %	9.62	1 %	9.60
EUR/NOK Period end exchange rate	9.66	9.64	-	9.95	(3) %	9.95
<i>Bauxite and alumina:</i>						
Average alumina price - Platts PAX FOB Australia (USD/t)	387	383	1 %	451	(14) %	474
China bauxite import price (USD/mt CIF China)	54	53	1 %	55	(2) %	53
Global production of alumina (kmt)	30,551	30,456	-	31,645	(3) %	123,862
Global production of alumina (ex. China) (kmt)	13,136	13,380	(2) %	13,547	(3) %	53,133
<i>Primary aluminium:</i>						
LME cash average ((USD/mt)	1,859	2,159	(14) %	1,971	(6) %	2,110
LME three month average (USD/mt)	1,880	2,164	(13) %	1,978	(5) %	2,115
Standard ingot premium (EU DP Cash)	132	165	(20) %	131	1 %	164
Extrusion ingot premium (EU DP)	438	351	25 %	494	(11) %	455
Chinese production of primary aluminium (kmt)	8,831	8,695	2 %	9,064	(3) %	36,087
Chinese consumption of primary aluminium (kmt)	8,061	8,076	-	8,790	(8) %	35,653
Global production of primary aluminium (ex. China) (kmt)	6,843	6,838	-	6,974	(2) %	27,645
Global consumption of primary aluminium (ex. China) (kmt)	7,310	7,267	1 %	7,286	-	29,652
Global production of primary aluminium (kmt)	15,673	15,533	1 %	16,038	(2) %	63,732
Global consumption of primary aluminium (kmt)	15,371	15,343	-	16,076	(4) %	65,304
Reported primary aluminium inventories (ex. China) (kmt)	2,754	2,981	(8) %	2,935	(6) %	2,935
Reported primary aluminium inventories (China) (kmt)	2,487	3,114	(20) %	2,075	20 %	2,075
<i>Rolled products and extruded products:</i>						
Consumption rolled products - Europe (kmt)	1,273	1,259	1 %	1,193	7 %	4,951
Consumption rolled products - USA & Canada (kmt)	1,376	1,320	4 %	1,358	1 %	5,327
Consumption extruded products - Europe (kmt)	813	812	-	757	7 %	3,242
Consumption extruded products - USA & Canada (kmt)	632	636	(1) %	603	5 %	2,545
<i>Energy:</i>						
Average southern Norway spot price (NO2) (NOK/MWh)	468	361	30 %	455	3 %	415
Average mid Norway spot price (NO3) (NOK/MWh)	452	374	21 %	455	(1) %	423
Average nordic system spot price (NOK/MWh)	457	372	23 %	460	(1) %	423

On March 8, 2018 the US administration announced a 10 percent tariff on aluminium imports to the US, effective from March 23, 2018. Argentina and Australia are exempt from the 10 percent tariff, although Argentina will be covered by a quota. On September 30, 2018 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. Following additional negotiations, the 10 percent tariff on aluminium between the US, Canada and Mexico was removed effective from May 20, 2019.

On April 6, 2018 the US Department of Treasury's Office of Foreign Assets Control (OFAC) issued a sanctions list that included Russian individuals and companies including the Russian aluminium company Rusal, controlled by Oleg Deripaska. On December 19, 2018 OFAC submitted a notification to the US Congress of its intention to remove Rusal from the sanctions list. Despite attempts to postpone the deadline further, OFAC deleted Rusal from the sanctions list as of January 27, 2019 meaning that the sanctions directed towards the company are now lifted.

Bauxite and alumina

The average Platts alumina spot prices decreased in the first quarter of 2019 (USD 387 per mt) compared to the fourth quarter of 2018. The Alunorte alumina refinery continued operating at 50 percent of capacity during the quarter. The Platts alumina spot price started at USD 395 per mt, drifting to a low of USD 365 per mt at the end of January before recovering to USD 418 per mt at quarter end. Compared to the first quarter of 2018, the Platts alumina spot price was marginally higher.

In the first quarter of 2019, China's alumina trade balance reversed to net imports of 8 kmt from net exports of 821 kmt in the fourth quarter of 2018 as international alumina prices were not high enough to incentivise exports.

China imported 25.8 million mt of bauxite in the first quarter of 2019, 27 percent higher than the previous year. Guinea and Australia maintained their dominant market share accounting for 81 percent of China's bauxite imports in the period under review. Imports from Indonesia increased to 3.2 million mt from 1.1 million mt in the first quarter of 2018 following the lifting of a bauxite export ban in 2017. Bauxite imports from other regions did not change materially in the quarter. The average Chinese bauxite import price was USD 54 per mt CIF in the first quarter of 2019, marginally above the USD 53 per mt CIF in the first quarter 2018.

Primary aluminium

Three-month LME prices ranged between USD 1,814 and USD 1,945 per mt during the first quarter of 2019, trading mostly in the range of USD 1,850-1,900 per mt. Prices have been pressured by market slowdown in China and Europe, and have recently also been negatively affected by the ongoing US-China trade dispute. Prices ended the first quarter at USD 1,914 per mt and have since drifted down towards USD 1,800 per mt.

European duty paid standard ingot premiums ended the first quarter of 2019 at USD 143 per mt, compared to USD 115 per mt at the beginning of the quarter, while the Midwest premiums started the first quarter at USD 419 per mt, and ended at the same level. In April and May both premiums have traded around the same levels as in the end of the first quarter.

Average Shanghai Futures Exchange (SHFE) prices decreased by USD 211 per mt ex. VAT compared to the first quarter in 2018, compared to a decline of USD 284 per mt in the equivalent LME. Compared to the fourth quarter of 2018, average SHFE stayed at the same level, while the equivalent LME price declined USD 98 per mt. Consequently, average export arbitrage potential decreased during the quarter compared to the fourth quarter of 2018. At current prices the estimated arbitrage for Chinese exports is marginally positive.

Global primary aluminium consumption was stable compared to the first quarter of 2018, split between a marginally negative development in China and slow growth in the world outside China. Compared to the fourth quarter of 2018, global demand decreased mostly due to seasonal effects in China and a weak European market. Global demand for primary aluminium is expected to grow by 1-3 percent in 2019.

Demand for primary aluminium outside China grew by 2.3 percent in 2018 and is expected to grow by 0-2 percent in 2019. Production outside China is expected to increase by 2-3 percent in 2019, compared to 1.5 percent in 2018. Production of primary aluminium in China was flat in 2018, but is expected to grow by 1-3 percent in 2019, with mixed growth drivers including several price driven curtailments in the second half of 2018 and start of 2019, and some new smelters still ramping up. Demand for primary aluminium in China is expected to increase by 2-4 percent in 2019, somewhat lower than the 3.7 percent demand growth in 2018 and significantly lower than the 8.0 percent demand growth in 2017.

The global primary aluminium market ended at approximately 1.5 million mt deficit in 2018, and is expected to be in a 1-1.5 million mt deficit in 2019.

European demand for sheet ingot increased in the first quarter 2019 compared to the first quarter of 2018 while demand for extrusion ingot remained stable in that period. Consumption of primary foundry alloys decreased in the first three months of 2019 compared to the same period in 2018, mainly due to the negative development in the European automotive industry which is still impacted by the introduction of the Worldwide Harmonized Light Vehicles Test Procedure (WLTP) in September last year. Demand for all products is expected to improve slightly in the second quarter of 2019 compared to the same period 2018.

Total global stocks at the end of the first quarter of 2019 were estimated to be 11.8 million mt, up around 0.3 million mt compared to the fourth quarter of 2018. Compared to the first quarter of 2018 stocks were down around 1.5 million mt, from around 13.3 million mt.

Rolled products

European demand growth for flat rolled products increased by around 1 percent compared to the first quarter of 2018. This was somewhat weaker than expected, mainly due to softer automotive and general engineering markets. Compared to the fourth quarter of 2018, demand increased by around 7 percent mainly driven by seasonality.

Due to the ongoing strong substitution towards aluminium, demand in automotive continued to show a positive development despite a steep drop in car production resulting from reduced consumer confidence in Europe and lower car demand from China. Building and construction demand growth was robust, supported by good weather conditions across Europe. Demand for beverage can was solid, the tight supply situation in Europe resulted in increased imports. Demand in foil and general engineering was flat, import pressure in Europe increased and exports from Europe to North America have normalized after temporarily benefiting from the import duties imposed by the US on Chinese imports in 2018.

The European demand for flat rolled products is expected to increase by around 2 percent for 2019.

Extruded products

European demand for extrusions in the first quarter has been relatively flat compared to the same quarter of 2018. Compared to the fourth quarter of 2018 demand increased by 7 percent, driven by seasonality. The building and construction market continues to be positive in the Eastern European countries such as Poland and Hungary, with somewhat negative developments in France and Spain. Transportation market is experiencing mixed developments across sub-segments. The outlook for the automotive market is less optimistic with consumer driven uncertainties and emission standards developments. However, with the emerging growth in electric vehicles, extruders continue to capture lightweighting and material substitution opportunities within the automotive segment. The European demand for extruded products is expected to increase by 1 percent for 2019 compared to 2018.

North American extrusion demand is estimated to decline by close to 1 percent in the first quarter of 2019 compared to the same quarter last year, but 5 percent higher than the fourth quarter of 2018. The commercial transportation and automotive markets continue its sustained growth, with stable trailer build rates and with continued material substitution opportunities in the automotive segment, despite decelerating vehicle build rates. Recreational vehicle production decreased significantly in the first quarter, dampening the overall transport market sector outlook. Housing starts in building and construction segment slowed down resulting in weak developments within the residential segment, while the commercial construction segment shows positive trends driven by the increase in non-residential construction spending in the first quarter. The North American demand for extruded products is expected to increase by 2 percent for 2019 compared to 2018.

Energy

Nordic power prices were significantly higher compared to the same quarter last year, and slightly higher compared to the previous quarter. The increase in prices were due to a prevailing hydrological deficit compared with the historic normal and an increase in carbon emission quota prices, affecting continental power prices. The hydrological balance deficit improved during the quarter and lowered the Nordic power prices towards the end of the quarter.

The Nordic hydrological balance ended the quarter at around 7 TWh below normal⁴ compared to 3 TWh below normal at the end of the first quarter last year and 15 TWh below normal at the end of the previous quarter. Water reservoirs in Norway were at 36.1 percent of full capacity at the end of the quarter, which is 3.0 percentage points below the normal level. Snow reservoirs were below the normal level at the end of the quarter.

⁴ Normal based on long term historical averages.

Additional factors impacting Hydro

The federal court in Belem, Brazil, lifted the production embargo on the Alunorte alumina refinery under the criminal lawsuit on May 20, allowing Alunorte to ramp up towards normal production after running at half capacity for more than a year. The decision by the federal court to lift the production embargo under the criminal lawsuit came after a decision on May 15, to lift the production embargo under the civil lawsuit. Alunorte, with an annual production capacity of 6.3 million mt, is expected to reach 75-85 percent utilization within two months. An additional press filter is expected to start commissioning during the third quarter 2019, further increasing the capacity.

The federal court decided to keep the embargos on the new bauxite residue disposal area (DRS2). The current bauxite residue deposit area (DRS1), has an estimated remaining capacity of around one year based on estimated Alunorte ramp-up schedule and volume of bauxite residue processed by the press filters. Subject to ongoing geotechnical verifications, the DRS1 remaining capacity might be extended beyond this horizon. The timing depends on both actual production volumes from Alunorte and DRS1's final regulated capacity. Using DRS2 in combination with new state-of-the-art press filters is the long-term solution for Alunorte to dispose bauxite residue.

Albras' Board of Directors decided on May 21, to restart aluminium production at the Albras aluminium plant in Brazil. Albras curtailed 50 percent of its production in April 2018 and will now resume normal operations. The process to resume full production at Albras will be initiated immediately. The plant is expected to be ramped up within 3-4 months.

The cyber attack that hit Hydro on March 19, affected our entire global organization, with Extruded Solutions having suffered the most significant operational challenges and financial losses. The overall financial impact of the cyber attack is estimated at NOK 300-350 million in the first quarter. The financial impact for the second quarter is estimated at around NOK 200-250 million. Operations and sales have recovered successively during the quarter, reducing the incremental financial impact accordingly. Hydro has a robust cyber insurance in place with recognized insurers. Hydro has not yet recognized any insurance compensation. This will be recorded when deemed virtually certain.

Primary Metal has sold forward around 85 percent of its expected primary aluminium production for the second quarter at a price level of around USD 1,875 per mt⁵. There was a negative contribution in the first quarter from the sale of excess power following the production curtailment of the Albras smelter in Brazil. Future result effects depend on local power price developments and production level in Albras.

Hydro Extrusion Portland, Inc. (formerly Sapa Profiles, Inc.) (SPI), a Portland, Oregon-based indirect subsidiary of Hydro Extruded Solutions AS (formerly Sapa AS) (Hydro) has been 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. The criminal proceedings have been concluded by SPI entering into a plea agreement and its U.S. parent company (Sapa Extrusions, Inc., now Hydro Extrusion USA, LLC (SEI)) entering into a deferred prosecution agreement with DOJ. The U.S. District Court for the Eastern District of Virginia has entered judgment finding SPI guilty of one count of mail fraud as outlined in the plea agreement and has approved the deferred prosecution agreement between SEI and DOJ. Additionally, SPI has entered into a settlement agreement with DOJ to resolve its civil investigation. As a result, SPI and SEI have collectively paid USD 46.9 million under the above-mentioned judgment and settlement agreement during May 2019. SPI also remains temporarily suspended as a federal government contractor and may be debarred for a number of years. The financial effects were provided for in periods before 2019.

As part of the July 2017 share purchase agreement between Orkla ASA and Hydro, Orkla has paid Hydro 50 percent of the settlement amount.

In April 2019, Hydro raised EUR 800 million in the bond market, by issuing new 6-year and 10-year Eurobonds. The proceeds will be used to refinance maturing debt and for general corporate purposes.

⁵ As of April 30, 2019. 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	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Earnings before financial items and tax (EBIT) (NOK million)	118	741	(84) %	493	(76) %	1,763
Underlying EBIT (NOK million)	153	741	(79) %	493	(69) %	2,282
Underlying EBITDA (NOK million)	758	1,370	(45) %	877	(14) %	4,377
Alumina production (kmt)	805	1,277	(37) %	786	2 %	3,712
Sourced alumina (kmt)	711	900	(21) %	1,163	(39) %	3,954
Total alumina sales (kmt)	1,423	2,071	(31) %	1,983	(28) %	7,607
Realized alumina price (USD/mt) ¹⁾	373	371	-	463	(19) %	429
Bauxite production (kmt) ²⁾	1,361	2,326	(41) %	1,254	9 %	6,214
Sourced bauxite (kmt) ³⁾	1,029	1,317	(22) %	1,730	(40) %	5,202

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

2) Paragominas on wet basis.

3) 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 first 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 first quarter 2019 results, underlying EBIT would have been around NOK 1.5 billion. If we assume a realized alumina price of USD 373 per mt, as realized in first quarter 2019, underlying EBIT would have been around NOK 1.7 billion. However, it is likely that the Alunorte situation has had an impact on alumina prices in the first quarter.

Underlying EBIT for Bauxite & Alumina decreased significantly compared to the first quarter of last year. The results were driven by the effects of reduced production at both Alunorte and Paragominas, as a consequence of the production embargo, and higher raw material prices partly offset by positive currency effects.

Compared to the fourth quarter of 2018 the underlying EBIT decreased driven by lower alumina prices partly offset by lower costs.

Primary Metal

	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Operational and financial information¹⁾						
Earnings before financial items and tax (EBIT) (NOK million)	(919)	917	>(100) %	(524)	(75) %	2,123
Underlying EBIT (NOK million)	(771)	823	>(100) %	(677)	(14) %	1,762
Underlying EBITDA (NOK million)	(180)	1,349	>(100) %	(176)	(2) %	3,906
Realized aluminium price LME (USD/mt) ²⁾	1,912	2,140	(11) %	2,041	(6) %	2,140
Realized aluminium price LME (NOK/mt) ²⁾	16,291	16,929	(4) %	17,038	(4) %	17,282
Realized premium above LME (USD/mt) ³⁾	344	295	17 %	362	(5) %	346
Realized premium above LME (NOK/mt) ³⁾	2,935	2,335	26 %	3,025	(3) %	2,791
Realized USD/NOK exchange rate	8.52	7.91	8 %	8.35	2 %	8.08
Primary aluminium production (kmt)	485	514	(6) %	490	(1) %	1,993
Casthouse production (kmt)	473	531	(11) %	496	(5) %	2,058
Total sales (kmt)	534	578	(8) %	503	6 %	2,145

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.

	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Operational and financial information Qatalum (50%)						
Revenue (NOK million)	1,597	1,356	18 %	1,509	6 %	6,202
Underlying EBIT (NOK million)	104	266	(44) %	59	>100 %	971
Underlying EBITDA (NOK million)	451	532	(15) %	354	27 %	2,085
Net income (loss) (NOK million)	32	210	(85) %	(4)	>100 %	724
Underlying Net income (loss) (NOK million)	32	210	(85) %	(4)	>100 %	724
Primary aluminium production (kmt)	77	77	3 %	74	7 %	308
Casthouse sales (kmt)	82	73	12 %	78	5 %	315

Underlying EBIT for Primary Metal declined in first quarter of 2019 compared to the first quarter of 2018 mainly due to lower all-in metal⁶ prices and higher raw material costs.

Compared to the fourth quarter of 2018, underlying EBIT for Primary Metal declined slightly due to lower all-in metal prices, largely offset by lower raw material costs.

⁶ The all-in metal price refers to the LME cash price plus premiums.

Metal Markets

	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Operational and financial information						
Earnings before financial items and tax (EBIT) (NOK million)	(31)	305	>(100) %	419	>(100) %	886
Underlying EBIT (NOK million)	190	178	7 %	275	(31) %	686
Currency effects	(39)	(11)	>(100) %	58	>(100) %	(25)
Inventory valuation effects	(1)	50	>(100) %	-	-	53
Underlying EBIT excl. currency and inventory valuation effects	230	139	65 %	217	6 %	658
Underlying EBITDA (NOK million)	219	201	9 %	301	(27) %	786
Remelt production (kmt)	131	150	(12) %	135	(2) %	563
Metal products sales excluding ingot trading (kmt) ¹⁾	683	745	(8) %	682	-	2,859
Hereof external sales (kmt)	539	580	(7) %	532	1 %	2,217

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

Underlying EBIT for Metal Markets improved slightly in the first quarter compared to the same quarter last year due to increased results from the remelters and higher results in the sourcing and trading activities, partly offset by negative contribution from currency and inventory valuation effects.

Compared to the fourth quarter of 2018, underlying EBIT for Metal Markets declined due to lower results from remelters and negative currency effects, partly offset by higher results in the sourcing and trading activities.

Rolled Products

	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Operational and financial information						
Earnings before financial items and tax (EBIT) (NOK million)	(53)	78	>(100) %	(319)	83 %	336
Underlying EBIT (NOK million)	138	232	(41) %	(113)	>100 %	413
Underlying EBITDA (NOK million)	384	456	(16) %	133	>100 %	1,340
Sales volumes to external market (kmt)	246	245	-	220	12 %	951
Sales volumes to external markets (kmt) - Product areas						
Can & foil	85	90	(6) %	78	9 %	348
Lithography & automotive	81	78	4 %	72	13 %	309
Special products	79	77	4 %	70	14 %	295
Rolled Products	246	245	-	220	12 %	951

Compared to the first quarter of 2018 the underlying EBIT decreased. Results from the rolling mills were stable, positive currency effects were offset by personnel cost increases. Results from the Neuss smelter decreased due to lower all-in metal prices and increased alumina cost.

Compared to the fourth quarter of 2018 the underlying EBIT improved significantly. Seasonally higher shipments, reduced maintenance cost and improved margins positively influenced the result. Results from the Neuss smelter increased due to lower alumina costs partly offset by negative all-in metal prices.

Extruded Solutions

Operational and financial information	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Earnings before financial items and tax (EBIT) (NOK million)	644	687	-	(307)	>100 %	1,774
Underlying EBIT (NOK million)	593	734	(19) %	202	>100 %	2,390
Underlying EBITDA (NOK million)	1,099	1,155	(5) %	645	70 %	4,114
Sales volumes to external markets (kmt)	333	362	(8) %	318	5 %	1,396

Sales volumes to external markets (kmt) - Business units

Extrusion Europe	135	154	(12) %	125	8 %	568
Extrusion North America	147	152	(4) %	137	7 %	598
Building Systems	18	20	(11) %	19	(6) %	77
Precision Tubing	33	37	(10) %	37	(10) %	154
Extruded Solutions	333	362	(8) %	318	5 %	1,396

Underlying EBIT for Extruded Solutions decreased compared to the same quarter last year as a direct effect of the cyber-attack. The impact of the cyber-attack was partly offset by higher margins, particularly from our North American operations.

Compared to the fourth quarter 2018 the underlying EBIT increased, primarily due to seasonally higher volumes and higher margins, partly offset by the effects of the cyber attack.

Energy

Operational and financial information	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
Earnings before financial items and tax (EBIT) (NOK million)	510	278	84 %	507	1 %	1,853
Underlying EBIT (NOK million)	517	278	86 %	500	3 %	1,846
Underlying EBITDA (NOK million)	583	339	72 %	566	3 %	2,100
Direct production costs (NOK million) ¹⁾	189	163	16 %	169	12 %	630
Power production (GWh)	2,553	2,433	5 %	2,822	(10) %	10,693
External power sourcing (GWh)	2,298	2,215	4 %	2,382	(4) %	9,217
Internal contract sales (GWh)	3,735	3,622	3 %	3,799	(2) %	14,848
External contract sales (GWh)	344	263	31 %	239	44 %	858
Net spot sales (GWh)	770	763	1 %	1,166	(34) %	4,204

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

Underlying EBIT increased compared to the same quarter in the previous year. The increase was mainly due to higher prices and improved commercial results.

Compared to the previous quarter, underlying EBIT was stable. Improved commercial results and higher realized prices were offset mainly by lower net spot sales volume. The lower net spot sales volume was due to both lower production and higher concession power sales.

Other and eliminations

Financial information	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
NOK million						
Earnings before financial items and tax (EBIT)	(249)	295	>(100) %	(89)	>(100) %	(214)
Other	(307)	(207)	(48) %	(299)	(3) %	(851)
Eliminations	46	368	(87) %	154	(70) %	541
Underlying EBIT	(261)	161	>(100) %	(145)	(80) %	(310)

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.

Finance

Financial income (expense)	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
NOK million						
Interest income	34	60	(43) %	79	(57) %	250
Dividends received and net gain (loss) on securities	29	(2)	>100 %	(34)	>100 %	6
Financial income	63	58	10 %	45	41 %	255
Interest expense	(180)	(123)	(46) %	(270)	33 %	(699)
Capitalized interest	2	-	-	1	-	1
Net foreign exchange gain (loss)	208	(333)	>100 %	(408)	>100 %	(1,303)
Net interest on pension liability	(42)	(33)	(27) %	(41)	(2) %	(138)
Other	(45)	(44)	(3) %	(48)	6 %	(175)
Financial expense	(57)	(533)	89 %	(766)	93 %	(2,315)
Financial income (expense), net	6	(475)	>100 %	(721)	>100 %	(2,060)

For the first quarter, the net foreign exchange gain, mainly unrealized, of NOK 208 million primarily reflects a stronger NOK versus EUR, affecting the embedded derivatives in Norwegian power contracts denominated in EUR.

Tax

Income tax expense amounted to NOK 150 million for the first quarter of 2019. The tax expense reflects the relatively high share of reported income before tax subject to power surtax.

Interim financial statements

Condensed consolidated statements of income (unaudited)

NOK million, except per share data	First quarter 2019	First quarter 2018	Year 2018
Revenue	37,583	39,971	159,377
Share of the profit (loss) in equity accounted investments	3	221	765
Other income, net	183	155	772
Total revenue and income	37,769	40,346	160,913
Raw material and energy expense	25,136	25,196	102,523
Employee benefit expense	6,023	5,772	23,176
Depreciation, amortization and impairment	2,098	1,909	7,369
Other expenses	4,493	4,168	19,324
Total expenses	37,750	37,045	152,391
Earnings before financial items and tax (EBIT)	20	3,301	8,522
Financial income	63	58	255
Financial expense	(57)	(533)	(2,315)
Financial income (expense), net	6	(475)	(2,060)
Income (loss) before tax	26	2,826	6,462
Income taxes	(150)	(749)	(2,139)
Net income (loss)	(124)	2,076	4,323
Net income (loss) attributable to non-controlling interests	(134)	(14)	67
Net income (loss) attributable to Hydro shareholders	9	2,091	4,256
Basic and diluted earnings per share attributable to Hydro shareholders (in NOK) ¹⁾	0	1.02	2.08
Weighted average number of outstanding shares (million)	2,046	2,045	2,046

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

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

Condensed consolidated statements of comprehensive income (unaudited)

NOK million	First quarter 2019	First quarter 2018	Year 2018
Net income (loss)	(124)	2,076	4,323
Other comprehensive income			
Items that will not be reclassified to income statement:			
Remeasurement postemployment benefits, net of tax	69	68	(718)
Unrealized gain (loss) on securities, net of tax	(132)	(37)	394
Total	(64)	31	(324)
Items that will be reclassified to income statement:			
Currency translation differences, net of tax	(1,177)	(3,147)	(2,031)
Cash flow hedges, net of tax	(6)	(86)	(14)
Share of items that will be reclassified to income statement of equity accounted investments, net of tax	9	39	72
Total	(1,174)	(3,193)	(1,973)
Other comprehensive income	(1,237)	(3,162)	(2,296)
Total comprehensive income	(1,362)	(1,085)	2,027
Total comprehensive income attributable to non-controlling interests	(233)	(287)	(273)
Total comprehensive income attributable to Hydro shareholders	(1,128)	(798)	2,300

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

Condensed balance sheets (unaudited)

	March 31 2019	March 31 2018	December 31 2018 Restated
NOK million, except number of shares			
Assets			
Cash and cash equivalents	6,099	9,371	5,995
Short-term investments	1,274	1,031	975
Accounts receivables	23,542	22,785	20,744
Inventories	25,004	20,626	26,483
Other current assets	349	818	801
Total current assets	56,268	54,631	54,998
Property, plant and equipment	72,882	69,945	74,369
Intangible assets	11,133	12,133	11,443
Investments accounted for using the equity method	11,349	10,551	11,570
Prepaid pension	5,854	5,933	5,162
Other non-current assets	7,157	5,588	7,385
Total non-current assets	108,376	104,150	109,929
Total assets	164,644	158,781	164,928
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	8,913	5,269	9,373
Trade and other payables	22,146	20,621	20,381
Other current liabilities	4,674	4,852	6,062
Total current liabilities	35,732	30,742	35,817
Long-term debt	10,559	8,746	9,342
Provisions	5,673	5,652	5,588
Pension liabilities	15,981	14,911	15,648
Deferred tax liabilities	3,052	3,522	3,031
Other non-current liabilities	4,252	4,084	4,746
Total non-current liabilities	39,517	36,916	38,354
Total liabilities	75,249	67,658	74,172
Equity attributable to Hydro shareholders	84,692	86,233	85,820
Non-controlling interests	4,703	4,891	4,936
Total equity	89,394	91,124	90,756
Total liabilities and equity	164,644	158,781	164,928
Total number of outstanding shares (million)	2,046	2,045	2,046

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

Condensed consolidated statements of cash flows (unaudited)

NOK million	First quarter 2019	First quarter 2018	Year 2018
Operating activities			
Net income (loss)	(124)	2,076	4,323
Depreciation, amortization and impairment	2,098	1,909	7,369
Other adjustments	(1,195)	(1,996)	(4,667)
Net cash provided by operating activities	779	1,989	7,025
Investing activities			
Purchases of property, plant and equipment	(1,631)	(1,369)	(7,219)
Purchases of other long-term investments	(19)	(130)	(389)
Purchases of short-term investments	(24)	-	-
Proceeds from long-term investing activities	59	28	412
Net cash used in investing activities	(1,615)	(1,471)	(7,196)
Financing activities			
Loan proceeds	2,487	1,594	7,057
Principal repayments	(1,421)	(1,365)	(5,984)
Net increase (decrease) in other short-term debt	(58)	(2,931)	(2,934)
Proceeds from shares issued	10	10	47
Dividends paid	-	-	(3,622)
Net cash provided by (used in) financing activities	1,018	(2,692)	(5,436)
Foreign currency effects on cash	(78)	(283)	(226)
Net increase (decrease) in cash and cash equivalents	104	(2,457)	(5,833)
Cash and cash equivalents at beginning of period	5,995	11,828	11,828
Cash and cash equivalents at end of period	6,099	9,371	5,995

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, 2018	2,272	29,097	(810)	56,452	20	87,032	5,178	92,209
<i>Changes in equity for 2018</i>								
Total comprehensive income for the period				2,091	(2,889)	(798)	(287)	(1,085)
March 31, 2018	2,272	29,097	(810)	58,543	(2,869)	86,233	4,891	91,124
December 31, 2018	2,272	29,126	(756)	57,127	-1,936	85,833	4,936	90,769
Effect of change in accounting principle				(13)		(13)		(13)
January 1, 2019	2,272	29,126	(756)	57,114	(1,936)	85,820	4,936	90,756
<i>Changes in equity for 2019</i>								
Total comprehensive income for the period				9	(1,137)	(1,128)	(233)	(1,362)
March 31, 2019	2,272	29,126	(756)	57,123	(3,073)	84,692	4,703	89,394

The accompanying notes are an integral part of the condensed consolidated financial statements

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 - 2018.

IFRS 16 Leases

Hydro implemented IFRS 16 Leases on January 1, 2019. The standard was implemented retrospectively with the cumulative effect of initially applying the standard recognized in the balance sheet as of January 1, 2019. IFRS 16 requires all leases except short-term leases and small asset leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. The right-of-use asset is recognized according to the underlying asset, i.e. included in Property, plant and equipment. The lease liability is included in Long-term debt, with the short-term portion included in Bank loans and other interest-bearing short-term debt.

At implementation of IFRS 16, the liabilities are measured as the contractually fixed payments in future periods discounted using the estimated alternative borrowing rate for the relevant duration and currency. Renewal options that at initial recognition are highly probable to be used are included in the contractual cash flows when measuring the lease liability. The right-of-use assets are measured as the remaining liability for close to all contracts. For two long-term contracts, both in Rolled Products, the asset value has been measured as if IFRS 16 had always been applied to those contracts, an alternative allowed by the implementation guidance in the standard on an individual contract basis. As required by the implementation guidance in the standard, amounts for prior periods have not been restated and are thus not fully comparable.

The right-of-use asset is depreciated over the lease term. Contractual payments represent a combination of interest on the liability and repayment of the principal amount. Lease amounts representing variable payments based on such factors as specific cost elements in related services or usage, lease amounts for short-term leases of a duration of up to 12 months as well as lease amounts for small asset leases covering such elements as PCs and other office equipment, is expensed as Other expenses over the lease term.

During the first quarter of 2019, Hydro expensed about NOK 70 million as lease expense in Other expenses compared to about NOK 250 million during the fourth quarter of 2018. Depreciation of right-of-use assets increased by about NOK 170 million in the first quarter of 2019. Interest on lease liabilities amounted to NOK 19 million in the first quarter of 2019.

Change of accounting principles, amounts in NOK million	Effect of implementing IFRS 16
Property, plant and equipment	3,070
Deferred tax asset	6
Other assets	2
Total assets	3,079
Bank loans and other interest-bearing short-term debt	830
Long-term debt	2,262
Equity attributable to Hydro shareholders	(13)
Total liabilities and equity	3,079

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 - 2018 that are a part of Hydro's Annual Report - 2018.

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 - 2018 note 7 Operating and geographic segment information for a description of Hydro's management model and segments, including a description of Hydro's segment measures and accounting principles used for segment reporting.

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

NOK million	First quarter 2019	First quarter 2018	Year 2018
Total revenue			
Bauxite & Alumina	4,866	6,309	28,548
Primary Metal	9,023	10,170	39,434
Metal Markets	12,959	13,898	54,237
Rolled Products	6,844	6,797	26,955
Extruded Solutions	16,013	15,911	64,085
Energy	2,261	1,762	8,681
Other and eliminations	(14,382)	(14,877)	(62,562)
Total	37,583	39,971	159,377
External revenue			
Bauxite & Alumina	2,370	3,509	14,396
Primary Metal	1,390	2,018	7,829
Metal Markets	10,139	10,901	42,502
Rolled Products	6,777	6,870	26,940
Extruded Solutions	15,924	15,932	64,023
Energy	983	738	3,673
Other and eliminations	-	4	14
Total	37,583	39,971	159,377
Internal revenue			
Bauxite & Alumina	2,496	2,800	14,152
Primary Metal	7,633	8,152	31,605
Metal Markets	2,820	2,997	11,735
Rolled Products	66	(72)	15
Extruded Solutions	89	(21)	61
Energy	1,278	1,024	5,007
Other and eliminations	(14,382)	(14,881)	(62,576)
Total	-	-	-
Share of the profit (loss) in equity accounted investments			
Bauxite & Alumina	-	-	-
Primary Metal	32	210	722
Metal Markets	-	-	-
Rolled Products	-	-	-
Extruded Solutions	12	17	53
Energy	(9)	(10)	(35)
Other and eliminations	(32)	3	24
Total	3	221	765

NOK million	First quarter 2019	First quarter 2018	Year 2018
Depreciation, amortization and impairment			
Bauxite & Alumina	605	630	2,095
Primary Metal	619	546	2,253
Metal Markets	29	24	101
Rolled Products	247	223	927
Extruded Solutions	506	421	1,723
Energy	62	58	239
Other and eliminations	30	7	30
Total	2,098	1,909	7,369
Earnings before financial items and tax (EBIT) ¹⁾			
Bauxite & Alumina	118	741	1,763
Primary Metal	(919)	917	2,123
Metal Markets	(31)	305	886
Rolled Products	(53)	78	336
Extruded Solutions	644	687	1,774
Energy	510	278	1,853
Other and eliminations	(249)	295	(214)
Total	20	3,301	8,522
Earnings before financial items, tax, depreciation and amortization (EBITDA)			
Bauxite & Alumina	724	1,370	3,858
Primary Metal	(328)	1,443	4,267
Metal Markets	(2)	329	986
Rolled Products	194	302	1,263
Extruded Solutions	1,150	1,108	3,498
Energy	576	339	2,107
Other and eliminations	(219)	302	(183)
Total	2,094	5,193	15,796
Investments ²⁾			
Bauxite & Alumina	413	240	963
Primary Metal	803	530	2,724
Metal Markets	33	11	165
Rolled Products	139	127	1,047
Extruded Solutions	296	280	2,390
Energy	47	97	280
Other and eliminations	22	34	45
Total	1,753	1,319	7,614

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, including amounts recognized in business combinations. In 2018, investments were reduced with certain indirect tax charges in Brazil not completely deducted and claimed at the time of investment. A review of deductibility resulted in reduction of asset costs for Bauxite & Alumina and Primary Metal of NOK 635 million and NOK 145 million, respectively.

NOK million	EBIT	Depr., amor. and impairment	Other items ¹⁾	EBITDA
EBIT - EBITDA First quarter 2019				
Bauxite & Alumina	118	605	-	724
Primary Metal	(919)	619	(27)	(328)
Metal Markets	(31)	29	-	(2)
Rolled Products	(53)	247	-	194
Extruded Solutions	644	506	-	1,150
Energy	510	62	4	576
Other and eliminations	(249)	30	-	(219)
Total	20	2,098	(24)	2,094

1) 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. A discussion of contingent liabilities is included in note 36 *Contingent liabilities and contingent assets* in Hydro's Annual financial statements – 2018. There is no information indicating a change to Hydro's contingent liabilities since the issuance of Hydro's 2018 Annual financial statements.

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 Pará and Ministério Público 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 insurance proceeds covering asset damage, legal settlements, etc. Insurance proceeds covering lost income are included in underlying results.
- *Pension* includes recognition of pension plan amendments and related curtailments and settlements.
- *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 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	First quarter 2019	First quarter 2018	Fourth quarter 2018	Year 2018
Alunorte agreements - provision ²⁾	35	-	-	519
Bauxite & Alumina	35	-	-	519
Unrealized derivative effects on LME related contracts	122	(114)	(89)	(143)
Unrealized derivative effects on power contracts	27	20	(64)	(218)
Primary Metal	149	(94)	(153)	(361)
Unrealized derivative effects on LME related contracts	222	(128)	(144)	(200)
Metal Markets	222	(128)	(144)	(200)
Unrealized derivative effects on LME related contracts	(77)	108	74	111
Metal effect	267	47	93	(73)
Significant rationalization charges and closure costs	-	-	39	39
Rolled Products	191	154	206	77
Unrealized derivative effects on LME related contracts	(77)	47	192	299
Significant rationalization charges and closure costs	-	-	40	40
Pension ³⁾	-	-	40	40
Other effects ⁴⁾	26	-	237	237
Extruded Solutions	(51)	47	509	616
Unrealized derivative effects on power contracts	6	-	(7)	(7)
Energy	6	-	(7)	(7)
Unrealized derivative effects on power contracts ⁵⁾	(21)	(107)	(11)	(36)
Unrealized derivative effects on LME related contracts ⁵⁾	10	(26)	(11)	(27)
Other effects ⁶⁾	-	-	(34)	(34)
Other and eliminations	(11)	(134)	(56)	(97)
Items excluded from underlying EBIT	539	(155)	356	547

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

2) Alunorte agreements - provision refers to adjustments in the first quarter 2019 to the provision recognized in 2018 in relation to the TAC and TC agreements with the Government of Pará and Ministério Público made on September 5, 2018.

3) Pension includes in the fourth quarter 2018 a charge of NOK 40 million due to remeasurement of all UK schemes with Guaranteed Minimum Pensions (GMP) required to be adjusted to equalize pension benefits for gender. The remeasurement is based on the accrued pension benefits in the period between 1990 and 1997.

4) Other effects include a charge of NOK 26 million due to adjustments to the value of certain assets in relation to the Sapa acquisition. In the fourth quarter 2018 Other effects include a charge of NOK 80 million due to adjustments to the value of certain assets in relation to the Sapa acquisition and a gain of NOK 34 million due to remeasurement of environmental liabilities related to closed business in Germany. Subsequent to the release of fourth quarter 2018 on February 7, 2019, an agreement in principle was reached between Sapa Profiles Inc. (SPI) and the United States Department of Justice (DOJ) Civil and Criminal Divisions. Following the agreement, an increase, NOK 157 million, of the provision was recognized in the final annual results of 2018 (see note 35 in the 2018 Annual report).

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	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
EBITDA	2,094	5,193	(60) %	1,854	13 %	15,796
Items excluded from underlying EBIT	539	(155)	>100 %	356	52 %	547
Underlying EBITDA	2,633	5,038	(48) %	2,210	19 %	16,344

Underlying earnings per share	First quarter 2019	First quarter 2018	Change prior year quarter	Fourth quarter 2018	Change prior quarter	Year 2018
NOK million						
Net income (loss)	(124)	2,076	>(100) %	(750)	83 %	4,323
Items excluded from net income (loss)	248	125	99 %	575	(57) %	1,495
Underlying net income (loss)	124	2,201	(94) %	(175)	>100 %	5,819
Underlying net income attributable to non-controlling interests	(133)	40	>(100) %	(56)	>(100) %	184
Underlying net income attributable to Hydro shareholders	256	2,161	(88) %	(119)	>100 %	5,635
Number of shares	2,046	2,045	-	2,046	-	2,046
Underlying earnings per share	0.13	1.06	(88) %	(0.06)	>100 %	2.75

Adjusted net cash (debt)	Mar 31 2019	Dec 31 2018	Change prior quarter	Mar 31 2018	Dec 31 2017	Change prior year quarter
NOK million						
Cash and cash equivalents	6,099	5,995	104	9,371	11,828	(2,457)
Short-term investments ¹⁾	1,274	975	299	1,031	1,311	(279)
Short-term debt ⁴⁾	(8,913)	(9,373)	460	(5,269)	(8,245)	2,976
Long-term debt ⁴⁾	(10,559)	(9,342)	(1,217)	(8,746)	(9,012)	267
Net cash (debt) ⁴⁾	(12,099)	(11,745)	(354)	(3,612)	(4,118)	506
Cash and cash equiv. and short-term investm. in captive insurance company ²⁾	(879)	(876)	(4)	(1,026)	(1,076)	50
Net pension obligation at fair value, net of expected income tax benefit ³⁾	(8,414)	(8,813)	399	(7,517)	(7,895)	377
Operating lease commitments, net of expected income tax benefit ⁴⁾				(1,585)	(1,585)	-
Short- and long-term provisions net of exp. income tax benefit, and other liab. ⁵⁾	(3,001)	(3,077)	75	(3,150)	(3,295)	145
Adjusted net cash (debt)	(24,394)	(24,511)	117	(16,890)	(17,968)	1,078
Net debt in EA ⁶⁾	(5,737)	(5,584)	(153)	(5,666)	(5,798)	132
Adjusted net cash (debt) incl. EA	(30,131)	(30,095)	(36)	(22,556)	(23,767)	1,210

- 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.
- 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.
- The expected income tax benefit related to the pension liability is NOK 1 713 million and NOK 1 673 million for March 2019 and December 2018, respectively.
- As a consequence of implementing IFRS 16 - Leases (see note 1 Accounting policies to the interim financial statements), there are no adjustments for operating leases made to the adjusted net cash (debt) for Dec 31, 2018 or later dates. The majority of such liabilities are recognized as short-term and long-term debt as of December 31, 2018.
- 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.
- 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.

Additional Information

Financial calendar 2019

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.